January 15, 2010
006/2010-DP

CIRCULAR LETTER

To: The BM&FBOVESPA (BVMF) Market Participants – BM&F Segment

Re: **Non-Deliverable Foreign Exchange Forward Contract**.

As you are aware, starting on January 18, 2010, BM&FBOVESPA will authorize the Non-Deliverable Foreign Exchange Forward Contract for registration in the BM&FBOVESPA OTC Market Registration System.

The exchange rates to be authorized for registration purposes are divided into two implementation stages. Initially, transactions can be registered with exchange rates calculated and published by the Central Bank of Brazil (BACEN), as described below.

- Transaction PTAX800, option "5," closing offered quotation PTAX800, for settlement in two days, published by BACEN, which are:
    - DOL T1 – The exchange rate of Brazilian Reals per U.S. Dollars, closing offered quotation;
    - DOL T2 – The exchange rate of Brazilian Reals per U.S. Dollars, closing asked quotation;
    - REU T1 – The exchange rate of Brazilian Reals per Euro, closing offered quotation;
    - REU T2 – The exchange rate of Brazilian Reals per Euro, closing asked quotation;
    - JPY T1 – The exchange rate of Brazilian Reals per Japanese Yen, closing offered quotation;
    - JPY T2 – The exchange rate of Brazilian Reals per Japanese Yen, closing asked quotation.

As of March 1, 2010, BM&FBOVESPA will also authorize the registration of transactions with exchange rates calculated by the following information sources:

- **EDO - U.S. Dollar/Euro parity exchange rate quotation**
    - **European Central Bank (ECB)**

U.S Dollar/Euro parity exchange rate, calculated and published by the European Central Bank.

- **WMReuters**
  U.S Dollar/Euro exchange rate fixed by WMR/Reuters as the Closing Price Mid quotation at 4:00 p.m. (London time).

- **YDO – Japanese Yen/U.S. Dollar parity exchange rate quotation**

  - **Bank of Japan (BOJ)**
    Japanese Yen/U.S. Dollar parity exchange rate calculated and published by the Central Bank of Japan.
  - **WMReuters**
    Japanese Yen/U.S. Dollar exchange rate fixed by WMR/Reuters as the Closing Price Mid quotation at 4:00 p.m. (London time).

We also inform you that **item 4** of the contract specifications will now read as follows:

4. Contract size

Amount of the currencies freely agreed upon by the parties, expressed as follows:

a) The amount of the foreign currency, when the underlying exchange rate selected by the parties is the exchange rate of Brazilian Reals per foreign currency;

b) The amount of U.S. Dollars, when the underlying exchange rate selected by the parties is the exchange rate of foreign currency per U.S. Dollar, or the exchange rate of U.S. Dollars per foreign currency.

The contract size shall be subject to the limits established by BM&FBOVESPA.

Regarding the **trading costs**, it should be noted that the following parameters must be observed to calculate fees on transactions with this contract:

- Exchange fees:
  - For the contracts registered with the guarantee feature: BRL8.90 per contract (each worth BRL1 million);
  - For the contracts registered without the guarantee feature: BRL0.90 per transaction.

To calculate the exchange fee as described above, expressed in Brazilian Reals, the value of the contract to be registered will be obtained from the multiplication of the amount of the currency traded by the exchange rate traded. The resulting value will be converted into Reals by the PTAX rate (closing offered quotation) corresponding to the last business day of the month preceding the transaction date.

Should that value of the contract be a fractional number, it will be rounded upwards to the nearest whole number.

