July 16, 2024
097/2024-PRE

CIRCULAR LETTER

Listed B3 Participants

Re.: **Accreditation Process for Market Makers in the Small Cap Index Futures Contract and in Options on the Small Cap Index**

B3 hereby informs you of the Accreditation Process for Market Makers in: Small Cap Index Futures (SML) and Options on the Small Cap Index (SMLL11).

Up to five market makers will be accredited for each of these programs.

B3 may at its sole discretion increase the number of available openings for accreditation, limited to ten openings per program.

For **both programs**, the institutions will be selected in accordance with the order in which the Term of Accreditation is sent.

Each of the programs referred to in this Circular Letter is **independent** and each requires **separate adhesions**.

Accreditation procedure

Institutions that wish to take part in the programs can find the relevant information in the Procedures Guide for Accreditation of Market Makers, available at www.b3.com.br/en_us, Products and Services, Trading, Market maker, Accreditation.

Timetable

Term of Accreditation filed	Accounts registered	Activity starts	Obligation ends
By Jul. 29, 2024	By Jul. 29, 2024	Aug. 5, 2024	Options: Dec. 6, 2024 Futures: Dec. 16, 2024

B3 may at its sole discretion assess accreditation applications submitted after these deadlines, provided the delay is duly justified.

The duration of these programs may be extended if B3 identifies that the products do not obtain the liquidity intended in the programs. If the end of the obligation is deferred, B3 will issue a Circular Letter with information on the length of the extension, any changes to the activity parameters, and other necessary provisions. Market makers will be free to choose whether to continue trading as such until the new date for the end of the obligation or allow their accreditation to expire on the date shown above.

Activity parameters

Market makers accredited for this program must enter bids and asks in accordance with the activity parameters defined by B3.

The rules for the mandatory contract months for activity in the **Small Cap Index Futures Contract (SML)** program and the respective activity parameters will be available in the document Market Maker Program Rules, available at www.b3.com.br/en_us, Products and Services, Trading, Market maker, Programs – Listed, Futures, Small Cap Futures (SML).

Please note that in the case of the **Small Cap Index Futures Contract (SML)** program, market makers must also trade in the Small Cap Futures Contract Rollover (SM1) of the first with the second contract month during the entire course of the structured transaction. They may request dispensation from the market making obligation in the rollover, however, in which case they will have no right to the respective benefits from the transactions executed with this product.

For purposes of the rollover of the **Small Cap Index Futures Contract (SML)** contract months, the market makers must trade in the first and second contract months up until the fifth business day before the expiration date. As of the fourth business day before that date, they will not be obliged to trade in the first contract month, but must trade in the next two contract months authorized for trading.

The mandatory contract months and selection rules for the **Small Cap Index Futures Contract (SML)** will be available at www.b3.com.br/en_us, Products and Services, Trading, Market maker, Mandatory series, Futures and Options on Futures.

The rules for the mandatory contract months for activity in the **Options on Small Cap Index (SML11)** program and the respective activity parameters will be available in the document Market Maker Program Rules, at www.b3.com.br/en_us, Products and Services, Trading, Market maker, Programs – Listed, Options, Options on Small Cap Index (SML11).

In the case of the **options program**, the market makers must enter bids and asks for at least ten minutes within the last thirty minutes of the trading session.

For purposes of the rollover of the **Small Cap Option (SML11)** series, market makers are required to register bids and asks in the first two contract months until the fifth business day before the expiration date. As of the fourth business day before that date, they are not obliged to trade in the first contract month but must trade in the next two contract months authorized for trading.

The mandatory series and the rules for market maker selection for **Options on the Small Cap Index (SMLL11)** will be available at www.b3.com.br/en_us, Products and Services, Trading, Market maker, Mandatory series, Options on Equities and Indexes.

The activity parameters, for **both programs**, may be changed during the course of the program in question, with the prior consent of the accredited market makers. B3 will formally advise market makers of any proposals to change the activity parameters. They will have seven business days to respond in writing, and the lack of a timely reply will be taken as consent to the proposed change.

The prior consent of market makers will not be necessary if the parameters are changed owing to atypical market situations that incur a change in trading patterns or to adjustments required to avoid the creation of artificial demand, supply or pricing conditions.

Test period

Market makers are entitled to the benefits specified in the "Benefits" item of this Circular Letter without complying with the activity parameters and at the sole discretion of B3, for up to ten (10) business days after the start of their mandatory activity, in order to conduct connectivity, session and order routing tests, and implement the requisite technological configurations. During the test period, B3 will monitor market makers' activities and any noncompliance will be rectified.

De-accreditation

In the event of de-accreditation of market makers in this program, B3 may select other institutions that have expressed interest, to replace the de-accredited institutions.

