

June 20, 2023
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CIRCULAR LETTER

Listed B3 Participants

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

B3 hereby informs you of the inclusion of ETF BDRs and formalizes single stock BDRs in the list of products eligible for the standard contracted market maker program, keeping all other aspects of the program (standard and specialized model) unchanged.

1. Overview

1.1. Contracted Market Maker Program

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 holders of assets or derivatives that are the object of the market maker's activity. The contracting party chooses between two types of market maker program following one of the methods described below.

a) Standard model: the current contracting model, applicable to single stocks, units, ETFs, funds, single stock BDRs (sponsored and unsponsored) and ETF BDRs (all classes), in which market maker rules and obligations remain unchanged.

b) Specialized model: applicable only to single stocks and units, which aims for standardization and to assure a minimum level of quality for the qualitative services that market makers provide for those contracting the program.

This model is divided into two activity categories:

- qualitative obligations: (detailed in item 1.3.1.) which are an untransferable responsibility that the **specialized market maker** must perform; and
- onscreen obligations: (detailed in item 1.4.1.) which may 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 throughout trading, fostering the liquidity of assets. Apart from its onscreen obligations, the other rules and responsibilities remain unchanged, as specified in B3's Trading Procedures Manual, at www.b3.com.br/en_us/, Regulation, Regulations and manuals, Trading.

1.2.1. Onscreen obligations

As detailed in B3's Trading Procedures Manual, the standard market maker must observe the following onscreen parameters to perform its activities:

- **minimum lot:** lot comprised of round lot multiples. Each buy or sell order must respect the defined minimum lot.

- **maximum spread:** corresponding to the maximum spread between bids and asks for 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 sub-contract an institution to execute these (subcontracted market maker, described in item 1.4).

Whether it opts to sub-contract or not, the specialized market maker will always be the party that is legally responsible for market maker program obligations with the contracting party and B3.

If a specialized market maker opts to perform both roles, it must designate another corporate taxpayer number (CNPJ) of the same institution so that it has a different CNPJ for each of the obligations (qualitative obligations and onscreen obligations).

In addition to the responsibilities defined in B3's 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 that B3 will provide and publish.

The specialized market maker must complement the daily report with justifications whenever the asset closes the day on a significant fluctuation, or whenever it deems it necessary.

Contracting a specialized market maker does not exempt the administration of the asset's issuer from complying with its responsibilities with the Securities and Exchange Commission of Brazil (CVM), including but not limited to the obligations referred to in CVM Resolution 44, dated August 23, 2021.

Monthly reports to the contracting party: in addition to the daily report, a monthly report must be submitted on the last trading day of the month, consolidating the same perspectives as the daily report, but on a monthly basis.

- **Reports to B3:** daily and monthly reports are submitted to B3 by the fifth business day of the month after that in which they are sent to the contracting party, in addition to a management report to prove the date the reports are sent to the contracting party.
- **Education program:** at least six hours' annual 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, as a form of proof, up to ten business days after the training occurs.

- **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 market maker's effectiveness in trading the asset, assuring greater liquidity for the market.

In this assessment, in line with the timeframes established and published by B3, the specialized market maker must prove the effectiveness of the subcontracted market maker's activity. Some but not all of the indicators to be considered to prove effectiveness are:

- Average Daily Trading Volume (ADTV) of the asset
- ADTV of the subcontracted market maker's maker orders
- market share and trading volume of the subcontracted market maker
- volatility changes
- book depth and spread, among others

To review the parameters, which are the subcontracted market maker's minimum quantity and maximum spread onscreen obligations, the specialized market maker must justify maintaining or changing these parameters with B3, based on indicators that are 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.

If a specialized market maker opts to perform 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

The specialized market maker might not opt to exercise onscreen obligations for each asset, in which case it can subcontract one institution to meet these obligations. If the specialized market maker opts for both obligations, it must designate another corporate taxpayer number (CNPJ) of the same institution so that it has a different CNPJ for each of the obligations (qualitative obligations and onscreen obligations).

The subcontracted market maker has the same responsibilities as the standard market maker (described in item 1.2) of maintaining buy and sell orders in a regular and continuous manner throughout the trading session, fostering the liquidity of the assets.

1.4.1. Onscreen obligations

The maximum spread, onscreen minimum lot and minimum permanence obligations have the same structures as for 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 form of remuneration from subcontracted market maker to specialized market maker is prohibited.

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 market maker at B3 in accordance with the process described in B3's Trading Procedures Manual and in the Procedures Guide for the Accreditation of Market Makers, available at www.b3.com.br/en_us/, Products and Services, Market maker, Accreditation.

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 that is accredited in a determined asset and that opts to migrate to a specialized market maker model, must send B3 the subcontracting agreement of item 2.1.1, maintaining unchanged the agreement signed with the contracting party. Only in situations where obligations worsen, such as an increase in spreads or a decrease in mandatory onscreen obligations, must the market maker submit an amendment to the service provision agreement.

2.1.1. Market maker services subcontracting agreement

The specialized market maker that opts to subcontract another institution to perform onscreen obligations must submit to B3 the Market Maker Services Subcontracting Agreement, as per the model available at www.b3.com.br/en_us/, Products and Services, Trading, Market maker, Contracts.

3. De-accreditation of the market maker

The rules and criteria for de-accreditation of the market maker set out in B3's Trading Procedures Manual remain unchanged and apply to all the market maker profiles covered in this Circular Letter.

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However, if the subcontracted market maker requests de-accreditation in 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 market maker substitution that are set out in B3's Trading Procedures Manual remain unchanged and apply to all the market maker profiles addressed in this Circular Letter.

In the case of substitution of the subcontracted market maker, the specialized market maker is responsible for guaranteeing that the program is not interrupted, in such way that the substitute begins its activities on the business day following the termination date for the substituted subcontracted market maker, respecting five business days' prior notice. If there is no other institution to substitute the subcontracted market maker, the specialized market maker will be subject to de-accreditation or may opt to migrate to the standard contracted market maker model, to meet the onscreen obligations.

This Circular Letter revokes Circular Letter 105/2021-PRE, dated August 31, 2021.

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