THE BRAZILIAN MERCANTILE & FUTURES EXCHANGE

BM&F
BRASIL
BM&F in a nutshell

- World class derivatives exchange
- Private not-for-profit and self-regulatory association
- BM&F markets are supervised by the Brazilian Securities Commission (CVM)
- BM&F Clearinghouses are regulated by the Brazilian Central Bank (BCB)
BM&F Business Model

BM&F trading and registration systems

**DERIVATIVES**
- Open outcry
- Electronic platform
  - GTS and WebTrading (E-mini)
- OTC registration platform

**FOREIGN EXCHANGE**
- OTC registration platform
- Open outcry

**GOVERNMENT BONDS**
- Electronic platform
  - SISBEX – trading
- OTC registration platform

- Derivatives Clearinghouse 1986
- FX Clearinghouse 2002
- Securities Clearinghouse 2004

Settlement Bank 2005
Clearing and settlement of interbank FX (BRL/USD) transactions (T+1 and T+2)

CCP for interbank FX transactions:
- Management of principal risk through PVP
- Management of market risk through stress test scenarios
- Management of liquidity risk through liquidity facilities and operational limits
- Management of operational risk through systems contingencies and Operational Fund

Deferred Net Settlement (DNS):
- Reduction of risk exposures
- Reduction of the total amount of funds transferred by market participants
- Smaller number of payment orders – mitigation of the operational risk and reduction of operational costs
Trading and Registration

Buying Bank — Brazilian Central Bank — Selling Bank — FX Clearinghouse
Trading and Registration

Buying Bank → Brazilian Central Bank

Brazilian Central Bank → FX Clearinghouse

FX Clearinghouse → Selling Bank

Collateral

- Mark-to-market
- Stress test
- Operational limits

Trading and Registration timeline:
- 00:00 to 06:00
- 08:00 to 12:00
- 17:30 to 00:00
Payment and Settlement

- Brazilian Mercantile & Futures Exchange
- Brazilian Central Bank
- FX Clearinghouse
- Bank of America
- Citibank
- Standard Chartered
- Wachovia
Safeguard Structure

Market Risk

Collateral

Principal Risk

Loss sharing

Participation Fund

Collateral

Used Collateral

Payment versus payment

Individual share USD 500 thousand to USD 1 million

Stress scenario (11%) Mark to market

Net balance

Liquidity Risk

Operational limits (Net balance) Liquidity facility (USD 850 million)

Operational Risk

Technology and Systems / Contingencies Operational Fund (USD 25 million)
Law No. 10214, of March 27, 2001
Provides for the activities of clearinghouses and clearing service providers within the scope of the Brazilian Payment System

Law No. 4595, of December 31, 1964
Provides for the monetary policy and the monetary, banking, and credit institutions; creates the National Monetary Council (CMN) and the Central Bank of Brazil (BACEN)

Resolution No. 2882, of August 30, 2001
Provides for the Brazilian Payment System and the clearinghouses and clearing service providers

Circular No. 3057, of August 31, 2001
Approves the regulation that governs the functioning of the systems operated by clearinghouses and clearing service providers
Bylaws
Authorizes BM&F to register, clear, and settle by physical delivery and cash settlement the trades executed in its auction systems and/or registered in any of its trading or registration systems by means of an in-house department or an organization constituted for that purpose (article 2, item I)

Rulebook
Approved by the Central Bank of Brazil, the FX Clearinghouse Rulebook governs the registration, clearing, and settlement of foreign currency purchase and sale through the Clearinghouse systems.

Operating Manual
Approved by Central Bank of Brazil, the FX Clearinghouse Operating Manual lists each and every step in the registration, clearing, and settlement of foreign currency purchase and sale through the Clearinghouse systems.

Risk Management Manual
Approved by Central Bank of Brazil, the FX Clearinghouse Risk Management Manual lists each and every step involved in the risk management of foreign currency purchase and sale through the Clearinghouse systems.
✓ 70 participating banks

✓ 95% of the Brazilian interbank FX market is settled through the FX Clearinghouse

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<thead>
<tr>
<th>Transactions</th>
<th>USD</th>
<th>BRL</th>
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<tbody>
<tr>
<td>Gross contracted amount</td>
<td>2,407,280,106,615.54</td>
<td>6,294,269,850,870.84</td>
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<td>Settlement by funds transfer</td>
<td>352,984,020,669.54</td>
<td>924,340,193,998.88</td>
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<td>Settlement on a netting basis</td>
<td>2,054,296,085,946.00</td>
<td>5,369,929,656,871.96</td>
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<td>Funds transfer reduction</td>
<td>85.34%</td>
<td>85.31%</td>
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