

Operationalization Guide

CBIO

Biofuel
Decarbonization
Credit



PRESENTATION

Environmental, Social and Governance (ESG) issuances are no longer merely banners that the business world can choose whether or not to adopt. Today they are a mandatory part of companies' strategies, and there is a growing consensus that there is no future for businesses that do not thoroughly consider the impacts that they have on society. The movement — which was sluggish up to less than a decade ago — has been gaining greater momentum with the increasing adherence of financial and capital markets to the ESG agenda. The logic is simple: only business models based on attention to social and environmental criteria prove to be sustainable in the long run.

This is not a fad, but rather an analysis based on the risk that these assets pose. Around the world, there are clear signs of a greater flow of resources for investments that consider ESG aspects. The urgency surrounding this issuance has increased with the pandemic: social isolation and the downswing in economic activity have clearly shown several impacts on the environment, such as the reduction in carbon emissions and in the consumption of wind energy, at the same time that waste generation has grown.

At ANBIMA, the issuance of sustainability has been on the agenda for nearly a decade, when we started to support and be part of initiatives related to this topic. In 2015, we created an in-house technical group, made up of representatives of the assets, to encourage the exchange of experiences and coordinate an agenda focused on disseminating sustainability practices with associated institutions.

This group was recently restructured, taking on the status of an advisory body to the Executive Board. This restructuring involved bringing in new members for greater representation, since it now has other segments, in addition to assets. The work agenda has also been redefined. Among the group's priorities is improving our database on sustainability, qualitatively and quantitatively.

To do so, a new survey will be conducted among our associates to map the degree of engagement of financial institutions to the ESG criteria. We also plan to launch a second edition of the ESG Guide, focusing on asset management, and review our classification of investment funds to better categorize those focused on sustainability and governance. The agenda also includes educational actions geared toward market professionals and investors.

This guide is part of our efforts to provide the market with more information and educational content on matters relating to sustainability. It is aimed at institutions that intend to trade Biofuel Decarbonization Credits (CBI0s) on the organized market (electronic and/or over-the-counter), in addition to assisting custodian and bookkeeping institutions, which make the product operational.

It is our role to provide information to the market, as well as the commitment of all of us to contribute toward improving the world we live in.

Good reading!

Zeca Doherty
CEO of ANBIMA



INTRODUCTION

This guide seeks to encourage the trading of C BIO assets, created in 2017 by Brazil's Ministry of Mines and Energy (MME). C BIO is part of "RenovaBio", a program that emerged at the 2015 United Nations Climate Change Conference (COP 21), and sets out a number of initiatives, including the creation of financial instruments to attract investments focused on expanding the production of biofuels.

In 2019, when the C BIO regulations were announced by the MME, there was major interest from the market, but there were also difficulties for the issuance and trading of this type of instrument. As this is a new asset, the absence of standards and the lack of well-defined roles for the agents involved has been a challenge for the start of trading in C BIO. As representatives of the bookkeeping and custodian institutions, ANBIMA became involved in the discussion to assist them in making C BIOs operational. To do so, this publication features all the stages of this process (issuance, placement, brokerage/intermediation, maintenance, custody/bookkeeping), in addition to presenting the minimum criteria required in service agreements.

C BIOs are issued by power plants (producers or importers of biofuels certified by Brazil's National Agency of Petroleum, Natural Gas and Biofuels (ANP) and traded on the stock exchange. Each paper corresponds to one metric ton of carbon that ceases to be released into the atmosphere. This means that the issuance and trading of this type of asset incentivize the production of clean energy, i.e., from renewable sources and without emission of pollutants.

The benefits of C BIO reach beyond the biofuels sector. The asset has the potential to contribute to the environment, increase agro-industrial production and, consequently, strengthen the green economy.

Programs similar to RenovaBio are already consolidated in the international market. This is the case of the LCFS (Low Carbon Fuel Standard) enacted by the California state government, and the Renewable Energy Directive (RED) issued by the European Union. Both have shown to be successful in more ten years of operation.

