Real-Denominated Live Cattle Futures Contract Specifications

1. **Underlying commodity**
   Live cattle finished-weight for slaughter.
   Type: Male, castrated, well finished (convex carcass) in pasture or under confinement.
   Weight: Ranging from the minimum of 450 to the maximum of 550 kilograms, verified on the scale at the delivery point.
   Maximum age: 42 months.

2. **Price quotation**
   Brazilian Reals per unit of 15 kilograms, hereinafter referred to as "net arroba," to two decimal places.

3. **Minimum price fluctuation**
   R$0.01 (one cent of a Real) per net arroba.

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**
   330 net arrobas.

6. **Delivery months**
   All months.

7. **Number of authorized delivery months**
   Minimum of fifteen, as authorized by BM&F.

8. **Last trading day**
   The last business day of the delivery month.

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, 12.1, 12.2(d), and 16.1, 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 the same number of contracts on the same day for the same delivery month shall be offset provided the transactions are performed by the same customer through the same Commodities Brokerage House and under the responsibility of the same Clearing Member; or by the same Local under the responsibility of the same Clearing Member. These transactions shall be cash settled on the following business day and their amounts shall be obtained in accordance with item 11(a), in observance to the provisions of item 17, where applicable.

11. **Daily settlement of accounts**
    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 items 12 and 17, where applicable.
    The daily settlement of accounts shall be calculated by the following formulas:
    (a) For the positions initiated on a certain trading day

$$AD = \left(PA^{t} - PO\right) \times 330 \times n \tag{1}$$

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

$$AD = \left(PA^{t} - PA^{t-1}\right) \times 330 \times n \tag{2}$$

    where:
    AD = the daily settlement 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 daily settlement 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 daily settlement of open positions shall be made up to the last trading day.

12. Settlement upon expiration

The positions that are closed out on the floor by an offsetting transaction (long or short) up to the last trading day may be settled upon expiration in two alternative forms: settlement by price index or settlement by physical delivery.

Customers resident in Brazil may choose between settling their positions either by price index or by physical delivery. Nonresident customers cannot choose settlement by physical delivery.

12.1 Settlement by price index

On the last trading day, the open positions that do not meet the conditions necessary for physical delivery, as described in item 12.2, shall be settled by BM&F on the last trading day, by means of the registration of an offsetting transaction (long or short) on the same number of contracts at the price calculated by the following formula:

$$PO_i = \frac{\sum_{t=(d-4)}^{d} IBG_t}{5} \tag{3}$$

where:

PO_i = the trading price relating to the settlement by price index, expressed in Reals per net arroba;

IBG_t = the ESALQ / BM&F Live Cattle Cash Price Index verified on the last trading day, calculated in Reals per net arroba by the Escola Superior de Agricultura Luiz de Queiroz (ESALQ) and published in the Exchange's *Daily Bulletin*;

d–4 = the fourth business day preceding the last trading day;

d = the last trading day.

The values corresponding to the settlement of a position by the price index shall be cash settled on the business day subsequent to the last trading day, in observance to the provisions of item 17, where applicable.

12.2 Settlement by physical delivery

(a) Notices of Intention to Deliver

The settlement of positions by physical delivery can only take place in the case where the seller wishes to make delivery and the buyers are interested in taking delivery.

The seller who decides to make delivery shall tender a Notice of Intention to Deliver, through his / her Commodities Brokerage House, to BM&F during the period between the fifth business day preceding and including the last trading day and the business day preceding and including the last trading day. During this period, the Notice of Intention to Deliver may be tendered from 8:30 a.m. to 6:00 p.m. (local time), and must be docketed by BM&F's Clearing and Settlement Department (DLC). The Notices of Intention to Deliver tendered up to 9:00 a.m. (local time) of a certain trading day shall be disclosed to the market on the same day; those tendered after 9:00 a.m. (local time) shall be disclosed to the market on the following business day. The Notices of Intention to Deliver shall remain available on the floor up to and including the last trading day.

