Robusta-Conillon Coffee Futures Contract Specifications

1. **Underlying commodity**
   Green coffee beans produced in Brazil, variety *robusta-conillon*, type six or better (official Brazilian grade), to be delivered in the cities within the metropolitan area of the city of Vitória (Vitória, Vila Velha, Serra, Cariacica, and Viana), State of Espírito Santo, Brazil.
2. **Price quotation**
   Dollars of the United States of America per 60-net kilogram bag to two decimal places.
3. **Minimum daily price fluctuation**
   US$0.05 (five cents of a U.S. Dollar) per 60-net kilogram bag.
4. **Maximum daily price fluctuation**
   As established by BM&F in Circular Letters.
   At any time, the Exchange may alter the price fluctuation limits, as well as their applicability to any delivery month.
5. **Contract size**
   250 bags weighing 60-net kilograms each.
6. **Delivery months**
   January, March, May, July, September, and November.
7. **Number of authorized delivery months**
   As authorized by BM&F.
8. **Last trading day**
   The last business day of the delivery month. On that day, neither opening of new short positions nor day trading shall be allowed.
9. **Business day**
   For the purposes of this contract, a trading day at BM&F shall be considered a business day. However, for the purposes of the payment and receipt of amounts, as referred to in items 10, 11, 14.4, and 20.1, a day that is not a banking holiday in New York, USA, and is a trading day at BM&F shall be considered a business day.
10. **Day trading**
    Buying and selling on the same day the same number of contracts for the same contract month shall be offset provided the transactions are executed on behalf of the same customer through the same Commodities Brokerage House and registered by the same Clearing member, or performed by the same Local and registered by the same Clearing Member. These transactions shall be cash settled on the following business day and their amounts shall be calculated in accordance with item 11(a), in observance to the provisions of item 21, where applicable.
11. **Daily settlement of accounts (variation margin)**
    The positions outstanding at the end of each session shall be settled according to that day's settlement price established on the closing call, as determined by BM&F rules and regulations, and cash settled on the following business day, in observance to the provisions of item 21, where applicable.
    Variation margin shall be calculated by the following formulas:
    (a) For the positions initiated on the day

$$AD = \left(PA^{t} - PO\right) \times 250 \times n \qquad (1)$$

(b) For the positions initiated on a former trading day

$$AD = \left(PA^{t} - PA^{t-1}\right) \times 250 \times n \qquad (2)$$

Where:
AD = the variation margin value;
PA^{t} = the day's settlement price;
PO = the trading price;
n = the number of contracts;
PA^{t-1} = the previous day's settlement price.
The variation margin value, if positive, shall be credited to the buyer and debited to the seller; if negative, it shall be debited to the buyer and credited to the seller.
The variation margin for open positions shall be made up to the day preceding the day a Delivery Notice has been designated to the buyer, as described in items 14.1 and 14.2.

12. Delivery points

Delivery shall be made at Exchange-licensed warehouses located in the cities within the metropolitan area of the city of Vitória, in the State of Espírito Santo, as well as in the cities of Colatina, Linhares, Nova Venecia, and São Gabriel in that same state.

Whenever a delivery is made in a city other than those within the metropolitan area of Vitória, freight costs shall be deducted when the cash settlement value is calculated.

13. Certificate of Classification

Classification shall be requested from BM&F by the seller through a licensed warehouse by means of the form adopted by the Exchange. This form must include the number of lots and the quantity of bags of each lot.

BM&F shall register the requests of classification and render the corresponding service on a first in, first out basis. The Certificate of Classification shall be issued within five business days, counted as from the date of receipt by the Exchange of the corresponding samples, provided they are delivered up to ten business days prior to the last day of the period for tendering Delivery Notices.

The samples must be extracted from each lot and sealed by the licensed warehouse. One sample shall be delivered to the buyer for quality testing; the others shall remain with BM&F for later use in any eventual arbitration of the quality of the commodity delivered. The number of samples shall be determined by the Exchange. When under classification and arbitration, the lots shall be analyzed as to cup tasting by using three cups.

