The Brazilian Carbon Market
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Among the top ten futures exchanges in the world

Private not-for-profit association

Self-regulated organization under market supervision of the Brazilian Securities and Exchange Commission

A history of market consolidation and product development
Services

BM&F

TRADING AND REGISTRATION SYSTEMS
- Open outcry
- Electronic platforms
- Registration facility

CLEARING SYSTEMS
- Securities Clearinghouse
- FX Clearinghouse
- Derivatives Clearinghouse

SETTLEMENT BANK
<table>
<thead>
<tr>
<th>Products</th>
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<tr>
<td><strong>FINANCIAL DERIVATIVES</strong></td>
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<td><strong>FUTURES &amp; OPTIONS</strong></td>
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<td>- STOCK INDEX</td>
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<td>- INTEREST RATES</td>
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<td>- EXCHANGE RATES</td>
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<td>- PRICE INDEXES</td>
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<td>- SOVEREIGN DEBT BONDS</td>
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<td><strong>STRUCTURED PRODUCTS</strong></td>
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<td>- VOLATILITY TRADING</td>
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<td><strong>SPOT</strong></td>
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<td>- US DOLAR</td>
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*Note: Anhydrous alcohol is a type of alcohol used in various industrial applications.
Brazilian Carbon Market

Institucional Framework

DNA

DOEs

Consultants/OTC Carbon Brokers

Banks

High Potential for CDM Projects
Current Status of Projects

- Registered (EB) 37
- Requesting Registration 11
- Still under validation/approval 50

Total 98

13/03/06
Issues to be Considered

- Search Costs
- Transaction Costs

- Counterparty Credit Risk
- Project Performance
- Post-2012

- Small but growing market
- Primary market:
  buyers x sellers located in different places
Market Development

What Can be done

- Credible Project Pipeline
- Transparent and Regulated Liquidity Center
- Capacity Building

BM&F Actions

- Carbon Facility
- CER Trading System
- Courses and Seminars
Web based registration system and an instrument for new business opportunities at the CDM market

**VISIBILITY**
- Validated/Registered CDM Projects
- CDM Project Idea Notes (PIN)
- Expression of Interest (to buy CERs)

**CREDIBILITY**
- Participants Registration
- PIN Screening / Independent Evaluation
  - Baseline Analysis
  - Additionality test
  - Sustainability
Flow of procedures

1. **Project Participant Registration**
2. **Project submission to BM&F**
3. **Project analysis by Research Institute**
4. **Project registration in the BM&F Website**
   - Receives a notice whenever a EOI matches the project

Reverse Direction:

- **Investor’s Registration**
- **EOI submission to BM&F**
- **EOI review by BM&F**
- **EOI registration**
  - Receives a notice whenever a project matches the EOI

**Trading**
CER Trading System

- To be launched by mid 2006
- Electronic Auctions (1st phase)
- OTC Registration System (2nd phase)
- Forwards
- Options
- (CER) Delivery versus Payment
- Cash settlement outside Brazil
- Collateral Managerial System (optional)
- BM&F Associated Brokers
- Institutional Investors
- Carbon Brokers
CER Trading

Project

Markets

Project Idea Notes

Option on a Forward

Validated CDM Projects

Forwards (Master Contracts)
CDM CICLE & BM&F

PIN / PDD → Validation → DNA Aproval → Registration → Monitoring/Certification → CER emission → Registration at Carbon Facility → Trading at BM&F → Settlement at BM&F
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