



Chicago Climate Futures Exchange CER Futures

Chicago Climate Futures Exchange® (CCFE™) Certified Emission Reduction (CER) futures contracts offer market participants a cost-effective means to hedge and trade in the market for Certified Emission Reductions (“CERs”). CERs are Kyoto compliant greenhouse gas (GHG) emission reduction credits issued by the United Nations for approved and verified projects undertaken in developing countries. The Kyoto Protocol allows GHG reduction requirements to be met, in part, through the use of CERs. These instruments are fast emerging as a leading international currency in the global markets for reducing GHG emissions.

What are Certified Emission Reductions (CERs)?

CERs, a form of international carbon “credits”, are transferable instruments issued under the United Nations Clean Development Mechanism as operated under the Kyoto Protocol. Each CER represents one metric ton of carbon dioxide equivalent of emission reductions and are issued for GHG emission mitigation activities in developing countries. They are equivalent to other emission credits acceptable for the reduction commitments under the Kyoto Protocol. CERs can be generated through a wide variety of project activities such as renewable energy, energy efficiency, capture and destruction of landfill methane. To date, the majority of the CERs generated are from China, India and Latin America.

How big is the market for GHG emissions? Where does the CER market fit in?

Turnover in excess of \$30 billion occurred in the global emissions market in 2006 and is growing at an annual rate of approximately 200 percent. This market primarily involves trading in European Union Emission Allowances (EUAs), CERs and the Chicago Climate Exchange® (CCX®). CERs are unique because they are accepted as valid “currency” among nearly all carbon market participants. The notional value of CER transactions in 2007 was nearly \$5 billion. The United Nations CDM governing body expects over two billion CERs to be issued by the end of 2012. At August 2007 prices of approximately \$20 per metric ton of CO₂ for guaranteed delivery of CERs, an annual issuance of 400 million CERs would imply an annual issuance valued at \$5 billion USD. Every CER that is generated will be traded, unlike the original issuance of EUAs, many of which are never traded but are held by emitters to meet carbon compliance requirements.

What causes price fluctuations in the CER market?

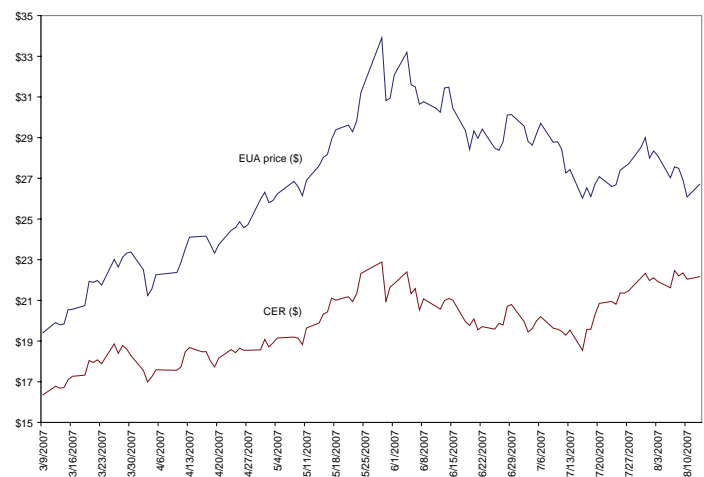
A primary price driver for CERs is market conditions for EU emission allowances because the current dominant source of demand is currently European corporates and governments that face reduction commitments under the Kyoto Protocol. However, a variety of factors influence the price of CERs, including regulatory factors such as national limits on the use of CERs in Europe, regulations governing the development of CDM projects in the host countries, and rules governing the approval of CER projects. The supply of CERs is not particularly influenced by fundamental factors such as weather, economic conditions or relative prices of fossil fuels, but these factors do impact demand. CER prices have imperfectly tracked European Union Allowance prices for the first Kyoto compliance year (2008). CER prices currently trade at a discount to the EUA price due to a number of factors such as EU limits on use for compliance, delayed activation of the international CER transfer system. Information on projects that have been issued CERs is publicly available at www.unfccc.int under the section on CDM.

How does the cash-settlement process work for the CCFE CER futures contract? How is the final settlement price determined?

The CCFE CER futures contracts are cash settled instruments priced in U.S. dollars. This structure allows market participants to efficiently hedge and manage risk from CER price fluctuations in the absence of a delivery mechanism.