ANBIMA has been monitoring discussions about CBIO since the product's inception in 2017. Through the Guide — prepared by the Thematic Commission for Bookkeeping, linked to the Forum of Fiduciary Services — we seek to standardize the operationalization of this environmental asset, establishing minimum requirements to be met in each process as well as the roles and responsibilities of the agents involved.

With that, we hope to contribute to the strengthening of this asset so that we can achieve the commitment made by Brazil at COP 21: to increase sustainable energy in the national matrix to 18% by 2030.





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1. LEGAL BASES

CHECK THE REGULATIONS THAT ADDRESS THE EMISSION OF CBIOs ON THE BRAZILIAN MARKET:

- Resolution 4593 of the Central Bank (August 28, 2017): details the role of the custodian in the operationalization of assets (Chapter V: Roles of the custodian institutions);
- Law 13576 (December 26, 2017): creates the product and the RenovaBio program – Brazil's National Biofuel Policy;
- Decree 9888 (June 27, 2019): addresses the mandatory annual targets for reducing greenhouse gas emissions, and creates the Renovabio Committee, responsible for establishing them;
- Decree 9964 (August 8, 2019): defines the National Agency of Petroleum, Natural Gas and Biofuels (ANP) as the body responsible for establishing criteria and procedures for CBIO;
- Decree 10102 (November 6, 2019): amends Decree 9888;
- ANP Resolution 802 (December 5, 2019): establishes procedures for generating reserves for the issuance of CBIO;
- Ministry of Mines and Energy Ordinance 419 (November 20, 2019): regulates CBIO.



2. WHO'S WHO

Trading environment – the environment which ensures that counterparties (buyer and seller) are not identified in the trading. The entity responsible for the trading environment shall require custodians and brokers to:

- Provision of minimum content of the contract that establishes the transfer relationship between broker, custodian and investors;
- Inclusion of investors' complete registration information in the trading environment system to be passed on to the registrar entity and the bookkeeper. Among the data are classification as a primary issuer and identification as either obligated party (fuel distributor) or nonobligated party (other individual, corporate, and non-resident investors).

Retirement – the process for the definitive withdrawal of the CBIO from circulation, which prevents any future trading. This is done at the request of the obligated-party investor to the bookkeeper.

B3 – the current CBIO trading environment available in Brazil (see the "trading environment" section). There, all issuances and trades are recorded. The CBIO **database** in Brazil is also at B3, with information on inventory, volume deposited, definitive trades, and retirement of the asset.

CBIO (Decarbonization Credit) – an environmental asset issued by plants (biofuel producers), created for the purpose of reducing the emission of carbon into the atmosphere. The plants' annual targets for reducing emissions must be met by purchasing CBIOs – each one is equivalent to one metric ton of carbon that ceases to be released into the atmosphere. CBIOs have no expiration date, but can be retired, i.e., withdrawn from the market at the request of the obligated-party investor.

Custodian – institution that meets the criteria required by the trading environment and performs the following activities:

- Maintain, control and reconcile the positions of CBIOS in custody accounts in the name of the investor;
- Deal with transaction requests received from investors or persons legitimized by contract or mandate
- Obtain (and maintain up-to-date) investors' registration information, including their classification as primary issuer, obligated party and nonobligated party;
- Transmit to the registrar the retirement information on the CBIOS of its clients/investors.

Distributor – company authorized by the ANP to market fuels.

Primary issuer – producer or importer of biofuel, authorized by the ANP, eligible to request the issuance of CBIO in an amount proportional to the volume of biofuel produced or imported and marketed.

Bookkeeper – bank or financial institution, hired by the biofuel producer or importer, responsible for the issuance of book-entry CBIOS on behalf of the primary issuer.

Intermediary – institution that meets the criteria required by the trading environment to operate — on behalf of third parties — in the trading of CBIOS on organized markets (electronic and/or over-the-counter). It must obtain and maintain up-to-date the investors' registration information, including their classification as primary issuer, obligated party and nonobligated party.

Obligated-Party Investor – fuel distributor obligated to meet and prove compliance with mandatory individual targets for reducing greenhouse gas emissions – under Law 13576 (article 7), Decree 9888 (article 5), and MME Ordinance 419. This investor's profile must be controlled and updated by the custodian.

