

Banco Central do Brasil (Central Bank of Brazil) Implemented New PTAX Rate Calculation Procedures, Effective Friday, July 1, 2011

Effective Friday, July 1, 2011, Banco Central do Brasil (Central Bank of Brazil or BCB) modified procedures for determining the daily U.S. Dollar/Brazilian Real spot foreign exchange (FX) benchmark "PTAX rate," which is used for cash settlement at termination for the CME Brazilian Real/U.S. Dollars futures and options on futures contracts. Prior to July 1, 2011, the PTAX rate was a weighted average of the U.S. Dollar/Brazilian Real transactions performed in the interbank FX market with settlement in two business days as calculated and published by Banco Central do Brasil. The new procedures utilize FX dealer surveys.

In brief, under the new PTAX rate procedures, the BCB conducts four separate surveys of FX dealers each day at 10 AM, 11 AM, 12 noon and 1 PM Sao Paulo time, where current bid and ask prices are supplied at the beginning of a 2-minute interval randomly selected within a 10-minute window starting on the hour. BCB calculates the average of both the dealer supplied bids and offers, where the two highest and two lowest of each are discarded before the bid/ask midpoint is calculated. Then, BCB applies a 0.0004 spread to the midpoint to derive both the bid (0.0004 is subtracted) and ask (0.0004 is added) for the day's PTAX. The CME Brazilian Real/U.S. Dollar (BRL/USD) futures and options on futures contracts, the OTC non-deliverable forward (NDF) U.S. Dollar/Brazilian Real transactions and BM&FBovespa U.S. Dollar Futures all cash settle using the PTAX offered rate. To date, CME believes that no changes in CME rules are required with the modifications of Banco Central do Brasil's PTAX rate procedures. Final Settlement Prices are determined by taking the reciprocal of the PTAX offered rate on the Brazilian Real/U.S. Dollar futures and options termination of trading date and rounding the result to five decimal places. The daily BCB PTAX rates continue to be posted on the following BCB Web site, however, now the rate is posted at about 1:15 PM Sao Paulo time (formerly, at about 6:00 PM Sao Paulo time): <http://www4.bcb.gov.br/pec/taxas/ingl/ptaxnpesq.asp?id=quotations> and click "Search." All existing and newly listed BRL/USD futures contract months will cash settle using the reciprocal of the new BCB PTAX offered rate at termination.

Banco Central do Brasil has published two circulars governing the new PTAX rate procedures. The link for Circular 3537 in Portuguese follows as published by BCB on May 25, 2011. Please note that it updated the original Circular 3506, dated September 23, 2010 (link for Circular 3506 is in a subsequent paragraph).

See link: <https://www3.bcb.gov.br/normativo/detalharNormativo.do?method=detalharNormativo&N=111036302>.

The link for the original Circular 3506 follows as published by BCB in Portuguese on September 23, 2010. See link: <https://www3.bcb.gov.br/normativo/detalharNormativo.do?method=detalharNormativo&N=110082375>.

BCB provided CME and EMTA (formerly, the Emerging Market Traders Association), an outline in English for the new PTAX calculation procedures contained in Circular 3506, dated September 23, 2010. We are reprinting the following excerpts:

- ⇒ "Four daily quotes to the local FX dealers (through MQ messaging, the same technology used by Brazilian Payment System)
- ⇒ The opening times of each quote are randomly chosen into 20 minutes time windows centered in

S-5886
August 12, 2011
Page 2 of 5

10:00, 11:00, 12:00 e 13:00 (e.g. 10:00 quote – from 9:50 to 10:10). *[Note that a subsequent BCB Circular 3537 on May 25, 2011, indicated that the time intervals decreased to 10 minutes from 20 minutes and these 10-minute intervals commenced on the hours of 10, 11 AM, 12 noon, and 1 PM Sao Paulo time.]*

- ⇒ Each price quote period is 2 minutes long
- ⇒ Each dealer must provide one bid and one ask price on each quote
- ⇒ The quotes refers to the beginning of the 2 minutes interval
- ⇒ The beginning of each quote period will be announced to the whole market (not only to the dealers)
- ⇒ On each quote, the bid price will be computed as a trimmed mean of the bid quotes, dropped the biggest two and the lowest two. Identical procedure for the ask price.
- ⇒ It will be calculated the middle point between the average of the four computed bid quotes and the average of the four computed ask quotes, then it will be subtracted a 0.0004 spread giving the PTAX bid price and added a 0.0004 spread giving the PTAX ask price (total spread equal to 0.0008, the same as the current spread)
- ⇒ The PTAX is announced soon after the last price quote of the day”

Appendices 1 and 2, respectively, are rough English translations of original BCB Circular 3506 and subsequent Circular 3537, using the translation software provided by the BCB Web site.