− Registration fees: BRL0.10 per transaction;
− Permanence fees

1. For the contracts registered with the guarantee feature, the fees will be established according to the following table:

Value of q_j^{comb}		**Permanence**
From	To	BRL per q_j^{comb}
1	3	0.035
4	5	0.024
6	10	0.018
11	50	0.014
Above 51		0.012

Where:

q_j^{comb} = the number of units of value of the standard contract, in millions of Brazilian Reals in a given currency, outstanding on the immediately preceding business day. To calculate the total outstanding number of units, the following formula will be applied:

$$q_T^{comb} = \text{int}\left[\sum\left(\frac{VB_T^{comb}}{1.000.000}\right)\right]$$

Where:

VB_T^{comb} = the base value that will be obtained from the net number of units outstanding on the immediately preceding business day, in a given currency, in accordance with the type of parity exchange rate quotation for the transaction, as follows:

- For transactions involving the exchange rate of Brazilian Reals per foreign currency:

$$VB_T^{comb} = Qd_T^{FX} \times TC_{m-1}^{R\$/FX}$$

- For transactions involving the exchange rate of U.S. Dollars per foreign currency:

$$VB_T^{comb} = Qd_T^{US\$} \times \frac{1}{TC_{m-1}^{US\$/FX}} \times TS_{m-1}^{R\$/FX}$$

- For transactions involving the exchange rate of the foreign currency per U.S. Dollar:

$$VB_T^{comb} = Qd_T^{US\$} \times TC_{m-1}^{FX/US\$} \times TS_{m-1}^{R\$/FX}$$

Where:

Qd_T^{FX} = the net number of units outstanding on the immediately preceding business day, in a given currency;

$Qd_T^{US\$}$ = the net number of units outstanding on the immediately preceding business day, in U.S. Dollars;

$TC_{m-1}^{R\$/FX}$ = the exchange rate of Brazilian Reals per currency traded, transaction PTAX800, option "5," closing asked or closing offered quotation, as agreed upon between the parties, corresponding to the last business day of the month preceding the contract month;

$TC_{m-1}^{US\$/FX}$ = the exchange rate of U.S Dollars per currency traded, corresponding to the last business day of the month preceding the contract month;

$TC_{m-1}^{FX/US\$}$ = the exchange rate of the foreign currency traded per U.S Dollars, corresponding to the last business day of the month preceding the contract month;

$TS_{m-1}^{R\$/FX}$ = the exchange rate of Brazilian Reals per currency traded, transaction PTAX800, option "5," closing offered quotation, corresponding to the last business day of the month preceding the contract month.

Should the result be a fractional number, it will be rounded downwards to the nearest whole number. To calculate the net number of units, the Exchange will subtract the number of purchased units from the number of sold units, in a given currency, for contracts registered with the guarantee feature.

2. For contracts registered without the guarantee feature: BRL10.00 per transaction per month.

The registration and exchange fees will be due on the business day subsequent to the trade date and, if applicable, on the business day subsequent to the early settlement date, and the exchange fee will also be due on the expiration date. The amounts corresponding to the permanence fee will be due on the last business day of each month or when the position is closed, whichever occurs first.

Attached to this Circular Letter are the specifications of the Non-Deliverable Foreign Exchange Forward Contract.

Further information may be obtained from the Fixed Income and Foreign Exchange Derivatives Office by telephone at (+55-11) 2565-6348, 2565-6431 and 2565-7058.

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Non-Deliverable Foreign Exchange Forward Contract
– Specifications –

1. **Definitions**

   Contract (specifications)
   The terms and rules under which the transactions shall be executed and settled.

   Exchange Rate Quotation in Brazilian Reals
   The exchange rate expressed as the amount of Brazilian Reals per unit of foreign currency traded.

   Parity exchange rate quotation
   The exchange rate expressed as the amount of the foreign currency per unit of United States Dollar or the amount of United States Dollars per unit of foreign currency.

   PTAX rate
   The exchange rate of Brazilian Reals (BRL) per US Dollar for cash delivery, traded in the foreign exchange market, pursuant to the provisions of Resolution No. 3568/2008 of the National Monetary Council (CMN), calculated and published by the Central Bank of Brazil (BACEN) through SISBACEN, transaction PTAX800, option "5," closing offered quotation, for settlement in two days, utilizing the maximum of six decimal places, also published by BACEN with the denomination "closing PTAX," pursuant to Communication 10742, of February 17, 2003.

   Business day
   The day that is a trading day at BM&FBOVESPA.

