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São Paulo, January 29, 2013.

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NETTING ANALYSER LIBRARY

CCP Opinion in relation to BM&FBovespa S.A. - *Bolsa de Valores, Mercadorias e Futuros*

Dear Sirs,

You have asked us to give an opinion in respect of the laws of Brazil ("**this jurisdiction**") as to the effect of certain netting and set-off provisions and collateral arrangements in relation to exchange traded and over-the-counter derivatives entered into within BM&FBovespa S.A. - Bolsa de Valores, Mercadorias e Futuros (the "**Clearing House**"), as between the Clearing House and its clearing members (each a "**Member**").

We understand that your requirement is for the enforceability and validity of such netting and set-off provisions and collateral arrangements to be substantiated by a written and reasoned opinion letter.

References herein to "**this opinion**" are to the opinion given in Section 3.

1. TERMS OF REFERENCE

1.1 Except where otherwise defined herein, terms defined in the Rules of the Clearing House have the same meaning in this opinion letter.

1.2 The opinions given in Section 3 are in respect of a Member's powers under the Clearing House Documentation and the Netting/Set-Off Provision as at the date of this opinion. We express no opinion as any provisions of the Rules of the Clearing House other than those on which we expressly opine.

1.3 The opinions given in Section 3.7 are given only in relation to Non-cash Collateral comprising securities credited to an account.

1.4 **Definitions**

In this opinion, unless otherwise indicated:

(a) "**Assessment Liability**" means a liability of a Member to pay an amount to the Clearing House (including a contribution to the assets or capital of the Clearing House, or to any default or similar fund maintained by the Clearing House); but excluding:

(i) any obligations to provide margin or collateral to the Clearing House, where calculated at any time by reference to Contracts open at that time;

(ii) membership fees, fines and charges;

(iii) reimbursement of costs incurred directly or indirectly on behalf of or for the Member or its own clients;

(iv) indemnification for any taxation liabilities;

(v) payment or delivery obligations under Contracts; or

(vi) any payment of damages awarded by a court or regulator for breach of contract, in respect of any tortious liability or for breach of statutory duty.

(b) "**Clearing House Documentation**" means the Rules;

(c) "**Client**" means the client of the Member. Based on the Clearing House Documentation, the Member acts as principal for the Client (i.e., the Client faces the Member and the Member faces the Clearing House). As a result, the Clearing House will assume the Member's position, which will then be reflected in the Member's relationship with the Client.

(d) "**Client Account**" means a segregated account with the Clearing House opened in the name of a Member in which Contracts relating to contracts made by the Member with one or more segregated clients of such Member are registered and to which monies in respect of such Contracts are credited."

(e) "**Contract**" means an exchange-traded derivative which is registered at the Clearing House;

(f) "**Netting/Set-Off[1] Provision**" means article 3 of Law No. 10,214, of March 27, 2001, please refer to **Annex A** hereto for a free translation of such legislative piece;

(g) "**House Account**" means and account with the Clearing House opened in the name of a Member;

(h) "**Party**" means the Clearing House or the relevant Member;

(i) "**Non-cash Collateral**" means the non-cash collateral provided to the Clearing House as margin;

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[1] ***Under Brazilian law, the legal concept that resembles netting/set-off is entitled "compensação" and Brazilian law does not provide for any differentiation of such concept, such as the one existing with respect to netting and set-off.***

(j) references to the word "**enforceable**" and cognate terms are used to refer to the ability of a Party to exercise its contractual rights in accordance with their terms and without risk of successful challenge. We do not opine on the availability of any judicial remedy;

(k) "**Rules**" means the rules of the Clearing House in force as at the date of this opinion;

(l) references to a "**section**" or to a "**paragraph**" are (except where the context otherwise requires) to a section or paragraph of this opinion (as the case may be).

2. ASSUMPTIONS

We assume the following:

2.1 That, except with regards to the provisions discussed and opined on in this opinion letter, the Contracts are legally binding and enforceable against both Parties under their governing laws.

2.2 That each Party has the capacity, power and authority under all applicable law(s) to enter into the Contracts; to perform its obligations under the Contracts; and that each Party has taken all necessary steps to execute and deliver and perform the Contracts.

2.3 That each Party has obtained, complied with the terms of and maintained all authorisations, approvals, licences and consents required to enable it lawfully to enter into and perform its obligations under the Clearing House Documentation and Contracts and to ensure the legality, validity, enforceability or admissibility in evidence of the Clearing House Documentation in this jurisdiction.

2.4 That the Contracts are governed by Brazilian law.

2.5 That the Contracts have been entered into prior to the commencement of any insolvency procedure under the laws of any jurisdiction in respect of either Party.