BM&F shall examine, when solicited, the bags and the coffee that compose the lots stored in licensed warehouses. The Certificates of Classification of the lots that do not comply with the specifications herein stated shall be canceled.

14. Settlement conditions on expiration

14.1 Period for tendering Delivery Notices

The sellers who decide not to offset their positions up to the last trading day shall send a Delivery Notice to BM&F during the period that initiates on the first business day of the delivery month and terminates on the business day preceding the last business day of the delivery month, at 18:00 (local time).

14.2 Delivery procedures

The customer who decides to make delivery shall formalize his/her/its intention by sending the Exchange a Delivery Notice, during the period established in item 14.1, through his/her/its Brokerage House.

The Delivery Notices docketed by the BM&F Derivatives Clearinghouse up to 18:00 (local time) shall be disclosed to the market on the next business day during trading hours and remain available on the floor. The Delivery Notices tendered after 18:00 (local time) shall only be disclosed to the market on the following business day. BM&F shall offer the lots in the Delivery Notices to the buyers on a first in, first out basis—that is, the customers who have held long positions for the greatest amount of time shall have priority. Should there be no parties interested in receiving all or part of the commodity in the Delivery Notices, BM&F shall determine that the customer(s) who has(ve) held long position(s) for the greatest amount of time shall take delivery of the coffee.

The buyers who choose to take delivery of coffee or who are designated by BM&F to do so must send to the Exchange, through their Commodities Brokerage Houses, the information required for invoice purposes on the day of their designation (the day a Delivery Notice has been designated to the buyer). Both the buyer and the seller resident in Brazil shall be allowed to assign third parties to take or make delivery of the coffee. The assigned customers, who must also send their personal data for invoice purposes, shall be bound to the contract up to the delivery's final settlement. In addition, the original buyer and seller shall assume responsibility for the obligations of the third parties they have assigned, up to the delivery's final settlement. It shall be mandatory for a nonresident seller to assign a resident in Brazil to whom delivery rights and obligations must be transferred. It shall be mandatory for a nonresident buyer to appoint a legal representative to provide transportation and shipment, as well as to meet all further requirements as defined by the Foreign Trade Office (SECEX) of the Development, Industry and Commerce Ministry (MDIC).

The seller or assigned customer, hereinafter referred to as seller, must register through his/her/its Brokerage House the certificates to be delivered in the electronic system offered buy BM&F, which must be electronically confirmed by the warehouse.

The warehouse must also send to BM&F the following documentation to be issued by the warehouse itself:

– A packing list for the lot;
– A declaration verifying coffee ownership free of any and all charges, including fiscal debts, and stating that the bags, when delivery is made in jute bags, meet the standards referred to in item 14.3;
– A provisional delivery order of the goods to BM&F;

- A certificate showing that storage and regular insurance expenses have been paid, covering a 15 day-period, counted as from the Delivery Notice issuance date.