Accreditation and de-accreditation of market makers will always be disclosed to participants via B3's usual communication channels.

Maximum number of parameter breaches

Any market maker's accreditation under this program may be cancelled in the case of non-compliance with the parameters and/or obligations set forth herein, or in Circular Letter 084/2023-PRE, dated May 30, 2023, regarding the rules for monitoring market maker non-compliance, or in the Agreement of Accreditation for Market Maker Activity, in a way that is either unjustified or whereby B3 does not accept the justification given. The Agreement is available at www.b3.com.br/en_us, Products and Services, Trading, Market maker, Accreditation, Market Maker Agreement.

Minimum activity period

Market makers that withdraw from the accreditation process before starting their activities under the program will not be required to complete the thirty-day minimum period of activity established by Circular Letter 109/2015-DP, dated

October 8, 2015. If they withdraw after starting their activities, they must complete the thirty-day notice period without fail in order for their de-accreditation to be communicated to the market.

Benefits

In the case of the **Small Cap Index Futures Contract (SML)**, the accredited market makers will be exempted from paying the exchange fees and other applicable fees on transactions in any contract month of the asset in this program. The exemption will extend to transactions executed with contracts in this program and with equities that comprise the theoretical portfolio of the Small Cap Index or with shares in ETFs that track this index, as long as these transactions have been executed for hedging purposes, in compliance with the criteria and limits defined in the fee policy described in Annex I hereto.

In the case of **Options on the Small Cap Index (SMLL11)**, the market makers will be exempted from paying the exchange fees and other applicable fees on transactions executed in all the mandatory and non-mandatory series of the options.

There will also be the exemption of exchange fees and other fees on transactions executed in the same futures market trading session, aimed at delta hedging.

For the purposes of the **Options on the Small Cap Index (SMLL11)** program, the delta hedging percentage considered will be fifty per cent (50%) in proportion to the notional value of the Small Cap Index Futures Contract (SML) for the Options on the Small Cap Index (SMLL11), to be applied to the volume of options traded for all the series of the underlying on the day it is calculated.

If a market maker exceeds the above delta hedging limit on one or more days, the excess futures contracts will have to pay the fees as set out in the first tier of the fee structure for the Small Cap Index Futures Contract (SML), without the possibility of discounts for volume, for day trade operations or any other incentives that B3 may institute.

Market makers will be responsible for paying the full amount of the exchange fees and other fees on daily excess volumes in the **Options on the Small Cap Index (SMLL11)** program accumulated in any given month, up until the last business day of the subsequent month.

Furthermore, in order to be eligible for exemption from fees on delta hedging **in both programs**, market makers must designate a specific account to be used solely for the purpose of delta hedging with respect to the options and futures programs for which they are accredited, regardless of the number of accounts they may use to perform their market making activities.

For **both programs**, the volume traded in accounts and the assets registered in the program, both for activity in the program and for hedging purposes, is not considered in the daily calculation of day trades for purposes of defining the day trade fee tier for the cash equity market, futures market or options market, executed in the other accounts not registered in these programs.

Fee benefits in other programs implemented by B3 do not apply to the excess volumes in the accounts registered in this program.

The flow of messages, trades and volumes generated by accredited institutions will be considered for the purposes of the Policy for the Control of Trading Messages, as set forth in Circular Letter 086/2023-PRE, dated May 30, 2023.

General provisions

B3 will resolve any omissions regarding the accreditation process and program to which this Circular Letter refers.

Further clarification can be obtained from the Electronic Trading Department by calling +55 11 2565-5025 or emailing formadordemercadob3@b3.com.br.

Gilson Finkelsztain Chief Executive Officer	José Ribeiro de Andrade Chief Product and Client Officer

Annex I to CIRCULAR LETTER 097/2024-PRE

Fee Policy for Market Makers in the Small Cap Index Futures Contract (SML)

1. Market maker eligibility conditions

This fee policy applies only to market makers that B3 has accredited for this program and will be conditional upon meeting the requirements below.

2. Fee structure

Market makers accredited for this program are exempted from paying exchange fees and other fees on purchases and sales of Small Cap Index Futures Contracts (SML).

3. Exemption on hedge trades

Market makers are also exempted from paying exchange fees and other fees on transactions performed for hedging purposes with equities that are part of the Small Cap Index theoretical portfolio, or with ETF shares that track this index, in accordance with the criteria and limits defined in items 4(a) and 4(b) below for hedge trade exemption.