2.6 That each Party acts in accordance with the powers conferred by the Clearing House Documentation and Contracts; and that (save in relation to any non-performance leading to the taking of action by the Members under the Netting/Set-Off Provision), each Party performs its obligations under the Clearing House Documentation and each Contract in accordance with their respective terms.

2.7 That, apart from any circulars, notifications and equivalent measures published by the Clearing House in accordance with the Clearing House Documentation, there are not any other agreements, instruments or arrangements between the Parties which modify or supersede the terms thereof.

2.8 That the Member is at all relevant times solvent and not subject to insolvency proceedings under the laws of any jurisdiction.

2.8. That no provision of the Clearing House Documentation that is necessary for the giving of our opinions and advice in this opinion letter has been altered in any material aspect.

3. OPINION

On the basis of the foregoing terms of reference and assumptions and subject to the qualifications set out in Section 4 below, we are of the following opinions.

3.1 Insolvency Proceedings

The only bankruptcy, composition, rehabilitation or other insolvency or reorganisation procedures to which the Clearing House could be subject under the laws of this jurisdiction, and which are relevant for the purposes of this opinion, are extra-judicial liquidation and bankruptcy.

Considering the legal nature of the Clearing House, and also the fact that the Clearing House is considered by law as an entity of the Brazilian Securities Market Distribution System, our view is that the Clearing House would be subject to extra-judicial liquidation and, ultimately, to bankruptcy.

Notwithstanding the legal nature of the insolvency proceedings that may be applicable to the Clearing House, we believe that the consequences from the Clearing House's insolvency in either case will be substantially the same.

For more detailed information of each insolvency proceeding addressed herein, please refer to **Annex B** hereto.

These procedures are together called "**Insolvency Proceedings**".

The legislation applicable to Insolvency Proceedings is:

Insolvency Proceeding	Applicable Law
Extrajudicial Liquidation	Law No. 6,024, of March 13, 1974
Bankruptcy	Law No. 11,101, of February 9, 2005

3.2 **Special provisions of law**

The following special provisions of law apply to Contracts by virtue of the fact that the Contracts are, or relate to, exchange-traded derivative products and are cleared through a central counterparty:

Special provisions of law	Applicable Law
Characterization of systems responsible for the settlement of derivative transactions as systemically important	Central Bank of Brazil Circular No. 3,057, of August 31, 2001
Definition that systemically important systems shall be deemed as central counterparty for purposes of settlement	Law No. 10,214, of March 27, 2001

Please also refer to **Annex C** hereto for a complete description of how Contracts are entered into within the Clearing House.

3.3 **Netting and Set-off: General**

The Netting/Set-Off Provision will be immediately (and without fulfillment of any further conditions) enforceable in accordance with its terms so that, upon the occurrence of default, bankruptcy, liquidation or any other similar circumstance in relation to the Clearing House:

(a) the Member would be entitled immediately to exercise its rights under the Netting/Set-Off Provision; and

(b) the Member would be entitled to receive or be obliged to pay only the net sum of the positive and negative mark-to-market values of the included individual Contracts, together with other losses or gains referable to the Contracts.

We are of this opinion because of the fact that the Netting/Set-Off Provision sets forth that all obligations registered with the Clearing House may be multilaterally netted, upon ascertainment by the Clearing House that the netting requirements (debt must be certain, matured and comparable) have been met. Upon fulfillment of such requirements, the Clearing House will offset any outstanding obligations against its Members in compliance with the Netting/Set-Off Provision[2]. Thus, at the end of this procedure, the Member would be entitled solely to a credit or debit balance with the Clearing House, taking into consideration all of the markets the Member has traded on.

Despite the fact that Brazilian laws and regulations are not precise as to the order of these events, our understanding is that only after completion of the multilateral netting of obligations, an Insolvency Proceeding would be decreed, if applicable. Upon a default scenario (failure to pay) by the Clearing House, the positions would be accelerated, in light of Brazilian Civil legislation, and the multilateral netting would occur. The multilateral netting would consider all Members' outstanding positions and the

[2] ***For the sake of completeness, set-off is not applicable whenever the parties have expressly agreed to such a provision (which is not the scenario dealt by this opinion).***

respective margins delivered by Members in their respect. If, after the occurrence of the multilateral netting, the Clearing House is still liable for certain obligations, then an Insolvency Proceeding would be decreed and the descriptions provided in **Annex B** of this opinion would apply.

Further, there is no rule of the laws of this jurisdiction which would impose a moratorium or stay[3] which would prevent, delay or otherwise affect the exercise of such rights by the Member. However, we should note that we lack any precedents either supporting or challenging such opinion.

3.4 **Netting and Set-Off: House Accounts and Client Accounts**

Where a Member has exercised its rights under the Netting/Set-Off Provision, a termination amount payable on any Client Account would be aggregated with or netted against a termination amount payable on any House Account of the Member.