2. **Underlying asset**
   The exchange rate selected by the parties from among the alternatives, as provided by a source authorized by BM&FBOVESPA.

3. **Exchange Rate Quotation**
   To be freely agreed upon by the parties, to six decimal places, expressed as follows:
   a) The amount of Brazilian Reals per unit of foreign currency, or;
   b) The amount of the foreign currency per unit of Brazilian Real or unit of United States Dollar (type A exchange rate);
   c) The amount of U.S Dollars per unit of other currencies (type B exchange rate).
   The exchange rate quotation shall be subject to the limits established by BM&FBOVESPA.

4. **Contract size**
   Amount of the currencies freely agreed upon by the parties, expressed as follows:
   a) The amount of the foreign currency, when the underlying exchange rate selected by the parties is the exchange rate of Brazilian Reals per foreign currency;
   b) The amount of U.S. Dollars, when the underlying exchange rate selected by the parties is the exchange rate of foreign currency per U.S. Dollar, or the exchange rate of U.S. Dollars per foreign currency.
   The contract size shall be subject to the limits established by BM&FBOVESPA.

5. **Expiration date**
   To be freely agreed upon by the parties, subject to the limits established by BM&FBOVESPA.

6. **Trade data**
   Upon trading
   - **Currency ticker symbol**
     Specific code for each underlying currency, in accordance with the exchange rate defined in item 2 herein.
   - **Trade code**
     TMC
   - **Market side**
     C = buy.
     V = sell.
   - **Guarantee feature**
     C = The settlement of the contract shall be guaranteed by the BM&FBOVESPA Derivatives Clearinghouse.
     S = The settlement of the contract shall not be guaranteed by the BM&FBOVESPA Derivatives Clearinghouse.

7. **Early settlement**
The parties may agree to an early settlement of their contract, that is, before the expiration date, from the first business day subsequent to the trade date, or the minimum term determined by BM&FBOVESPA, to the first business day preceding the expiration date. To this end they must report:
• The contract number
• Percentage of the contract (Qr) to be early settled
Expressed as a percentage of the contract's total amount of currencies, subject to the contract balance. Should the parties not define this percentage, the early settlement shall be carried out on the total contract balance.
• The settlement value
The proceeds from the early settlement, which are subject to the limits established by BM&FBOVESPA, shall be cash settled on the subsequent business day.
When the trade is registered without the guarantee feature, cash settlement shall be made directly between the parties on the subsequent business day, or on the early settlement date, if this has been mutually agreed upon between the parties.
Early settlements are subject to the provisions set forth in the special conditions of item 12 herein, where applicable.

8. **Settlement condition on expiration**
On the expiration date, the contract shall be cash settled in Brazilian Reals by the amount that results from the application of one of the following formulas:
a) when the forward exchange rate alternative agreed upon between the parties is an exchange rate quotation in Brazilian Reals:

$$VL_t = \left(TC^{s}_{t-1} - TC_R\right) \times Q_m$$

b) when the forward exchange rate alternative agreed upon between the parties is a parity exchange rate quotation of the foreign currency per United States Dollar:

$$VL_t = \left(TC^{s}_{t-1} - TC_R\right) \times Q_m \times TC^{R\$}_{t-1}$$

c) when the forward exchange rate alternative agreed upon between the parties is a parity exchange rate quotation of United States Dollars per foreign currency:

$$VL_t = \left(\frac{1}{TC^{s}_{t-1}} - \frac{1}{TC_R}\right) \times Q_m \times TC^{R\$}_{t-1}$$