The buyers interested in taking delivery shall communicate this intention to BM&F on the same day. The buyers who have held long positions for the greatest amount of time shall have priority.

Should no buyer be interested in taking delivery, the position(s) shall be settled by the price index, as referred to in item 12.1.

Should a seller tender a Notice of Intention to Deliver after 9:00 a.m. (local time) and decide, by buying on the trading floor, to offset his / her position or reduce it to a number of contracts smaller than the one specified in the Notice, he / she must communicate this fact to BM&F by no later than 6:00 p.m. (local time) of that trading day, whereupon the Exchange shall cancel the Notice of Intention to Deliver.

Should there be sellers interested in making delivery and buyers interested in taking delivery, as confirmed by BM&F, both parties shall agree upon a date of weighing, which shall be done on any day of the period between and including the second and the eighth business days following the last trading day. The Commodities Brokerage House representing the seller must communicate this agreement to BM&F, by tendering a Delivery Notice no later than 6:00 p.m. (local time) of the sixth business day following the last trading day. Should BM&F not receive the Delivery Notice within the established period, it shall obligatorily determine the date of the weighing.

The seller must attach the following documents to the Delivery Notice for invoice purposes:

- A declaration verifying cattle ownership free of any and all charges, issued by the seller;
- A declaration stating the date of weighing, issued in conjunction with the buyer.

Both the buyer and the seller shall be allowed to assign third parties to make or take delivery of the live cattle, but only when the Delivery Notice has to be tendered. In this case, the third parties must also send their personal data for invoice purposes and 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.

(b) Delivery point

The livestock yard located in the city of Araçatuba, State of São Paulo, Brazil, and licensed by BM&F.

(c) Delivery procedures

The cattle shall be delivered at the livestock yard determined by BM&F from 7.00 a.m. to 10.00 p.m. (local time) of the day preceding weighing. The yard shall then be closed to be reopened on the following day. The transportation of the cattle from the seller's site, in the State of São Paulo, to the livestock yard licensed by BM&F and located in the city of Araçatuba, State of São Paulo, shall fall under the Special Regulation of the Credits from the Tax on the Circulation of Merchandises and Services (ICMS), granted by the Secretary of Finance of the State of São Paulo.

Weighing and classification shall be done by BM&F on the business day following the day of arrival of the cattle at the livestock yard, in observance to the timetable established by the Exchange. Both the buyer and the seller may inspect these procedures. The cattle shall be rehydrated from the time of their arrival in the livestock yard to the time of weighing. They shall not be fed in the licensed livestock yard. The order of weighing shall be the same as that of the arrival of each truck at the livestock yard.

The parties may decide to weigh the cattle on the same day of their arrival in the livestock yard. In this case, in addition to executing a written agreement, they must notify their respective Commodities Brokerage Houses which, in turn, shall communicate this fact to BM&F.

In order to compose a lot of 330 net arrobas, the following criteria shall apply:

(i) The animals shall be weighed individually;
(ii) The gross weight of each animal shall be in strict observance to the weight provision of item 1;
(iii) An animal's net weight shall be considered to be 54% (net yield) of its respective gross weight;
(iv) The net weight of the lot, carried to two decimal places, shall be the sum of the net weights of the animals that compose the lot;
(v) The weight obtained in accordance with item iv shall be equal to 330 arrobas, with a plus or minus 5% tolerance.

On the date of delivery, the seller must confirm the good condition of the cattle through the legally required health certificate.

After the cattle have been weighed, they shall be withdrawn from the livestock yard, at which time BM&F's and the livestock yard's responsibility for the animals shall be terminated. Should the buyer not be present for the withdrawal of the animals, they shall be weighed and arbitrated, and shall remain at the livestock yard.

During the period in which the cattle are under the responsibility of the livestock yard, they shall be covered by insurance.