This is because the Member acts as principal for the Client (i.e., the Client faces the Member and the Member faces the Clearing House) and the Clearing House assumes the Member's position, which is then reflected in the Member's relationship with the Client.

3.5 **Netting and Set-Off: Cross-Product Netting**

The effect of the Netting/Set-Off Provision is to apply close-out netting to all Contracts cleared by the Member with the Clearing House.

This is because of the fact that the Netting/Set-Off Provision sets forth that all obligations registered with the Clearing House may be multilaterally netted. Notwithstanding the above, it should be noted that the net positions of the Client shall depend on the way the Clearing House proceeds with the multilateral netting of the open positions contracted within its system. Accordingly, in the event the Client operates at the Clearing House with different Members it is likely that the Clearing

[3] ***For clarification purposes, the stay periods described in paragraphs 1.8 and 1.16 of Annex B should not apply to the offsetting of obligations in light of the Netting/Set-Off Provision.***

House will use the outstanding net positions of the Client considering each Member used by the Client.

However, should that be the position taken by the Clearing House, we still believe that the Client is entitled to treat its payment as a single net position against the Clearing House, based on the argument that at the end of the day the creditor and debtor of the net balances provided by the Clearing House will be the same person. Under Brazilian law, netting is automatic provided that three core requirements are present: the debt must be certain, matured and comparable. In these instances, the legal requirements for netting would be present and in light of the fact that the Client would be the ultimate legal entity with the outstanding positions, the Client would be entitled to offset the net balances of each Member.[4]

In the scenario described above, considering that Client's outstanding positions would have been offset directly against the Clearing House, our view is that that no payment or delivery obligation would be due by the Member, as the actual payment or delivery obligation will have already been extinguished.

3.6 Cash Collateral

Payments made by a Member to the Clearing House as cash margin[5] do not constitute an absolute transfer of cash, so that, in the event of Insolvency Proceedings relating to the Clearing House, such cash would not be treated as the property of the Clearing House available to its creditors generally.

However, the amount of cash so provided would constitute a debt owed by the Clearing House to the Member as principal. Upon insolvency of the Clearing House, each Member having cash collateral therein deposited shall be fully entitled to request the immediate return, release and

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[4] ***We should note that the scenario contemplated in the opinion is our view of how the multilateral netting should occur in a stress scenario, based on general principles of Brazilian Civil legislation. The Clearing House Documentation does not provide for any guidelines of how such multilateral netting should be carried out.***

[5] ***Collateral at the Clearing House is held in a segregated account for each Client. In other words, the Member posts collateral with the Clearing House indicating the amount of collateral that is attributed to each Client and the Clearing House reflects this information on its records and establishes separate accounts for each Client. Collateral is not subject to rehypothecation.***

delivery of its cash. We are of such opinion mainly because such cash collateral is not the property of the Clearing House.

We should also consider whether the cash collateral could be used to satisfy payment obligations that the Member (whether through its proprietary trading or as principal for the Client) has against the Clearing House.

For such purposes, let's suppose that following the Clearing House's default and commencement of insolvency proceedings, the Clearing House undertakes calculations to determine the amounts payable by all counterparties. Should there be, as a result of these calculations, a negative balance for the Member (and assuming all cash collateral have not been liquidated as part of these determinations), we believe that the Member, as principal, will be entitled to use such cash collateral as payment of its outstanding obligations with the Clearing House.

3.7 **Non-cash Collateral**

Any securities provided to the Clearing House as cover for margin and constituting Non-cash Collateral would not be treated as the property of the Clearing House and would be returnable to the Member, even in the event of Insolvency Proceedings relating to the Clearing House, subject to the Member satisfying its obligations to the Clearing House.

This is because such Non-cash Collateral is not the property of the Clearing House.

However, the value of the Non-cash Collateral provided would constitute a debt owed by the Clearing House to the Member as principal. In that sense, we should consider whether the Non-cash Collateral could be used to satisfy payment obligations that the Client has, in a capacity as final client, against the Clearing House.

For such purposes, let's suppose that following the Clearing House's default and commencement of insolvency proceedings, the Clearing House undertakes calculations to determine the amounts payable by all counterparties. Should there be, as a result of these calculations, a negative balance for the Member (and assuming all Non-cash Collateral

have not been liquidated as part of these determinations), we believe that the Member, as principal, will be entitled to use such Non-cash Collateral as payment of its outstanding obligations with the Clearing House. Our conclusion is based on the provisions established in the Brazilian Civil Code relating to "payment in kind"[6].

Hence, based on the provisions of the Brazilian Civil Code and on Law No. 10,214, of March 27, 2001, the Member would, under the situation described above, be able to carry out the payment in kind of its outstanding balance with the Clearing House, using the Non-cash Collateral deposited with the Clearing House. Under the terms of Article 368 of the Brazilian Civil Code, the Member will be able to clear its open balance with the Clearing House. Any excess collateral, in our view, should be returned to the Member.

