



August 31, 2021

105/2021-PRE

## **CIRCULAR LETTER**

To: Listed B3 Participants

Re: **Enhancement of the Contracted Market Maker Program.**

B3 hereby informs you that it is enhancing the Contracted Market Maker Program. Without prejudicing any readjustments that may occur, this Circular Letter will examine these enhancements, which are conditional on Securities and Exchange Commission of Brazil (CVM) approval and on publication in the new version of B3's Trading Procedures Manual.

We foresee no change to the rule whereby the market maker may be contracted: (i) by the issuer of the asset or by the controlling company, subsidiary, or affiliate; or (ii) by any holder of assets or derivatives that are the object of the market maker's activity, following one of the methods described below.

### **1. Context of the enhancements**

#### **1.1. Overview**

The contracting party may choose between two types of market maker program.

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- a) **Standard model:** the current contracting model, which applies to single stocks, units, ETFs and funds, in which market maker rules and obligations remain unchanged.
- b) **Specialized model:** a new model, applicable only to single stocks and units, which aims for standardization and which guarantees a minimum level of quality for the qualitative services that market makers provide for those contracting the program.

There are two activity obligations in this model:

- (i) qualitative obligations (detailed in item 1.3.1), which are an untransferable responsibility that must be performed by the **specialized market maker**; and
- (ii) onscreen obligations (detailed in item 1.4.1), which must be performed by the specialized market maker or transferred to another institution to be named **subcontracted market maker**.

## 1.2. Market maker (standard)

The contracted market maker (standard) is responsible for regularly and continuously maintaining buy and sell orders during trading, fostering the liquidity of assets.

Apart from its onscreen obligations, the other rules and responsibilities remain unchanged, as specified in the B3's Trading Procedures Manual.

### 1.2.1. Onscreen obligations

As detailed in B3's normative documents, the standard market maker must observe the following parameters onscreen to exercise its activities:

- **minimum lot:** a lot comprised of round-lot multiples. Each buy and sell order must respect the defined minimum lot
- **maximum spread:** corresponding to the maximum spread between the asks and bids of the asset, expressed as a percentage, an absolute number, or in terms of volatility
- **minimum activity:** corresponding to the minimum period in which the market maker with onscreen obligations must trade during the trading session to comply with the parameters

### 1.3. Specialized market maker

Different to the standard market maker, the specialized market maker has qualitative obligations and, in relation to the onscreen obligations, may subcontract an institution to perform them (subcontracted market maker, described in item 1.4).

Whether or not it opts to subcontract, the specialized market maker will always be the party legally responsible for market maker program obligations with the contracting party.

If the specialized market maker chooses to comply with both obligations, it must indicate another CNPJ of the same institution so that it has different CNPJ for each of the obligations (qualitative obligations and onscreen obligations). In

addition to the responsibilities defined in the Trading Procedures Manual, the specialized market maker is responsible for generating added value for the contracting party through qualitative services, such as periodic reports to support and monitor the evolution of trading in the assets, and educational support through training about trading dynamics.

### 1.3.1. Qualitative obligations

- **Daily reports to the contracting party:** daily submission of a report to the contracting party, containing as a minimum the information B3 will provide and publish.

When the asset closes the day on a significant fluctuation, the specialized market maker must complement the daily report with justificatory explanations of the event when it deems it necessary.

Contracting a specialized market maker does not exempt the administration of the asset's issuer from complying with responsibilities with CVM, including, but not limited to, the obligations referred to in CVM Instruction 358, dated January 3, 2002.

- **Monthly reports to the contracting party:** in addition to the daily report, on the last trading day of the month there must also be submission of a monthly report, consolidating the same perspectives as the daily report, but on monthly bases.
- **Reports to B3:** daily and monthly reports are sent to B3 by the fifth business day of the month following that in which they are sent to the contracting party,

in addition to a management report to prove the date when the reports are sent to the contracting party.

- **Educational program:** at least six hours' in-person or virtual training, on one day or spread over the year, with a single contracting party or jointly with several contracting institutions. The training must include, at least, subjects related to (i) the market's trading dynamic; (ii) investor trading profiles; and (iii) the impacts and importance of market maker activity on assets.

The specialized market maker must send B3 a summary attesting to subjects addressed, participants, date, and duration of the event, up to ten business days after the training.

