April 24, 2025
056/2025-PRE

CIRCULAR LETTER

Listed B3 Participants

Re.: **Change to the Pricing Model for the Cash-Settled Live Cattle Futures Contract**

Seeking to improve the pricing methodology for derivatives contracts, B3 hereby informs you that as of **May 5, 2025**, it will change the settlement price calculation model for the Cash-Settled Live Cattle Futures Contract (BGI).

The current methodology is comprised of the five procedures described below and detailed in the B3 Pricing Manual, which are executed sequentially when necessary.

1) The settlement price is the average price of valid transactions registered in the price formation window. <u>This procedure will not change</u>.

2) If procedure 1 cannot be applied, the settlement price will be average price of orders calculated by the VWAP methodology in the price formation window. <u>This procedure will not change</u>.

3) If the above procedures cannot be applied, the settlement price will be determined from live cattle rollover structured transactions, as long as the short leg or the long leg have been priced by procedures 1 or 2.

4) The settlement price is determined based on the settlement price of the previous trading session, applying the percentage value of the reference contract month in accordance with the following equation:

$$SP_{n,t} = SP_{n,t-1} \times \frac{SP_{reference,t}}{SP_{reference,t-1}}$$

Where:

$SP_{n,t}$= settlement price for the nth contract month on date t;

$SP_{reference,t}$= settlement price of the reference contract month on date t.

The reference contract month is defined as the harvest or off-season pivot point, or as the most liquid contract month in the harvest or off-season block group corresponding to the contract month that is to be priced.

The harvest and off-season blocks and pivot points are distributed as in **Table 7 of the Monthly Parameters Annex - Futures**, available at www.b3.com.br/en_us, Market data and indices, Data services, Market Data, Reports, Derivatives, Methodology, B3 Pricing Manual.

5) If the settlement price cannot be reached by the above proceedings, due to the absence of the previous day's settlement price (first trading day), it will be determined by the price of the nearest contract month adjusted by a seasonality factor.

In this way, procedure 3 will be excluded from the methodology.

Procedure 4 will change and will henceforth apply the additive variation to the settlement price of the previous trading session, in accordance with the following equation:

$$\mathrm{SP}_{\mathrm{n,t}} = \mathrm{SP}_{\mathrm{n,t-1}} + \mathrm{SP}_{\mathrm{reference,t}} - \mathrm{SP}_{\mathrm{reference,t-1}}$$

The reference contract month will also change: it will be the most liquid contract month in the harvest or off-season blocks corresponding to the contract month that is to be calculated and which had a price determined by procedures 1 or 2.

The most liquid contract month will be that with the largest number of contracts with open interest at the start of the day. If two contract months have the same volume of open interest, the closest to maturity in business days will be selected.

If no contract month in the block has a price determined by procedures 1 or 2, the reference contract month will be that with the greatest liquidity in the previous or subsequent block and which is the closest, in business days, to the contract month to be priced.

If the number of business days between the most liquid contract months of the previous or subsequent block is the same, the contract month closest to the expiration date of the contract to be priced will be used as a reference.

Procedure 5 will also change. The settlement price will be calculated though an exponential interpolation of the nearest previous and subsequent contract months or through a constant interpolation when there is no subsequent contract month.

The pricing methodology of the futures contracts is available in the B3 Pricing Manual – Futures, at www.b3.com.br/en_us/, Market data and indices, Data services, Market Data, Reports, Derivatives, Methodology, B3 Pricing Manual.

The draft Cash-Settled Live Cattle Futures Contract will not be impacted and will continue to have its current wording on the website. The contract is available at www.b3.com.br/en_us/, Products and services, Commodities.

Further information can be obtained from the Risk Management Department, via the Risk Service Center, by telephone on +55 11 2565-5030 or by email at gmr@b3.com.br.

Gilson Finkelsztain
Chief Executive Officer

Mario Palhares
Chief Operating Officer – Electronic Trading and CCP