Nonobligated-Party Investor – other CBIO investors, individuals or legal entities, resident and non-resident in Brazil. There is no obligation to meet the targets for reducing the greenhouse effect. This investor's profile must be controlled and updated by the custodian and brokers, under MME Ordinance 419.

Pre-CBIO – the right of the biofuel producer to register the CBIO with the bookkeeper (financial institution) for future trading on the stock exchange.

Biofuel producer – a company authorized by the ANP to produce biofuel.

Register– entity that validates the operations carried out in the trading environment and generates public information about the CBIOs issued, traded and retired, meeting all the requirements established in MME Ordinance 419.

RenovaBio – Brazil's National Biofuels Policy, defined by the MME, aimed at encouraging the production of biofuels and reducing carbon emissions into the atmosphere.

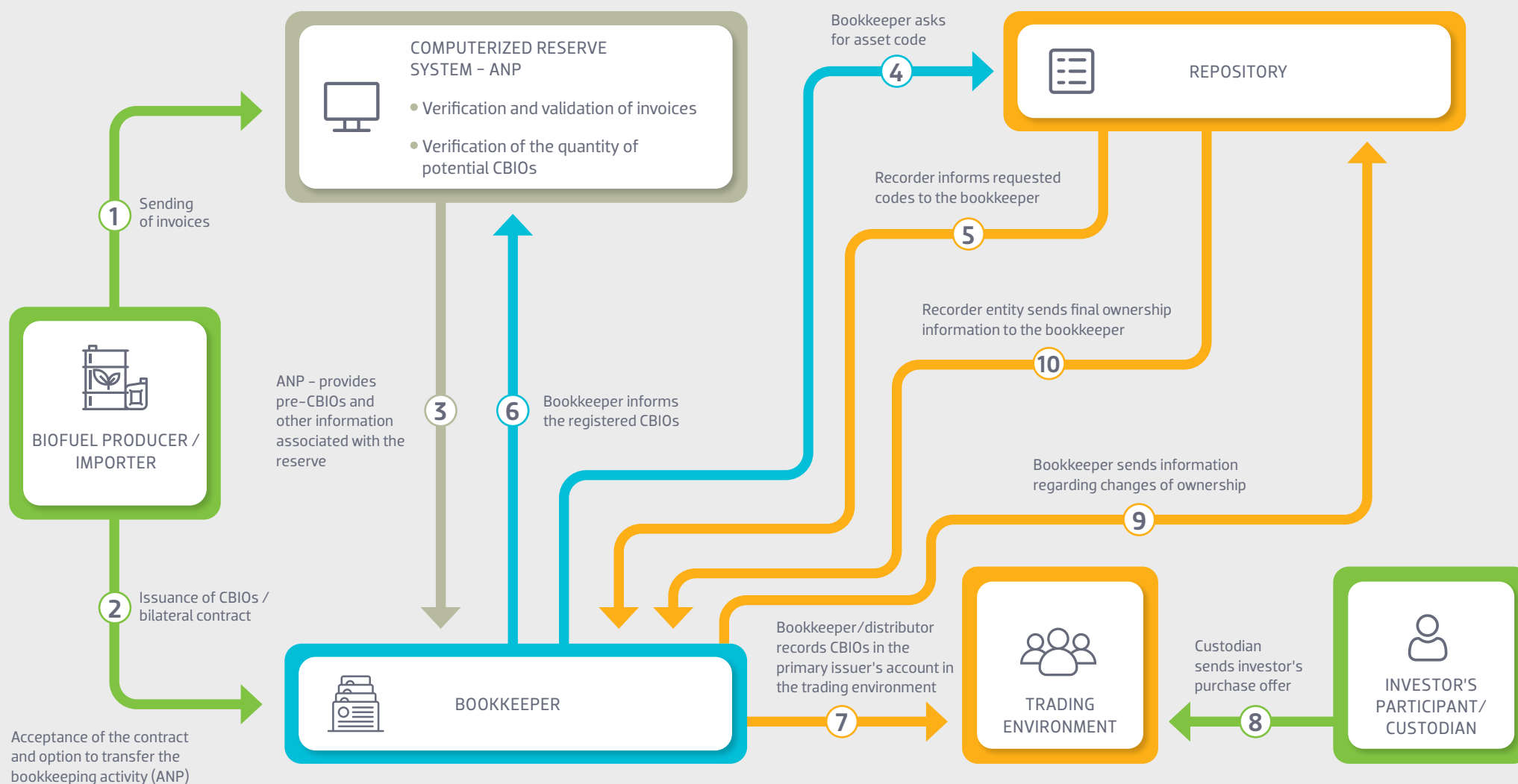
ANP Computerized reserve system – CBIO Platform – system that generates the reserve for primary issuances of CBIOs, under Law 13576 (article 14).