3.8 Members' Assessment Liabilities

A Member's Assessment Liability is as follows:

(a) settlement of trades in D + 1;
(b) daily adjustments;
(c) initial and additional margins;
(d) operating limits;
(e) securities pledge; and
(f) special funds, referred below.

(a) Operations Settlement Fund

This is a fund comprised of resources deposited by Members, with the objective of ensuring the settlement of trades conducted on the Clearing House. In the event of default and if the value of the loan granted by the *Fundo Especial de Liquidez dos Membros de Compensação* (the Clearing Members' Special Liquidity Fund) is not enough to honor the commitment, then the Clearing House will debit the corresponding amount from the Member's account with the fund. Each clearing member

[6] ***In this case, the Non-cash Collateral would not need to be liquidated and would be delivered as payment of Member's outstanding obligations with the Clearing House. Brazilian laws and regulations do not determine how and when the collateral would be valued in such circumstance, but our understanding is that the collateral should be valued considering market prices of the date of the declaration of the Clearing House's insolvency.***

is jointly liable for the default of another member, and such liability is limited to twice the clearing member's share in the fund.

(b) Investors' Guarantee Fund

This is a guarantee fund maintained by the Clearing House, the purpose of which is ensure that the price differences resulting from wrongly executed trade orders and/or improper use, by the brokerage firm, of amounts deposited for purposes of investing in the Clearing House, are returned to the brokerage firms' customers.

(c) Clearing Members' Special Liquidity Fund

This fund is comprised of the Clearing House's resources, used for the following purposes: (i) to remedy the default of a clearing member, prior to the execution of its collateral deposited in the Operations Settlement Fund by granting a loan to the defaulting clearing member; and (ii) meet any immediate liquidity needs of Members and brokerage firms.

4. QUALIFICATIONS

The opinions in this opinion letter are subject to the following qualifications: any judgment against each Party in a foreign court with jurisdiction to hear the case will be enforceable in the courts of Brazil if previously confirmed (*homologado*) by the Federal Superior Court of Justice of Brazil (*Superior Tribunal de Justiça*). Confirmation shall only occur if such judgment: (i) fulfils all formalities required for its enforceability under the laws of the country in which it was issued; (ii) is issued by a competent court after due service of process on the parties; (iii) is not subject to appeal; (iv) is authenticated by a Brazilian consulate in the country in which it was issued and is accompanied by a certified translation into Portuguese; and (v) is not contrary to Brazilian sovereignty, public policy and local usages (principles of good morals).

There are no other material issues relevant to the issues addressed in this opinion which we wish to draw to your attention.

This opinion is given for the sole benefit of the Futures and Options Association and such of its members (excluding associate members) as subscribe to the

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Yours faithfully,

Fernando R. de Almeida Prado

Caroline Guazzelli Queiroz

Annex A: Free Translation of Law No. 10,214, of March 27, 2001

[Published in the Official Gazette of the Federal Executive – DOU, Section I (Extra Edition), on March 28, 2001]

Law No. 10,214 of March 27, 2001

Provides for the activities of clearing houses and clearing service providers within the scope of the Brazilian payment system, and makes other provisions.

I hereby make known that the President of the Republic issued Provisional Measure 2115-16/01, which was approved by the National Congress, and I, Jader Barbalho, President of the Federal Senate, enacted the following Law for the purposes of the provisions set out in article 62, sole paragraph of the Federal Constitution:

Article 1º - This Law regulates the activities of clearing houses and clearing service providers within the scope of the Brazilian payment system.

Article 2º - The Brazilian payment system dealt with herein comprises the entities, systems and procedures related to the transfer of funds and other financial assets, or to the processing, clearing and settlement of any kind of payments.

Sole Paragraph - In addition to the clearing services for checks and other instruments, the following systems are part of the Brazilian payment system, pursuant to the authorization granted to the respective clearing houses or clearing service providers by the Central Bank of Brazil or the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), within their respective spheres of authority:

I. - clearing and settlement of electronic debit and credit orders;

II. - transfer of funds and other financial assets;

III. - clearing and settlement of trades in securities;

IV. - clearing and settlement of trades on commodities and futures exchanges; and

V. - other systems, including those involving trades in financial derivatives, for which clearing houses or clearing service providers have been authorized under this article.

Article 3º - Multilateral clearing of obligations is permitted at the same clearing house or clearing service provider.

Sole Paragraph - For the purposes hereof, multilateral clearing of obligations is defined as the procedure for verifying the sum of each client's bilateral debit and credit results vis-à-vis the other clients.