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Appendix 1

CIRCULAR N. 003506

Provides for the methodology of calculation of the exchange rate real / U.S. dollar announced by Banco Central do Brazil (PTAX). The Board of the Central Bank of Brazil, in session held on September 21, 2010, based on art. 11, item III, of Law No. 4595 of December 31, 1964,

DECIDED:

Art 1 The exchange rates for buying and selling dollars in the United States released by the Central Bank of Brazil, called rates PTAX, are calculated in accordance with this Circular, based on data obtained through consultations with institutions accredited to perform the purchase and selling currency with the foreign Central Bank of Brazil (dealers).

Art 2 The consultation with the dealers mentioned in art. 1, will be conducted by the Department of Banking Operations and Payments International (Depin) automatically and electronics, all working days, subject to the following conditions:

I - making four visits a day, lasting two minutes each;

II - random choice the start of each query within the following ranges:

- a) 9:50 a.m. to 10:10 am for the first consultation;
- b) 10:50 to 11:10 for the second query;
- c) 11.50 to 12.10 for the third query, and
- d) 12h50 to 13h10 for the fourth query;

III - supply required, by each dealer, a bid price and an asking price for the exchange rate in the interbank market in sight, with settlement on T +2, that best represent market conditions at the precise moment the start of the consultation;

IV - Irreversible quotations supplied by dealers.

§ 1 In the days when there is hours of operation are differentiated in the interbank foreign exchange, setting the number of visits and the time of its accomplishment will be reported to the dealers by prior Communiqué of the Central Bank of Brazil.

§ 2 The dealers must qualify with the Central Bank of Brazil to access the electronic system of consultation that comes with this article.

§ 3 If more than four quotations to buy or more than four sales quotations leave be informed in the same automatic query, the Depin held telephone conversations with dealers omitted.

§ 4 If there is still the absence of more than four quotations from the purchase or sale after consultation by telephone that in § 3, the query result will be obtained by consulting the system information of the Central Bank of Brazil.

Art 3 The exchange rate of purchase and exchange rate of sales for each query, respectively, to average the prices of purchase and sales quotations effectively provided by dealers, excluding, in each case, two high and two low.

§ 1 After each visit, rates of buying and selling obtained pursuant to this article will be validated against the parameters target markets.

§ 2 of the impossibility of obtaining rates of purchase and sale pursuant to this article, the query result will be replaced by price obtained by consulting the system information of the Central Bank of Brazil.

§ 3 The query result will be announced immediately after the procedures of verification and validation.

Art 4 The rates PTAX purchase and sale of the day, respectively, the arithmetic average of the rates of buying and selling rates obtained in the form of art. 3 being released by the Central Bank of Brazil together with the results of the last visit of the day.

Art 5 shall provide the dealers at each visit, quotes bid and ask that accurately represent the conditions of the interbank foreign exchange to the query.

§. It is the Central Bank of Brazil to evaluate the consistency of the prices offered by dealers, applying, if necessary, the measures provided for in the rules governing the selection process of foreign exchange dealers.

Art 6 This Circular shall enter into force, in the process of approval, as of January 21, 2011, and on a final on 1 July 2011, when it will be repealed Circular No. 3372 of December 12, 2007.

Sole Paragraph. Not applicable to the stage of the approval provisions of § 3 of art. 3 and art. 4 of this Circular. Brasilia, September 23, 2010.

Aldo Mendes
Director

Appendix 2

CIRCULAR N. 003537

Changes Circular No. 3506 of 23 September 2010, which governs the methodology for calculating the rate of real / dollar exchange announced by Banco Central do Brazil (PTAX). The Board of the Central Bank of Brazil, in a meeting held on May 24, 2011, based on art. 11, item III, of Law No. 4595 of December 31, 1964,

RESOLVE:

Art 1 The Arts. 2 and 4 of Circular No. 3506 of 23 September 2010 shall henceforth read as follows: "Article 2 II - a random choice of the beginning of each query within the following ranges:

- a) 10.00 to 10.10 for the first consultation;
- b) 11.00 at 11.10 for the second query;
- c) 12.00 to 12.10 for the third query, and
- d) 13h00 to 13h10 for the fourth visit;

§ 3 If more than four quotations to buy or more than four sales quotations no longer reported in the same query auto, Depin [Department of Banking Operations and Payments International(Depin)]seek to obtain quotations from dealers omitted by telephone or other means of communication, provided that they ensure confidentiality and are capable of recording and auditing.

§ 4 If there is still the absence of more than four quotations for the purchase or sale upon request alternative addressed in § 3, the query result will be given a quote obtained from the Bank's information systems of Central Brazil. "(NR)"Article 4 Sole Paragraph. In the period from 1 July 2011 to 30 September 2011, rates PTAX purchase and sale will be calculated so as to present a fixed difference of 0.0008 R \$ / U.S. \$ centered in the middle of all the consultations of the day, both for purchase as rates for sales tax, calculated according to art. 3, being released by the Central Bank of Brazil together with the result of the last day of the consultation. " (NR)

Art 2 This Circular shall enter into force on the date of its publication.
Brasília, May 25, 2011.

Aldo Luiz Mendes
Director of Monetary Policy