14.3 Lot formation

- The type must be six or better. Inferior grades shall not be eligible for delivery.
- The coffee, which cannot have been salvaged from fire or contain foreign matters other than those that are typically found among the beans, must be packed in well identified sound "big bags" returnable to the originating warehouse free from damage, adulteration, and deterioration. Alternatively, the lots may be packed in well identified new and sound first quality jute bags, type 2J or 3J, which cannot come from waste nor be resewn, must have a minimum 520-gram weight with a 3% tolerance, and must be free from hydrocarbon and treated with vegetal oil. The coffee must be classified by BM&F, in accordance with its rules and regulations which conform to the Official Brazilian Classification—Federal Decree No. 27173, of September 14, 1949—or to any future classification adopted by the federal government, stored in Exchange-licensed warehouses and grouped into lots.
- Coffee which has been poorly dried, fermented, damaged by rain, moisture, mud, infestation, or having a taste uncharacteristic to robusta-conillon coffee shall not be eligible for delivery.
- Wormy or bored beans shall not exceed a maximum of 10% and beans cannot exceed a maximum of 13% moisture.
- Lots of sieve 13 or larger are eligible for delivery. Sieve 13 seepage shall be limited to a maximum of 5%. Sieves smaller than 12 shall not be allowed.
- To form a lot, the coffee must be the color of the most recent harvest, or the harvest immediately preceding the same.
- Lots composed of over 0.5% impurity shall not be eligible for delivery.
- Lots damaged by poor storage conditions shall not be eligible for delivery.
- A lot shall have the maximum of 250 bags, each one weighing 60-net kilograms, and shall be grouped in only one licensed warehouse where the commodity has been placed for storage.
- To compose the contract size, only the minimum of 250 bags shall be allowed to be delivered.

The customer who wishes to transfer the coffee from one licensed warehouse to another shall be allowed to do so, without losing the validity of the Certificate of Classification, by paying the corresponding costs. A transfer must be requested through a Brokerage House and be authorized by BM&F, which shall send a representative to accompany the transfer.

14.4 Delivery cash settlement

The cash settlement of a physical delivery shall be made by the buyer on the third business day subsequent to the day the Delivery Notice has been designated to the buyer, in observance to the provisions of item 21, where applicable. The funds transfer to the seller shall be made by BM&F on the fifth business day subsequent to the day the Delivery Notice has been designated to the buyer, in observance to the provisions of item 21, where applicable.

The cash settlement value per contract shall be calculated by the following formulas:

$$VL_1 = \frac{C - D}{60} \times P \tag{3}$$

$$VL_2 = \frac{C - D}{60.5} \times P \tag{4}$$

Where:

VL_1 = the cash settlement value per contract when the coffee is packed in big bags;
VL_2 = the cash settlement value per contract when the coffee is packed in jute bags;
C = the settlement price of the business day preceding the day the Delivery Notice has been designated to the buyer;
D = the discount for freight costs, if any;
P = the total gross weight of the lot delivered to settle one contract, expressed in kilograms to two decimal places.

The value of D, which shall be originally disclosed in Reals, shall be converted into U.S. Dollars by the BM&F Exchange Rate Benchmark, as described in Annex I of these specifications.

When taking delivery, the buyer or assigned customer or legal representative, hereinafter referred to as buyer, may request that the coffee be weighed. Should the resulting weight be different from the one informed by the warehouse, the cash settlement value shall be adjusted in the proportion of the weight difference verified. Weighing expenses shall be borne by the buyer.

Should the coffee be subject to an arbitration, BM&F shall pay the seller 80% of the cash settlement value

through the seller's Brokerage House. The balance shall be paid on the business day following the day of the final acceptance of the coffee delivered by the buyer.
Should the coffee type be above six, the invoice shall be issued without a premium.

14.5 Further conditions

A physical delivery shall be effected when the seller issues an invoice to the buyer, in accordance with current legislation. Should this legislation establish the incidence of the Tax on the Circulation of Merchandises and Services (ICMS), the corresponding amount shall be added to the cash settlement value, for the purposes of invoicing. Credits from this tax shall not be transferred should both the buyer and the seller be located in the same Federal State, unless the corresponding legislation thus requires.
Whenever the seller is a "rural producer," as per current legislation, the Social Security Contribution shall be deducted from the cash settlement value. The payment of this Contribution shall be made by the buyer, who shall then send to BM&F a copy evidencing this payment.
Should other taxes (PIS and COFINS) be due, they shall be paid by the seller. The corresponding amount shall be included in the trading price, therefore not affecting the cash settlement value.
BM&F shall issue a certificate containing type, quantity, and cash settlement value of the commodity delivered (attached to a copy of the Certificate of Classification) which shall be used, when applicable, by the legal representative of the nonresident buyer to obtain sale and export registrations, as required by SECEX.