Article 4º - At the discretion of the Central Bank of Brazil, in clearing systems where the volume and nature of trades may put at risk the soundness and smooth operation of the financial system, the clearing houses and clearing service providers shall act as a counterparty in relation to each client for settlement of the respective obligations carried out through such clearing house or clearing service provider, without prejudice to any obligations arising out of any law, regulations or contract.

Paragraph 1º - The clearing houses and clearing service providers shall not be liable for noncompliance with the issuer's obligations to redeem the principal and ancillary amounts related to the securities, which are the subject matter of clearance and settlement.

Paragraph 2º - The systems dealt with in the main section hereof shall rely on the mechanisms and safeguards devised for the clearing houses and clearing service providers to ensure full settlement of the trades cleared and settled thereby.

Paragraph 3º - The mechanisms and safeguards dealt with in the above paragraph comprise, among other aspects, appropriate security devices and rules on control of risks and contingencies, on sharing of losses among the clients and on direct execution of custodial positions, contracts and guarantees provided by the clients.

Article 5º - Without prejudice to the provisions of paragraph 3 above, the

clearing houses and clearing service providers in charge of one or more systemically relevant environments shall, with due regard for all regulations issued by the Central Bank of Brazil, keep a separate special equity account formed by the assets and rights solely intended to ensure compliance with the obligations entered at each of the systems in operation.

Paragraph 1º - The assets and rights that make up the special equity account dealt with in the main section hereof, as well as their yields and earnings, shall be kept separately from the general equity account or other special equity accounts of the same clearing house or clearing service provider, and shall not be used to perform or guarantee any obligation assumed by the clearing house or clearing service provider in a system other than that to which they relate.

Paragraph 2º - The acts for the formation of separate equity accounts and the respective allocation thereof, shall be approved or registered pursuant to the law or regulations in effect.

Article 6º - The assets and rights that make up the special equity accounts as well as those offered in guarantee by the clients cannot be pledged, and shall not be the subject matter of attachment, seizure, search and impounding or any other act of judicial restraint, except for compliance with the obligations assumed by the clearing house or by the clearing service provider, acting as counterparty, pursuant to the provisions of article 4, main section, of this Law.

Article 7º - The civil insolvency, debt rehabilitation (*concordata)*, intervention, bankruptcy or extrajudicial liquidation of any client shall not affect compliance with the obligations assumed thereby before the clearing house or clearing service provider, which obligations shall be processed and settled by the clearing house or service provider pursuant to the respective regulations.

Sole Paragraph - The proceeds from realization of the guarantees provided by the client subject to any of the events set out in the main section of this article, as well as the bonds, securities and any other assets thereof which are eligible for clearance or settlement, shall be allocated to settle the obligations assumed with the clearing house or clearing service provider.

Article 8º - In the events dealt with in the preceding item, or in the event of default of any client of a system, the obligations--subject to the provisions set out in the regulations and procedures of the clearing houses or clearing service

providers--shall be settled as follows:

I. - by delivery of the underlying assets or transfer of funds, in the event of financial transactions; and

II. - by delivery of the proceeds from realization of the guarantees and enforcement of the mechanisms and safeguards dealt with in paragraphs 2 and 3 of article 4 hereof, when the underlying assets or the funds to be transferred are insufficient or inexistent.

Sole Paragraph - If, after the procedures dealt with in items I and II above are adopted, there is still a positive balance, such balance shall accrue to the client and shall become a part of the respective estate, if applicable. If there is a negative balance, such balance shall constitute a credit held by the clearing house or clearing service provider against the client.

Article 9º - Violation of the legal and regulatory provisions that govern the payment system shall subject the clearing houses and the clearing service providers, their senior managers and members of their audit, advisory and similar committees to the penalties set forth:

I. - in article 44 of Law No. 4595 of December 31, 1964, imposed by the Central Bank of Brazil;

II. - in article 11 of Law No. 6385 of December 7, 1976, imposed by the Brazilian Securities Commission.

Sole Paragraph - The decisions handed down by the Central Bank of Brazil and by the Brazilian Securities Commission under this article may be appealed to the National Financial System Appellate Council within fifteen (15) days, with no staying effects.

Article 10. - The National Monetary Council, the Central Bank of Brazil and the Brazilian Securities Commission, in their respective spheres of authority, shall issue the rules and guidelines required for compliance with this Law.

Article 11. - Any acts performed under the aegis of Provisional Measure No. 2115-15 of January 26, 2001 are hereby confirmed.

Article 12. - This Law shall come into effect on the date of its publication.

National Congress, on March 27, 2001, 180th year of Independence and 113th year of the Republic.

Senator Jader Barbalho
President of the National Congress

Annex B: Insolvency Proceedings

Extrajudicial Liquidation Proceedings and Bankruptcy

1.1 BM&*FBovespa - Bolsa de Valores, Mercadorias e Futuros* ("**BM&FBovespa**") is constituted as a corporation and, as such, the natural consequence is that it would in principle be subject to bankruptcy proceedings, in accordance with the terms of Law No. 11,101/05 (the "**Bankruptcy Law**").