3. CBIO FLOWS

Here are all of the stages of CBIO trading on the primary and secondary markets. Numbers in the flows represent the orders of the process.

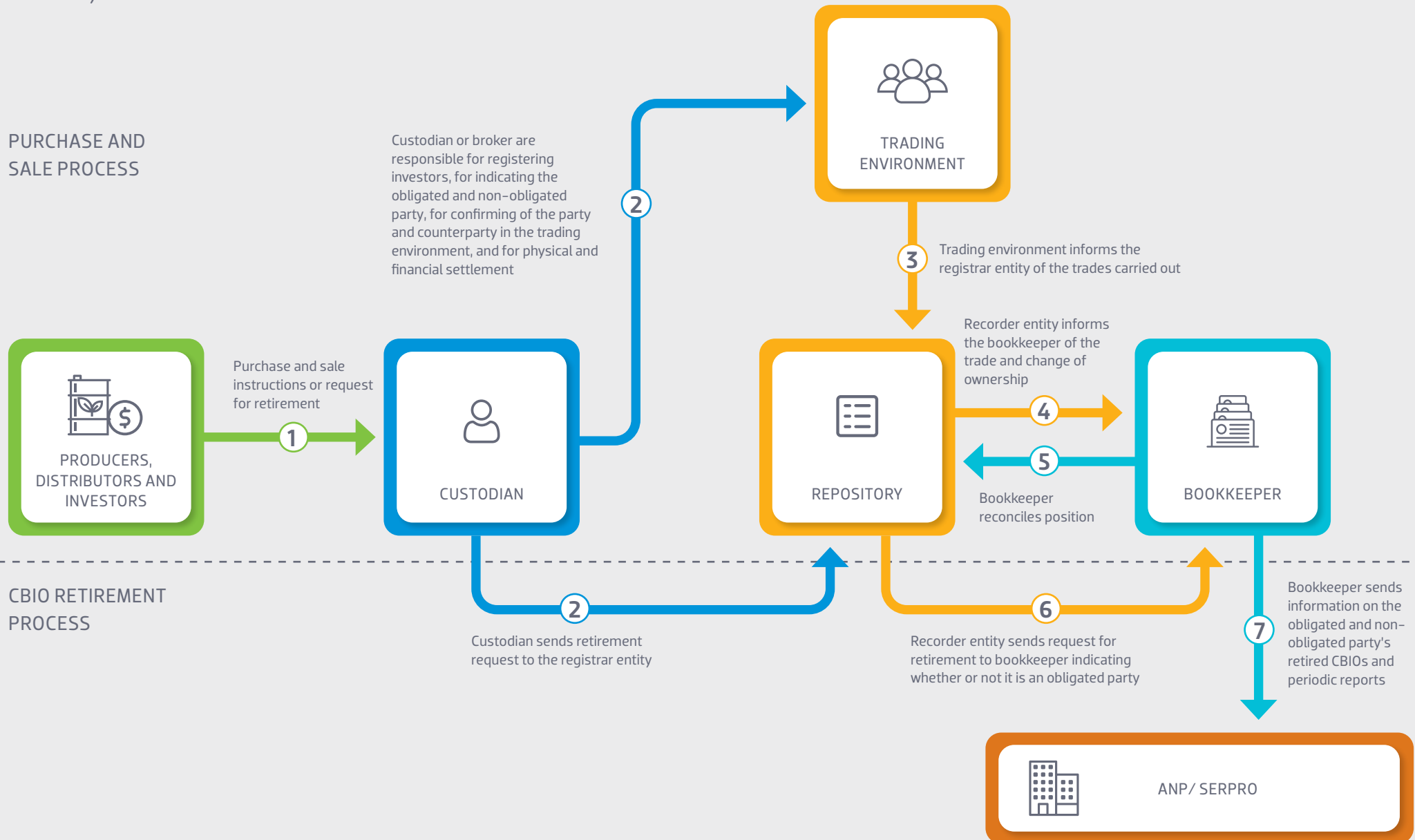
STEP 1 - PRIMARY MARKET

Flow of primary CBIOs



STEP 2 - SECONDARY MARKET

Secondary CBIO flow

PURCHASE AND SALE PROCESS



4. PROCESSES

We detail the step-by-step process of trading of CBIOS by stages: issuance, primary placement, maintenance, trading on behalf of the client, custody, blocking CBIOS, taxation, and retirement.

4.1. EMISSION

- Bookkeeper requests the registration of the asset in the Registrar Entity's environment and obtains the CPIO code. This record is unique for each issuer and issuance day. It must request registration of the CPIO at the registrar entity by the second business day after obtaining the control number. Issuance may be done automatically or as agreed between the parties;
- The ANP sends an automatic alert through the ANP computerized reserve system, known as the CPIO Platform, to the bookkeeper when the pre-CPIO is available for bookkeeping;
- The file, in Excel format, must be consolidated by the bookkeeper and features the information of the issuer, the available balance, and the status of the CBIOS;
- Pre-CPIO information must be sent to ANP by the issuer, observing the deadline defined by the agency itself;
- Bookkeeper accesses the CPIO Platform to obtain the control number;
- Bookkeeper includes in its base the code provided by the registrar entity and the control number given by the CPIO Platform.

4.2. PRIMARY PLACEMENT

- The bookkeeper must include the primary sale offer on the trading platform under the conditions defined by the issuer, as well as control which of these offers have been accepted;
- If there is no automatic integration between the trading platform and the registrar's environment, the bookkeeper must perform both activities concomitantly (include and control the offers), or outsource them. If it chooses the second option, it must:
 - Contact the final buyer's custodian to confirm the transaction information and obtain the account code for the records;
 - Include the confirmed and matched offers in the registration environment, entering the custodians of each buyer;
 - Monitor everything from the records to the confirmations made by the entries of the custodians and bookkeepers;