15. Arbitration and Conformity

15.1 If a delivered lot has not been formerly arbitrated, the buyer may request an arbitration within two business days, counted as from the receipt of the documents of the commodity delivered.
Should the conditions of the coffee differ from those described herein, the seller shall be obliged to replace the corresponding lots by others that meet the requirements of type, cup, and all other qualifying specifications within two business days after being notified of the arbitration award.
The arbitration award shall be final and without recourse.

15.2 If the lots have already been arbitrated, the buyer shall still be permitted to examine their conformity with respect to storage conditions. Should the buyer question storage-related conditions by no later than 09:00 (local time) of the second business day subsequent to the day he/she/it was designated a Delivery Notice, BM&F may be requested by the buyer to verify storage conditions. Should the nonconformity of storage conditions be verified, the seller must replace the lots before 09:00 (local time) of the fifth business day subsequent to the day the Delivery Notice was designated to the buyer.
When requesting an arbitration, the buyer shall pay BM&F for the expenses involved, which shall include the travel and hotel expenses of its representative plus 1% of the value of the lot verified, calculated on the settlement price of the nearest futures delivery month verified on the day the classification was requested; plus 0.5% for the verification of a second lot; plus 0.3% for the verification of each subsequent lot.
Should a lot nonconformity be verified, the seller must repay the buyer, through BM&F, for the expenses incurred in the verification and replace the commodity delivered. The seller and the buyer may agree upon a discount on the cash settlement value. This agreement shall be registered at BM&F.

16. Ex-pit transactions

Ex-pit transactions shall be allowed, up to the last day of the period for tendering Delivery Notices, provided the conditions established by BM&F are met. These transactions shall be disclosed by BM&F, but shall not be subject to market interference.

17. Hedgers

Coffee growers, cooperatives, roasters, millers, processors, merchants, importers, and exporters.

18. Margin requirements

A value per contract, published by BM&F in its *Daily Bulletin*, which may be altered at any time, at the Exchange's discretion. Hedgers shall be granted a 20% discount on the initial margin.
Margins shall be due on the first business day following the trading day. For nonresidents, should the first business day following the trading day be a banking holiday in New York, the margin shall be due on the first day following the trading day when there is no banking holiday in that city.
Whenever margin requirements are met with cash, the provisions of item 21 shall be observed, where applicable.

19. Assets eligible to meet margin requirements

For residents, cash, gold, shares of the Fund for Broker Financing (FIF), and upon prior approval by the Exchange, federal bonds, private securities, letters of credit, shares of stocks, and equity fund units. For nonresidents, United States Dollars and upon prior approval by the Exchange, U.S. T-Bonds, T-Notes, and T-Bills.

20. Trading costs

- **Basic Commission Rate**
  Regular trading: 0.30%; day trading: 0.07%.
  The Basic Commission Rate shall be applied to the previous day's settlement price of the second delivery month and shall be subject to a minimum value established by the Exchange and published in its *Daily Bulletin*.
- **Physical Delivery Fee**
  0.45% of the delivery cash settlement value.
- **Exchange Fee**
  6.32% of the Basic Commission Rate and of the Physical Delivery Fee, if any.
- **Registration Fee**
  A fixed value established by BM&F.
- **Classification Fee**
  In accordance with the price table in effect, expressed in Reals, to be paid by the classification's requestor.
- **Arbitration Fee**
  A value in Reals established by BM&F, to be paid by the buyer.

Common Members shall pay no more than 75% of the Basic Commission Rate and of the Physical Delivery Fee, and 75% of the Registration, Classification, and Exchange Fees.

20.1 Due dates

(a) The Basic Commission Rate, the Exchange, and Registration Fees shall be due on the first business day following the trading day, in observance to the provisions of item 21, where applicable.
(b) The Physical Delivery Fee shall be due on the third business day subsequent to the day the Delivery Notice was designated to the buyer, in observance to the provisions of item 21, where applicable.
(c) The Classification and Arbitration Fees shall be due when the corresponding service is requested.