1.2 However, Law No. 10,303 of October 31, 2001, amended article 15 of Law No. 6,385 of December 7, 1976 ("Law 6385/76") and included the securities clearing and settlement entities (which is the definition of BM&FBovespa) as members of the National Securities Market Distribution System. Additionally, it is possible to interpret that the article 15 of Law 6385/76 derogated[7] article 5 of Law No. 4728 of July 14, 1965 ("Law 4728/65"). The consequence of such derogation is that article 52 of Law No. 6,024 March 13, 1974 ("Law 6024/74") actually makes reference to article 15 of Law 6385/76, but no longer to article 5 of Law 4728/65. In accordance with article 52 of Law 6024/74, the entities pertaining to the distribution system referred to therein are subject to the intervention and extrajudicial liquidation insolvency proceedings established by such law.

1.3 Given that bankruptcy would be the most likely outcome of the extrajudicial liquidation, such additional insolvency proceeding would also apply as a final measure.

1.4 Notwithstanding, upon the occurrence of BM&FBovespa's insolvency and considering that such insolvency may cause systemic risk to the National Financial System, we believe that the Central Bank may take measures in order to either organize the process of liquidation of BM&FBovespa or even to lend funds to prevent BM&FBovespa from insolvency.

1.5 However, taking into consideration that this is an interpretation matter, we deem important to provide you with brief explanation of the extrajudicial liquidation and bankruptcy proceedings, which we understand would be the proceeding applicable in case of insolvency of BM&FBovespa.

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[7] ***Under Brazilian law, derogation means the act, pursuant to which, occurs the total or partial extinguishment of a juridical act (latu sensu), which is, in such part or totality, invalidated. In this sense, only one act of the same nature can modify (derogate) a previous act.***

Extrajudicial Liquidation

1.6 The current legislation relating to extrajudicial liquidation always addresses the insolvent entity as a financial institution. Thus, any references in the following paragraphs relating to financial institutions would be *mutates mutandi* applicable to BM&FBovespa.

1.7 Extra-judicial liquidation of the financial institution may be decreed by the Central Bank at the request of the intervenor, the financial institution's administrators (if authorized by the by-laws), or *ex-officio*. An *ex-officio* extra-judicial liquidation may be requested if the financial institution (i) fails punctually to satisfy its commitments, (ii) could be declared bankrupt, (iii) seriously violates legal rules and regulations or (iv) suffers a loss which subjects its non-privileged creditors to an abnormal risk. In principle, the same factors may be used by the intervenor or administrators to request an extra-judicial liquidation. Extra-judicial liquidation is carried out by a liquidator appointed by the Central Bank.

1.8 The decree of extra-judicial liquidation will result in (i) the suspension of any action or executions commenced post-liquidation against the financial institution concerning its rights or interests, (meaning creditor will not be able to foreclose on its collateral, since the assets of the financial institution will remain frozen until the end of the extra-judicial liquidation), **(ii) automatic acceleration of the maturity of the obligations of the entity**, and (iii) the interruption of the satisfaction of any obligations assumed by the financial institution. In addition, interests cease to accrue on the obligations assumed by the financial institution (this is true for both unsecured and secured creditors). Actions filed or commenced prior to the decree of extra-judicial liquidation are not stayed.

1.9 The extra-judicial liquidation will cease (i) when the Central Bank accepts that the necessary guarantees are in place to allow the institution to take back control, (ii) with the approval of the final accounts of the liquidator and registration of such accounts in the appropriate registry to evidence the status of the company, or (iii) with the decree of the entity's bankruptcy when the assets of the entity are not sufficient to cover at least half of the non-preferred credits, or if there are real signs of bankruptcy crimes.

Bankruptcy (or liquidation)

1.10 Bankruptcy is a collective enforcement proceeding for the relief of all creditors of a debtor. In removing the debtor from the distressed firm's management, the bankruptcy mechanism seeks to preserve and optimize the productive use of goods, assets and resources (including intangible properties) of the entrepreneurial company.

1.11 An entrepreneur or entrepreneurial company goes bankrupt if: (i) he/it unreasonably fails to make timely payment of a liquidated sum represented by a debt instrument qualifying for judicial enforcement and exceeding 40 minimum wages on the date the petition in bankruptcy is filed; (ii) when enforced, he/it fails to pay, deposit, or set aside assets for attachment within the statutory period; (iii) he/it carries out any of the following acts: (a) promotes early payment of liabilities, or adopts ruinous or fraudulent means to make payments; (b) carries out unequivocally or attempts to carry out, in order to protract payments or defraud creditors, a simulated business deal or disposal of part or all of his/its assets to a third party, whether or not creditors; (c) transfers to a third party his/its establishment without the consent of all creditors, unless sufficient assets are kept to pay liabilities; (d) simulates the conveyance of establishments to evade prevailing laws or inspection efforts, or to jeopardize creditors' interests; (e) provides new or additional collateral to any creditor without keeping unencumbered assets to honor existing debts; (f) is absent without leaving a representative with sufficient resources to honor existing liabilities; abandons the establishment; hides or tries to hide him/itself; or (g) fails to timely comply with obligations undertaken in the judicial reorganization plan.