The final settlement prices will be based on the market price survey for guaranteed delivery Certified Emission Reductions on the last business day in December 2008 for contract expirations occurring through calendar year 2008. The simple average of eight price quotes, which remain after excluding the highest and lowest quotes, will determine the final settlement price. Results of the price survey will be posted at 6:00 P.M. London time.

Estimated Prices for Guaranteed Delivery CERs & ECX CFI 2008 Contracts



Source: ECX data and TFS brokers

Why should I trade CCFE CER futures?

CERs are expected to play a pivotal role in linking various domestic carbon markets for many years to come. CCFE CER futures contracts are part of the diverse and rapidly emerging global carbon market. The European Union has announced specific intent to extend internal and international carbon trading post 2020.

CCFE is the first exchange outside of Europe to bring CERs, a Kyoto compliant emissions instrument, to an exchange-traded platform. This provides project developers, compliance buyers, investors and traders opportunities to hedge price risk in the CER market using a transparent, guaranteed and cleared electronic platform.

CCFE enhances your trading experience by providing:

- **Ease of electronic trading access:** The CCFE's web-accessible electronic trading platform provides users the ability to trade anywhere in the world. CCFE trading hours span prime trading hours in energy and environmental markets across three continents. The CCFE trading environment is set up to reduce connectivity costs, provide instant access and allow fast and efficient trading.
- **Risk management:** CCFE CER futures contracts provide compliance buyers such as regulated industry, CDM project developers and project guarantors (banks and financial institutions) the ability to efficiently hedge against price fluctuations in the volatile emissions markets.
- **Suite of trading opportunities in the environmental space:** CCFE is the only specialized exchange for trading environmental financial products, offering futures and options products. CCFE's transparent and real time prices are fast emerging as the reference prices for environmental commodities. CCFE offers the right environment to trade CER futures by providing ease in cross hedging and trading opportunities across emission products.
- **Clearing and financial guarantee:** All contracts traded on CCFE are cleared and settled through Clearing Corporation (CCorp) providing a transparent, reliable marketplace without credit risk.
- **Regulatory Assurance:** CCFE is regulated by the U.S. Commodity Futures Trading Commission (CFTC); regulatory services and market surveillance are provided by the National Futures Association, which together provide market participants with a high standard of integrity and trust in the marketplace.

What is CCFE?

CCFE, a wholly owned subsidiary of the Chicago Climate Exchange, Inc. (CCX), is a CFTC designated contract market that offers standardized and cleared futures and options contracts on emission allowances and other environmental products. Products offered by CCFE include derivative contracts on emission allowances issued by the United States Environmental Protection Agency; Sulfur Financial Instrument® (SFI™) futures and options contracts and Nitrogen Financial Instrument™ (NFI™) futures contracts; futures contracts on the WilderHill Clean Energy Index (ECO) and futures contracts on CCX Carbon Financial Instrument® (CFI™) contracts. Additional information about CCFE is available on the CCFE website: www.ccfef.com.

CCFE CER Futures Contract Specs

Ticker Symbol	CER
Contract Size	1,000 CERs representing 1,000 metric tons of CO ₂ equivalent
Quotation	U.S. dollars
Minimum Tick Increment	\$0.01 per metric ton (equals \$10 per contract)
Contract Listing Cycle	6 consecutive quarterly contracts on Mar-Jun-Sep-Dec cycle; front two serial calendar months; annual Dec contracts through 2012
Final Contract Settlement	Cash settled. Final settlement price based on market price survey for guaranteed delivery CERs on last business day of December 2008.
Trading Hours	7:00 A.M. – 3:00 P.M. U.S. Central Time

CCFE Clearing Firms

ADM Investor Services Inc.
Barclay's Capital Inc.
Bear, Sterns Securities Corp.
Calyon Financial Inc.
Credit Suisse Securities (USA) LLC
Fimat USA, LLC
Fortis Clearing Americas LLC

Goldman Sachs & Co.
JP Morgan Futures Inc.
MF Global Inc.
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Prudential Bache Commodities LLC
Tradelink LLC (self-clearing only)
UBS Securities LLC

How to trade at CCFE

Access to trade CCFE CER futures is established by opening an account with a CCFE Clearing Member, which can provide customers with direct trading screen access. Please contact CCFE market personnel with additional questions.

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