4. Limits for hedge trade exemption

The market makers will enjoy the hedge trade fee exemption if:

(a) the total financial volume of the purchases and sales of equities and ETF shares performed for hedging purposes in the account designated for the market maker's activity, in accordance with item (b) below, does not exceed that executed, on one day; and does not exceed the volume of the Small Cap Futures Contract carried to expiration. In this case, we will consider trading in equities and ETFs executed on the same expiration date as the futures contract and with the same position (buy or sell); and

(b) the financial volume of purchases and sales performed for hedging purposes with each equity in the theoretical portfolio of the reference index is limited to thirty per cent (30%) of the financial volume on the same day; and does not exceed the volume of the Small Cap Futures Contract carried to expiration. In this case, we will consider trading in equities and ETFs executed on the same expiration date as the futures contract and with the same position (buy or sell).

If the market maker exceeds the limits defined in items 4(a) or 4(b) on one or more days, the daily excess futures contracts will be subject to payment of the exchange fees and other fees foreseen in the fee policy described in Annex II hereto.

If both the limits defined in items 4(a) and 4(b) are surpassed on the same say, the exchange fees and other fees will only be charged on the larger excess daily volume.

Please note, that exemptions on hedge trades will not consider the buying and selling of equities and of ETF shares in the odd lots market.

Market makers will be responsible for paying the full amount of the exchange fees and other fees on daily excess volumes accumulated in any given month, up until the final business day of the subsequent month.

5. Account for hedge fee exemption

To be eligible for the fee exemption on hedge trades, market makers must designate one specific account exclusively for hedging transactions, regarding the Small Cap Index Futures Contract (SML), regardless of the number of accounts they have for the exercise of their activity.

6. General provisions

Any market maker whose accreditation is cancelled by B3, or which requests de-accreditation before the established date, will cease to be entitled to the exemptions described in this policy as of the cancellation date.

This fee policy does not apply to market makers for other securities admitted to trading on the markets operated by B3.

Annex II to CIRCULAR LETTER 097/2024-PRE

Fees on Excess Day Trade and Excess Non-Day Trade Volumes Applied Exclusively to the Programs in this Circular Letter

1. Segregation of the assets' financial volume for hedging between day trade and non-day trade volume.

1.1. The financial volume traded as a hedge in the designated account is grouped in accordance with the following criteria:

i) same trading session date
ii) same clearing member
iii) same participant code (carrying in the case of give-ups)
iv) same account code
v) security ID (asset)
vi) position

1.2. The calculations of day trade and non-day trade volume for each asset that comprises the theoretical portfolio of the Small Cap Index or the ETFs that track the Small Cap Index are defined daily by:

$$\text{Day trade volume}_i = 2 \times \text{Minimum}(\mathrm{V_C}, \mathrm{V_V})$$
$$\text{Non-day trade volume}_i = (\mathrm{V_C} + \mathrm{V_V}) - \text{Day trade volume}_i$$

Where:

"i" = each asset in the theoretical portfolio of the Small Cap Index or the ETFs that track the Small Cap Index

VC_i = buy volume of asset i

VV_i = sell volume of asset i.

1.3. Daily consolidation of the volumes of the assets of the theoretical portfolio for the respective reference index of the ETF:

$$\text{Day trade volume}_{day} = \sum_i \text{Day trade volume}_i$$

$$\text{Non-day trade volume}_{day} = \sum_i \text{Non-day traded volume}_i$$

$$\text{Total volume}_{day} = \text{Day trade volume}_{day} + \text{Non-day trade volume}_{day}$$

Where "i" represents each asset in the theoretical portfolio of the Small Cap Index or the ETFs that track the Small Cap Index.

2. Segregation of the <u>excess</u> financial volume of the hedge between the excess day trade volume and excess non-day trade volume:

$$\text{Excess day trade volume}_{day} = \text{p}_{day} \times \text{Day trade volume}_{day}$$

$$\text{Excess non-day trade volume}_{day} = \text{Excess volume}_{day} - \text{Excess day trade volume}_{day}$$

Where p_{day} is a proportion of the excess day trade volume over the total volume, per day, calculated as:

$$\text{p}_{day} = \frac{\text{Excess volume}_{day}}{\text{Total volume}_{day}}$$

Where:

$\text{Excess volume}_{day}$ = defined in accordance with the rules of item 3 Annex II hereto

$\text{Total volume}_{day}$ = defined in item 1.3 of Annex II hereto

p_{day} = the proportion rounded up to two decimal places.

2.1 Application of the trading and settlement fees to the excess volumes of the programs of this Circular Letter.

Trading and settlement fees foreseen for the cash market are applied to the excess day trade and non-day trade volumes.

The charging of exchange fees and other fees on the excess is accumulated and executed on the month following that of trading.

3. General provisions

The entire volume (whether exempted or charged a fee as excess) of the asset in the account registered in the program is **not** considered in the composition of ADTV, which daily defines the trading and settlement fees for the day trade volumes in the accounts not registered in the program.

Fee benefits of other B3 programs do **not** apply to the excess volumes in the accounts registered in this program.