 - With the confirmation of the receipt of funds, registration is only finalized upon transferring ownership of the CBIOS.
 - The bookkeeper receives the proceeds from the sale of the CBIOS from the registrar and passes them on to the issuer.

4.3. MAINTENANCE

- On D+1, the registrar must make available the information of the CPIO holder/investor, including name and CPF or CNPJ [SSN or EIN];
- Bookkeeper updates its database of CPIO investors on the books, based on information received daily from the registrar;
- Bookkeeper must reconcile its database on a daily basis with the database received from the registrar.

4.4. CBIO TRADING ON BEHALF OF THE CLIENT

- The broker receives the order from its client with the quantity of CBIOs to be traded and the indication of the price range in which the operation should be made;
- The broker includes the order on the trading platform on behalf of the client and monitors its materialization, adjusting the order to market conditions whenever necessary, within the parameters defined by the client;
- The trading platform forwards to the registrar the quantity and price of CBIOs traded;
- The settlement custodian/bank must process the financial settlement of the CBIOs' purchase and sale operations;
- The buying customer's custodian assumes responsibility for the payment of the funds to the registrar of the buyer end, making the appropriate debit in the investor's current account;
- The selling customer's custodian (or the primary issuer's bookkeeper) assumes responsibility for receiving the funds from the registrar, of the seller end, and making the appropriate credit in the current account of the selling customer (or primary issuer);
- The entire process takes place through messages (LTR group messages – Gross or Bilateral Settlement of Operations) within the Brazilian Payment System (SPB);
- The registrar receives the CBIOs purchased or delivers the CBIOs sold;
- The broker and the custodian create and update the record of the CBIO holders with whom they have a custody or brokerage agreement;
- The buyer's custodian identifies, in the registrar's environment, the final holder of each CBIO in its custody;
- The registrar forwards the transactions made to the bookkeeper so that all the stages of the trading are kept up to date in the bookkeeper's database.