21. Additional provisions for cash settlement

The following shall apply to the payment and receipt of amounts resulting from day trades, variation margin, physical deliveries, margin deposits in cash, and trading costs not expressed in Reals:

i. For nonresidents: the amounts shall be payable and receivable in United States Dollars in New York, USA, through the Settlement Bank appointed by BM&F;
ii. For residents: the amounts shall be in Reals, in accordance with the regular procedures of the other BM&F contracts not authorized to be traded by foreign investors. When the conversion of the respective amounts is necessary, the BM&F Exchange Rate Benchmark, as described in Annex I and verified on a specific date, according to the nature of each payment, shall be used as follows:
(a) Amounts resulting from day trades: the BM&F Exchange Rate Benchmark verified on the trading day;
(b) Amounts resulting from variation margin: the BM&F Exchange Rate Benchmark verified on the day to which the variation margin refers;
(c) Amounts resulting from physical deliveries: the BM&F Exchange Rate Benchmark verified on the business day preceding the day of the cash settlement to be made by the buyer;
(d) Amounts resulting from trading costs not expressed in Reals: the BM&F Exchange Rate Benchmark verified on the trading day.

22. Further provisions

This contract shall be subject to Annex I and, where applicable, to the legislation in force and to BM&F rules, regulations, and procedures, as defined in its Bylaws, Operating Rules, and Circular Letters, as well as to the specific rules set forth by the Brazilian governmental authorities that may affect the terms stated herein.

Annex I

Methodology for the Calculation of the BM&F Exchange Rate Benchmark: Reals per Dollar of the United States of America

The calculation of the BM&F Exchange Rate Benchmark of Brazilian Reals per United States Dollar, to be used in the cash settlement of residents' transactions in the robusta-conillon coffee futures market, shall be made in accordance with the following criteria:

1. BM&F, together with the Settlement Bank of its transactions abroad, shall list the 14 institutions, among the best positioned in the interbank foreign exchange market—which for this purpose shall be called informing banks—from which it shall collect daily bid and asked quotations for the U.S. Dollar for cash delivery on T+2, that is, on the second business day both in New York and in Brazil;

2. The daily survey shall be made with at least 10 institutions from among the 14 previously selected. This survey shall be conducted during the period that coincides with the last 30 minutes of the open outcry session of the U.S. Dollar Futures Contract;

3. The prices shall be firm since BM&F may close the necessary foreign exchange operation for the cash settlement of nonresidents' transactions with any of the informing banks;

4. BM&F shall calculate the average bid–asked price of each informing bank;

5. After excluding the two highest and the two lowest average individual prices, a simple arithmetic mean of the remaining average individual prices shall be calculated;

6. The BM&F Exchange Rate Benchmark shall be the average calculated in accordance with item 5 above adjusted to T+1, that is, to the first day when there is not a banking holiday in New York and when there is a trading day at BM&F. This adjustment shall be made by adding or deducting the cost of remuneration in U.S. Dollars, based on the LIBOR, and the cost of the banking reserve in Reals at the Average One-Day Interbank Deposit Rate (ID), whenever applicable;

7. The Exchange shall also disclose an ID reference rate for the adjustment referred to in item 6. The procedures for the calculation of the ID reference rate shall be similar to those used in the calculation of the BM&F Exchange Rate Benchmark, as defined in items 1 to 5, by using the same list of informing banks;

8. Upon mutual agreement with the Settlement Bank located abroad, BM&F may increase or reduce the number of informing banks in the sample, as well as the number of prices to be excluded from the daily sample;

9. At its own discretion, the Exchange may arbitrate a price for the BM&F Exchange Rate Benchmark should it not consider the quotations collected from the informing banks to be representative;

10. This annex is an integral part of the Robusta-Conillon Coffee Futures Contract Specifications.

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