- **Assessment of effectiveness and activity parameters:** the specialized market maker will be responsible for periodically assessing the activity parameters (spread and quantity) and to guarantee the subcontracted party's effectiveness in trading the asset, assuring greater liquidity for the market.

In this assessment, in line with the timeframes that B3 establishes and publishes, the specialized market maker must prove the effectiveness of the subcontracted party's activity. Among the indicators that can be considered to prove effectiveness, including, but not limited to, the indicators below:

- average daily trading volume (ADTV) of the asset.
- ADTV of the subcontracted party's market maker orders.
- market share and trading volume of the subcontracted party.

- volatility changes.
- book depth and spread, among others.

To review the parameters, which are the subcontracted party's minimum quantity and maximum spread onscreen obligations, the specialized market maker must justify maintaining or changing these parameters with B3, based on indicators, not limited to the aforementioned. B3 may at its sole discretion accept or reject the justification, being able to effect the change to the program's activity parameters.

Should the specialized market maker opt to exercise the onscreen obligations it must assure that the periodic assessment is performed and is effective onscreen, following the criteria and procedures described above.

#### **1.4. Subcontracted market maker (subcontracted party)**

The specialized market maker might not opt to exercise onscreen obligations for each asset, in which case it can subcontract 1 institution to meet these obligations. Remembering that, if the specialized market maker chooses to comply with both obligations, it must indicate another CNPJ of the same institution so that it has different CNPJ for each of the obligations (qualitative obligations and screen obligations).

The subcontracted party has the same responsibilities assigned to the standard market maker (described in item 1.2) of maintaining buy and sell orders during trading in a correct and continuous manner, fostering liquidity in the assets.

### **1.4.1. Onscreen obligations**

The maximum spread, onscreen minimum lot, and minimum activity obligations follow the same structure stipulated to the standard market maker, but with a minimum obligation of compliance with the same parameters assigned in the independent market maker program.

Please note that any kind of remuneration from subcontracted party to specialized market maker is forbidden.

## **2. Market maker accreditation**

For all the market maker profiles addressed in this Circular Letter (standard, specialized, subcontracted), the institution must be approved as a B3 market maker in accordance with the process described in B3's Trading Procedures Manual and in the Procedures Guide for the Accreditation of Market Makers.

The accreditation and start of activity of the specialized and subcontracted market maker must mandatorily occur jointly, complying with the procedures described below.

The standard market maker who is accredited for a certain asset and who chooses to migrate to the specialist market maker model must send to B3 the subcontracting agreement of item 2.1.1, maintaining the contract signed with the contracting party unchanged. Only in situations in which there is worsening obligations, such as an increase in spreads or a decrease in the obligation amounts in question, it must additionally present an amendment to the service provision contract.

### **2.1.1. Market maker services subcontracting agreement**

The specialized market maker that opts to subcontract another institution to perform onscreen obligations must send B3 the Subcontracting Agreement, available at [www.b3.com.br](http://www.b3.com.br), Products and Services, Trading, Market maker, Programs, Cash Market.

## **3. Disaccreditation of the market maker**

The rules and criteria for market maker disaccreditation set out in B3's Trading Procedure Manual remain unchanged and apply to all of the market maker profiles addressed in this Circular Letter.

However, should the subcontracted party request disaccreditation of the asset, the specialized market maker will be responsible for the substitution, in accordance with item 4.

## **4. Substitution of the market maker**

The procedures and timeframes for substitution of the market maker set out in B3's Trading Procedures Manual remain unchanged and apply to all market maker profiles addressed in this Circular Letter.

In the case of substitution of the subcontracted party, the specialized market maker is responsible for guaranteeing no interruption to the program, in such way that the substitute initiates its activities on the business day following the termination date for the substituted subcontracted party, respecting five business days' prior notice. In the event that there is no other institution to replace the





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subcontractor, in order to comply with the obligations in question, the specialized market maker will be subject to disaccreditation or may choose to migrate to the standard contracted market maker model, in order to comply with the obligations.

Further information can be obtained from Cash Equities Products by telephone on +55 11 2565-4616/7606 or by email at [formadordemercadoB3@b3.com.br](mailto:formadordemercadoB3@b3.com.br).

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