1.12 The petition in bankruptcy may be filed by any creditor, the debtor's successors, partners or shareholders, or even by the debtor itself, when it is in financial distress and believes that it is unable to meet the requirements for judicial reorganization. Bankruptcy cannot be petitioned for by the holders of credits that do not qualify as claims under bankruptcy proceedings. Creditors not domiciled in Brazil must post bond to petition for a debtor's bankruptcy.

1.14 Once the petition in bankruptcy is filed, the debtor may avoid bankruptcy by depositing the total amount of the credit that substantiated such petition, plus monetary adjustment, interest, fees of counsel, and procedural costs and expenses. Declaration of bankruptcy may also be avoided if the debtor files for

judicial reorganization during the period for its answer. Besides, bankruptcy is not decreed if the defense is granted, even without making a deposit of the credits substantiating the claim (known as *depósito elisivo*).

1.15 A bankruptcy decree accelerates all liabilities owed by the debtor itself and by partners held jointly and severally or unlimitedly liable, and interest rates are reduced accordingly. The bankruptcy decree will, among other issues, (i) appoint a trustee; (ii) set the statutory period of automatic stay (*termo legal*); and (iii) establish a 15-day period for the creditors to prove their claims to the trustee.

1.16 Once bankruptcy is decreed, any actions and enforcement claims instituted against the debtor by each of the creditors are automatically stayed, and the creditors must file their claims in the bankruptcy proceedings (except those relating to labor suits in course at the labor courts and those involving unliquidated sums, which may be provisioned for in the bankruptcy proceedings until the liquidated sum is eventually awarded).

1.17 Pre-petition bilateral contracts are not terminated, and may continue to be performed at the discretion of the trustee, if this is of interest to the bankrupt estate and upon authorization of the creditors' committee (there are specific rules for certain contractual relations, though)[8]. Unilateral contracts may be performed by the trustee, also upon the committee's authorization, if they reduce or avoid an increase in the bankrupt estate's liabilities or as otherwise necessary to safeguard and preserve the existing assets.

1.18 Collection and appraisal of the bankrupt estate must occur promptly after the trustee is invested in office upon execution of a liability commitment. Assets must be realized in an expeditious manner (and, preferably, in block). Disposal of assets in bankruptcy proceedings exempts the buyer from the risk of succeeding the bankrupt estate in labor, tax and social security liabilities.

1.19 Proven claims denominated in foreign currency are translated into Brazilian currency at the exchange rate effective on the date bankruptcy is decreed. Foreign creditors rank on a par with domestic creditors. Creditors are paid on a ratable basis at the following order: (i) labor credits capped at 150

[8] ***Our understanding is that bilateral contracts would not be subject to cherry-picking, provided that the relevant bilateral agreement provides for a valid early termination provision for bankruptcy. The will of the parties in electing the decree of a bankruptcy proceeding as an early termination event would be observed by the trustee.***

minimum wages per creditor, and claims relating to occupational accidents; (ii) secured credits up to the encumbered asset value; (iii) tax credits, except tax penalties; (iv) senior credits; (v) junior credits; (vi) unsecured credits; (vii) contractual fines and pecuniary penalties for breach of administrative or criminal laws, including those of a tax nature; and (viii) subordinated credits.

1.20 The trustee will prepare a report substantiating the facts and circumstances that triggered declaration of bankruptcy of the debtor, stating whether civil or criminal liability is imputable to the debtor or its senior managers.

No Succession to Labor, Tax and Social Security Liabilities

1.21 The Brazilian Congress has also passed the Supplementary Law 118/05 amending the National Tax Code to bring it in line with the innovations introduced by the new Bankruptcy Law. This supplementary law also came into effect on June 9, 2005. The major changes refer to the priority order of tax claims (which will be preempted by secured claims), and to the elimination of tax, social security and labor succession when assets are regularly conveyed in bankruptcy and judicial reorganization proceedings.