The seller shall be responsible for the transportation of the cattle to the delivery point, as well as for the corresponding costs and expenses, including those relating to insurance. After weighing is completed and its conformity is confirmed, all expenses and the responsibility for the withdrawal of the cattle shall be borne by the buyer.

Should any procedures herein described not be met, the defaulting party shall pay a fine, to be established by BM&F.

(d) Delivery cash settlement

The cash settlement of a physical delivery shall be made by the buyer on the business day preceding the day of weighing, in observance to the provisions of item 17, where applicable.

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

$$VL = \frac{\sum_{t=(d-4)}^{d} IBG_t}{5} \times 330 \tag{4}$$

where:

VL = the settlement value per contract;

IBG_t, d–4 and d = as defined in item 12.1.

On the day of weighing, the settlement value shall be adjusted to the actual weight verified at the delivery point, and it shall be credited or debited on the following business day, plus the Tax on the Circulation of Merchandises and Services (ICMS), if due, minus the Social Security Contribution.

BM&F shall only pay the seller, through his / her Commodities Brokerage House, after the buyer, by using the appropriate form provided by the Exchange, has proven the receipt of the livestock. Should the buyer not be present at the weighing to prove that he / she has received the cattle, the Exchange representative at the livestock yard shall sign the appropriate form in the absence of the buyer. In this case, no arbitrable recourse shall be considered.

(e) Arbitration

Any and all deliveries shall be arbitrated by the arbitrators chosen by BM&F, who shall follow the delivery process. An arbitration thus carried out shall be final and without recourse.

13. Hedgers

Cattle raisers, feedlot operators, meat packers, and meat retailers.

14. Margin requirements

A value per contract, published by BM&F in its *Daily Bulletin*, which shall 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.

Also for nonresidents, whenever margin requirements are met with cash, the provisions of item 17 shall be observed, where applicable.

15. Assets eligible to meet margin requirements

For residents, cash, federal bonds, gold, shares of the Fund for Broker Financing (FIF), and upon prior approval by the Exchange, 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.

16. 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.
- **Registration Fee**
  A fixed value established by BM&F.
- **Arbitration Fee**
  A value 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 and Exchange fees.

16.1 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 17, where applicable.
(b) The Physical Delivery Fee shall be due on the physical delivery cash settlement date, in observance to the provisions of item 17, where applicable.
(c) The Arbitration Fee shall be due on the business day following the rendering of the corresponding service.

17. Additional provisions for cash settlement

The following shall apply to the payment and receipt of amounts resulting from day trades, daily settlements, settlement by the price index or by physical delivery, margin deposits in cash, and trading costs:

(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. 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 daily settlements: the BM&F Exchange Rate Benchmark verified on the day the daily settlement refers to;
  (c) Amounts resulting from cash settlement by the price index: the BM&F Exchange Rate Benchmark verified on the last trading day;

(d) Amounts resulting from cash settlement by physical delivery: the BM&F Exchange Rate Benchmark verified on the day the cattle are delivered to the delivery point;

(e) Amounts resulting from trading costs: the BM&F Exchange Rate Benchmark verified on the trading day;

(ii) For residents: the amounts shall be in Reals, in accordance with the regular procedures of the other BM&F contracts not authorized for trading by foreign investors, in observance to the provisions of item 9.

18. 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 specific rules set forth by the Brazilian governmental authorities that may affect the terms stated herein.

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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 transactions performed by nonresident investors on the live cattle futures market, shall be made in accordance with the following criteria:

1. BM&F, together with the Settlement Bank of its operations 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 one-day Interbank Deposit (ID) rate, whenever applicable;
7. The Exchange shall also disclose a one-day Interbank Deposit (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. Under joint 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. The list of informing banks shall be disclosed by BM&F in its *Daily Bulletin*. Any change in that list shall be disclosed in advance;
10. 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;
11. This annex is an integral part of the Real-Denominated Live Cattle Futures Contract Specifications.

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