

# Swap Contracts – Specifications –

## 1. Definitions

**Contract update period:** The period between the day subsequent to the basis date and the expiration date of the contract. During the period that precedes the contract update period, the daily and accumulated indexation (update) factors shall always be equivalent to 1.

**Monthly anniversary date:** The day of each month that coincides with the day of the month when the contract expires (expiration date), taking into consideration the contract update period.

**Reserve:** A business day for the purpose of the operations performed on the financial market, pursuant to the provisions set forth by the National Monetary Council (CMN).

**Variable:** Any index, interest rate, rate change, price, etc. listed in Annex I.

**Validity period (flowing period) of the variable:** The period during which the variable is valid, as established by the entity responsible for the calculation and/or disclosure thereof. For the purpose of a contract update, the flowing periods considered shall be comprised between the basis date and the expiration date. The first flowing period shall coincide with the basis date of the contract. The next flowing period shall only be used on the last day of validity of a certain flowing period.

**db:** The basis date of the contract, as established by the parties and defined for this purpose as the business day preceding the first update of the initial value of the contract.

**dv:** The expiration date of the contract, as established by the parties.

**na:** The number of reserves verified in the period between two anniversary dates.

**t:** The reference date of calculation.

**TJ<sub>i</sub>:** The interest rate to be added to variable “i,” whenever specified by the parties and admitted by the variable for the creation of a parameter.

**P:** The percentage to be applied to the variable update, whenever specified by the parties and admitted by the variable for the creation of a parameter.

## 2. Underlying asset

The difference between the following values:

- (a) The initial value updated (indexed) by parameter “1;”
- (b) The initial value updated (indexed) by parameter “2.”

Parameters “1” and “2” are respectively defined by the accumulated indexation factors referring to variables “1” and “2,” as described in Annex III. Variable “2” shall necessarily be distinct from variable “1.”

## 3. Trading information

### 3.1 On the transaction

- **Trading code**  
Each combination between parameters “1” and “2,” referring to variables “1” and “2,” as defined in items 1 and 2 above and authorized to be traded, has a specific trading code, as defined in Annex II.
- **Initial value (contract size)**  
The value to be updated by the parameters defined in item 2 during the contract update period. The initial value shall always be expressed in the domestic currency, unless a special condition is authorized by BM&F, which shall be disclosed by means of a Circular Letter.
- **Transaction date**
- **Expiration date**
- **Basis date**
- **Parameter “1”**
  - The variable “1”
  - The percentage, if any, to be applied to the daily variation of variable “1”
  - The interest rate, if any, to be applied to variable “1”
- **Parameter “2”**
  - The variable “2”
  - The percentage, if any, to be applied to the daily variation of variable “2”
  - The interest rate, if any, to be applied to variable “2”
- **Transaction code**

- **Guarantee feature**
  - C:** BM&F shall guarantee the Clearing Member of a party against the risk of default by the Clearing Member of the counterparty.
  - S:** BM&F shall not guarantee the Clearing Member of a party against the risk of default by the Clearing Member of the counterparty.
- **Nature of a transaction**
  - C: Long**  
The buyer of the contract buys parameter “1,” as defined in item 2(a), and sells parameter “2,” as defined in item 2(b).
  - V: Short**  
The seller of the contract sells parameter “1,” as defined in item 2(a), and buys parameter “2,” as defined in item 2(b).
- **Settlement alternative**
  - (a) Regular Settlement
  - (b) Reset

Should there be no information concerning the form of settlement, the alternative chosen by the parties shall be considered a Regular Settlement.

### 3.2 Early settlement

- The contract number
- The percentage of the contract to be settled
- The settlement value

As an alternative to the above-mentioned percentage, the parties may indicate the amount to be settled, which, for this purpose, shall be defined as part of the initial value.

### 4. Contract size

The initial value, that is, the contract size shall be freely agreed upon by the parties, in observance to the maximum and minimum limits established by BM&F.

### 5. Expiration date

To be freely agreed upon by the parties, in observance to the maximum and minimum limits established by BM&F.

### 6. Settlement alternative

#### 6.1 Regular Settlement

On the expiration date, the contract shall be cash settled by the value resulting from the following formula:

$$VL_t (VI \times FCA1_t) - (VI \times FCA2_t)$$

where:

$VL_t$  = the settlement value of the contract on day “t;”

$VI$  = the initial value defined in item 3.1;

$FCA1_t$  = the accumulated indexation factor of parameter “1” referring to variable “1,” as defined in item 2(a), on the expiration date;

$FCA2_t$  = the accumulated indexation factor of parameter “2” referring to variable “2,” as defined in item 2(b), on the expiration date.

The settlement value, if positive, shall be credited to the buyer and debited to the seller of the contract. If negative, it shall be credited to the seller and debited to the buyer of the contract.