Where:
VLt = the settlement value in Reals on date "t" (the expiration date);
TC^{s}_{t-1} = the settlement exchange rate corresponding to the first day preceding the expiration date, as specified by BM&FBOVESPA, which shall be equal to the exchange rate selected by the parties, as defined by the parties upon registration of the contract, pursuant to item 2;
TC_R = the exchange rate agreed upon by the parties on the trade registration date, as defined in item 3;
Q_m = the total amount of currencies or their balance, when a portion of the contract has been early settled, expressed in amount of currency traded between the parties;
$TC^{R\$}_{t-1}$ = the PTAX exchange rate corresponding to the first day preceding the expiration date, as follows:
1. the PTAX rate (offered quotation), when the exchange rate selected by the parties is of type "A" and the quotation is a bid quotation;
2. the PTAX rate (bid quotation), when the exchange rate selected by the parties is of type "A" and the quotation is an offered quotation;
3. the PTAX rate (bid quotation), when the exchange rate selected by the parties is of type "B" and the quotation is a bid quotation;
4. the PTAX rate (offered quotation), when the exchange rate selected by the parties is of type "B" and the quotation is an offered quotation;
5. the PTAX rate (offered quotation), when the source of information for the exchange rate selected by the parties is not the Central Bank of Brazil.

The settlement value (VLt), if positive, shall be credited to the buyer and debited to the seller. If negative, it shall be credited to the seller and debited to the buyer.
Cash settlement shall be made on the expiration date, in accordance with the following criteria:
(a) Trade registered with the guarantee feature: The settlement value shall be included in both parties' financial

reports issued by BM&FBOVESPA, and cash settled through the BM&FBOVESPA Derivatives Clearinghouse;
(b) Trade registered without the guarantee feature: The settlement value shall be informed by BM&FBOVESPA, but shall not be included in the financial reports. The settlement value shall be cash settled directly between the parties, without the intervention of the BM&FBOVESPA Derivatives Clearinghouse.
Should the expiration date established upon registration not correspond to a business day, it shall be transferred to the first subsequent business day.

9. Margin requirements
For the contracts registered with the guarantee feature, collateral shall be required from all customers holding open positions and its amount shall be updated daily, in accordance with the margin calculation criteria for the Non-Deliverable Foreign Exchange Forward Contract.
For the contracts registered without the guarantee feature, BM&FBOVESPA's responsibility shall be limited to contract registration, position monitoring, and cash settlement value reporting. Therefore, BM&FBOVESPA is not liable for the settlement of such transactions, which, in turn, are not covered by the funds or other safeguard mechanisms referred to in Article 30, line "J", of the BM&FBOVESPA Bylaws.

10. Assets eligible to meet margin requirements
Those assets and securities accepted by the BM&FBOVESPA Derivatives Clearinghouse.

11. Trading costs (fees)
Consist of the Exchange, Registration and Permanence Fees, which are calculated as per BM&FBOVESPA methodology.
Trading costs shall be due on the first business day subsequent to the trade registration date, or at other times and periodicity established by BM&FBOVESPA.

12. Special provisions
Should the calculation institution not disclose the PTAX rate corresponding to the first day preceding the expiration date, BM&FBOVESPA may at its own discretion:
(a) Postpone the contract settlement up until an official disclosure by the calculation institution; or
(b) Cash settle the contract at an arbitrated value.
In either case, the settlement value may also be indexed by an opportunity cost arbitrated by BM&FBOVESPA from the expiration date to the effective cash settlement date.
Furthermore, should the institution that calculates and/or discloses the exchange rate to be used in the calculation of the settlement value suspend its disclosure, thereby preventing the calculation of that rate, or in the case of force majeure situations that hinder the free functioning of the market, BM&FBOVESPA shall delist this contract and cash settle open positions in this contract at a value arbitrated at its own discretion. In these situations, BM&FBOVESPA shall provide the parties with a time frame to allow them to voluntarily and mutually settle the contract, pursuant to the "early settlement conditions" defined herein

13. Further regulations
This contract shall be subject, where applicable, to the legislation in force and to BM&FBOVESPA rules, regulations, and procedures, as defined in its Bylaws, Rulebooks, Manuals and Circular Letters, as well as to the specific rules set forth by the Brazilian governmental authorities that may affect the terms stated herein.
Should there be any situations not covered by this contract, as well as governmental measures or any other facts that affect the formation, calculation or publication of its variables, or even imply its discontinuity, BM&FBOVESPA may, at its own discretion, take the measures it deems necessary for the contract's cash settlement on an equivalent basis.