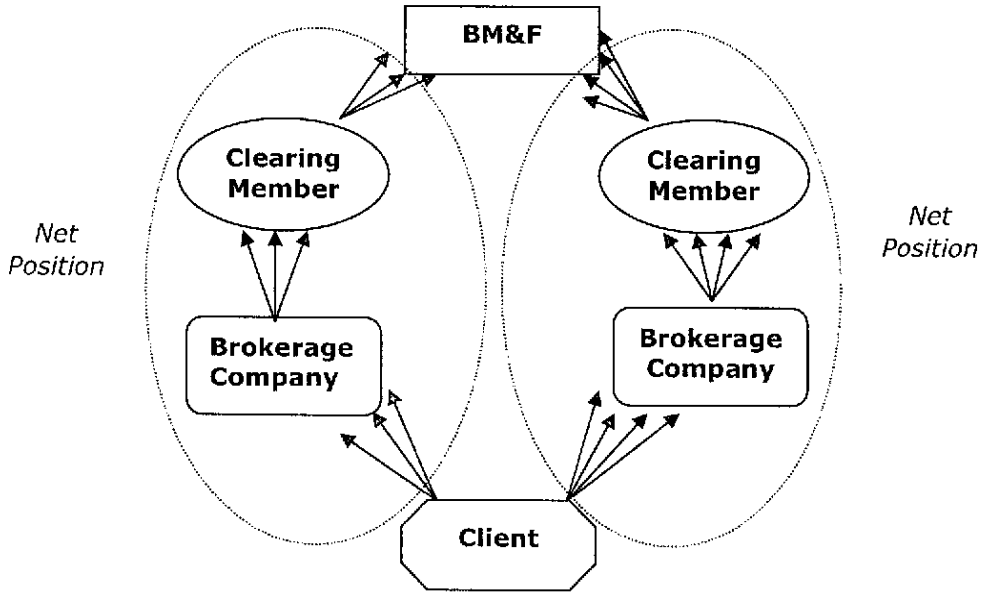
Annex C: Contracts at the Clearing House

Derivative transactions contracted on the Clearing House's trading session are formalized through accredited commodities brokerage firms. The brokerage firms are responsible for receiving and carrying out "buy" or "sell" orders placed by their clients. Brokerage firms may or may not be Members of the Clearing House. If the brokerage firm is not a Member, a Member must be contracted by such brokerage firm to enable the settlement of the transactions contracted within the Clearing House.

At the end of the trading session, brokerage firms register the operations, contracted in name of their clients, with the Clearing House. After such registration is accomplished, brokerage firms provide their clients with a report that, upon request, may inform the identification of the Clients. Although there is no written regulation in this respect, the Clearing House states that the brokerage firms have the obligation to provide the identification of the Clients.

Upon registration of the operation, each brokerage firm designates the Member responsible for the settlement of its part of the swap. The Member is responsible for the registration, clearing and settlement of all trades carried out on the trading session.

In accordance with the rules set out by the Clearing House, the multilateral netting of the transactions contracted within the clearing institution will be carried out in the following way: the consolidation and netting is made considering all open positions in each market, commodity and maturity for each Member. Additionally, the Clearing House will consolidate and net the open positions of such Client which are registered with the Member. In other words, in the event the Client enters into transactions at the Clearing House with different Members, the consolidation and netting of the open positions of the Client will be made by the Clearing House considering each group of Members used by the Client. We may summarize this paragraph in the following scheme:



At the time the operation is settled, (i) the Client, when he is the payer, must settle his position with his brokerage firm; (ii) the brokerage firm, in turn, must settle its position with the designated Member; (iii) the Member must settle its individual position with the counterparty's brokerage firm and its global position with the Clearing House; and (iv) the counterparty's brokerage firm must deliver the funds it has received to its Client.

There are three ways to register transactions at the Clearing House as follows: (i) "registration with guarantee"; (ii) "registration with a partial guarantee"; and (iii) "registration without guarantee".

The registration of a transaction "with guarantee" means that the settlement and clearing of transactions occurs through the Clearing House. It means that the transaction is cleared. As counterparty for purposes of the settlement of the obligations undertaken through it, the Clearing House is responsible for the settlement of the transactions and, for such reasons, it is entitled to call margins of both counterparties to the derivative transaction. The control of the margins of the Members and the ability to call for increase or decrease of such guarantees is, at the end of the day, in our view, the primarily risk management toll of the Clearing House.

The registration of a transaction "with a partial guarantee" means that only one counterparty is demanded to deposit a margin and collaterals at the Clearing

House. The Clearing House will only assures the responsibility of the counterparty that has guaranteed its default.

Finally, the registration of a transaction "without a guarantee" does not involves the responsibility of the Clearing House. Therefore, margin and collaterals are not demanded. The transaction is liquidated between the counterparties and is only registered at the Clearing House, for purposes of accomplishment with the rules enacted by the Central Bank. In this situation, the Clearing House is performing the same role performed by CETIP S.A. - Mercados Organizados, when registering derivatives transactions and, therefore, the derivative transaction shall be considered as OTC transactions.