The settlement values shall be cash settled on the expiration date, in observance to the following criteria:

(a) Both parties choose to trade with the guarantee feature

The settlement value shall be disclosed in the clearing reports of both parties, issued by BM&F, and cash settled through the Clearing System.

(b) The creditor chooses to trade with the guarantee feature and the debtor chooses to trade without the guarantee feature

The settlement value shall be disclosed in the clearing reports of both parties, issued by BM&F, and cash settled through the Clearing System.

(c) All other cases

The settlement value shall be informed by BM&F, but it shall not be disclosed in the clearing reports and it shall be cash settled directly between the parties.

#### 6.2 Reset

The Reset provision is defined in Annex IV.

### **6.3 Early settlement**

Regardless of the settlement alternative chosen for a contract, the parties, under joint agreement, may early settle the contract, that is, before the expiration date, as of the first business day subsequent to the transaction date, or the minimum period determined by BM&F. In this case, the parties must report the contract number; the percentage to be settled or alternatively the amount of the initial value of the contract to be early settled; the early cash settlement value; and its nature (debit or credit).

Should the parties chose to Reset, the contract can only be early settled in its totality.

The early settlement values, which are subject to the limits established by BM&F, shall be cash settled on the following business day.

When both parties have chosen to trade without the guarantee feature or when the party that has chosen to trade without the guarantee feature is the creditor, cash settlement shall be performed directly between the parties on the following business day or on the early settlement date, at their discretion.

BM&F may, at its own discretion, apply the special provisions in item 6.4 of these contracts to an early settlement, where applicable.

### **6.4 Special provisions**

Regardless of the settlement alternative—Regular or Reset—chosen for a contract, should the institutions responsible for the calculation and/or disclosure of any of the variables (index, interest rate, rate change, price, etc.) needed for the calculation of the settlement value of any transaction registered under the terms of these contracts delay the disclosure or not disclose those variables, BM&F may at its own discretion:

(a) Postpone the contract settlement, up until an official disclosure; or

(b) Cash settle the contract by a value arbitrated at its own discretion.

In either case, BM&F may also update the settlement value by arbitrating a cost of opportunity from the expiration date to the effective cash settlement date.

Furthermore, should those institutions alter the calculation and/or disclosure criteria of the variables (index, interest rate, rate change, price, etc.) used in the calculation of the settlement value, BM&F may at its own discretion:

(a) Alter the formula for the calculation of the settlement value in order to attain a result equivalent to that attained through the former criteria; or

(b) Cash settle the contract by a value arbitrated at its own discretion.

In either case, BM&F may still arbitrate a value for the settlement of the contract should it not consider the variables to be used in the calculation of the cash settlement value to be representative.

Under the hypothesis of any governmental measure impacting any variable (price or rate) or the way a variable is calculated or disclosed, or even causing the interruption of any variable, BM&F may adopt the measures it deems necessary to guarantee the cash settlement of the contract or the continuity thereof in equivalent terms.

### **7. Collateral**

Margins shall be calculated pursuant to BM&F's Swap Margin Calculation Criteria and they shall only be required from the party whose counterparty has chosen to trade with the guarantee feature.

With regard to the party that has chosen to trade without the guarantee feature, BM&F's responsibility in the corresponding contract shall be limited to registration, position control and value update, margin collection, if any, and information of the cash settlement values. Therefore, should that party be a creditor, BM&F shall bear no responsibility for the settlement of the corresponding transactions which likewise are not protected by the provisions of Chapters IX and X of the Exchange's Bylaws.

### **8. Assets eligible to meet margin requirements**

Cash, federal bonds, gold, shares of the Fund for Broker Financing (FIF), and upon former approval by the Exchange, private securities, letters of credit, shares of stocks, and equity fund units, as well as other assets that may be expressly authorized by the Exchange.

### **9. Trading costs**

#### **• Commission Rate**

To be freely agreed upon by the Commodities Brokerage House and its customer.

#### **• Exchange Fee**

A percentage established by the Exchange.

### **10. Further regulations**

The positions assumed on the Swap Contracts shall only be transferrable pursuant to the terms and conditions set forth in Circular Letter No. 017/2002-DG, of February 5, 2002, which deals with the transfer of swap positions, and to other special provisions, at the discretion of the Exchange.

BM&F's responsibility for the guarantee of the settlement of the positions assumed on these contracts is identical to that concerning the other contracts it authorizes to be traded with the guarantee feature.



Changes in the number of reserves introduced by governmental measures are the exclusive responsibility of the contracting parties, that is, they are not BM&F's responsibility. These contracts shall be subject to Annexes I to V 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 and regulations set forth by the Brazilian governmental authorities that may affect the terms herein stated.