4.5. CUSTODY

- The custodian must provide information on the number of CBIOs in custody for each legal entity and individual by printed or online statement;
- The custodian must be responsible for the interaction with the CBIO investor, by any means;
- The custodian must maintain the CBIO investors' registration information / documentation;
- The custodian must identify the final buyers of each operation registered on the trading platform;
- The client's custodian must send a periodic statement to the CBIO investor.

4.6. CBIO BLOCKING

- The contracted custodian is responsible for blocking, in its internal control and at the Registrar, the number of CBIOs determined by court decision or by establishing guarantees defined between the investor and a third beneficiary of this guarantee, for the Registrar;
- The registrar must inform the block to the registrar, which, in turn, must reflect the block in the database of registered CBIOs.

4.7. TAXATION

- The custodian or the broker must tax, at the rate of 15% (Law 13576), the income of individuals or legal entities that carry out operations for the acquisition and sale of CBIO;
- The custodian or broker must annually send the earnings report to the individual holder with an outstanding CBIO position on December 31 of the previous year.

4.8. RETIREMENT

- The custodian receives, from the obligated or nonobligated investors, the request for retirement for a certain number of CBIOs that are in its custody;
- The custodian transmits the request for retirement of CBIOs from the owner to the registrar's environment, which is responsible for informing the bookkeeper;
- The bookkeeper must report the retirement in the ANP system, indicating the obligated or nonobligated party, the CBIO control number, and the number of assets;
- The custodian is responsible for blocking the number of CBIOs that will be retired, so that no further trades/blocking occur on them.



5.

MINIMUM CRITERIA IN THE CONTRACTS

To assist the complete process of operationalizing CBIOS, we have defined some minimum criteria that must be observed in the contracts between the issuer and bookkeeper.

Moreover, CPIO regulations and legislation recognize and address only the responsibilities of the bookkeepers and registrars. These providers must accumulate other activities or engage third parties to perform them. In this case, we also establish requirements that must be included in the agreements between the broker and the custodian.

5.1 BOOKKEEPING AGREEMENT

- The agreement must expressly provide for the possibility for the bookkeeper to hire a third participant in the trading environment to perform the activity of primary placement of the CBIOS, without prejudice to the bookkeeper's responsibility provided for in MME Ordinance 419.
- **The agreement between issuer and bookkeeper must provide for the following, at a minimum:**
 - i. The services that will be provided in the bookkeeping;
 - ii. The criteria and rules that the bookkeeper will inform the registrars, in addition to the trading environment for registering the CPIO;
 - iii. The amount to be charged;
 - iv. Primary CPIO trading conditions;

- v. The instruction for issuing the CBIO, which can be done either by specific request from the issuer or automatically, as soon as the CBIO is available;
- vi. The form (credit in current account or wire transfer) and the settlement times for the primary settlement sales of the CBIOs;
- vii. Permission to pass along costs;
- viii. The definition of a waiver for the termination of services for the purpose of issuing new CBIOs;
- ix. Breach of contract, and details of the processes that must be in compliance with the requirements set out in MME Ordinance 419 and its subsequent amendments;
- x. In situations where there is a breach of contract by the bookkeeper, without a new one being hired, the issuer must assume the activity in the case of retirement of the CBIOs, as requested by investors;
- xi. The bookkeeper's responsibility to immediately transfer to the new bookkeeper (or party indicated thereby), as well as the data and documents related to the services provided up to the moment of the termination of provision of services.

5.2 ENGAGING THE BROKERAGE AND/OR CUSTODY SERVICE

The CBIO buyer (investor) must hire a broker and a custodian (which can be the same institution or different institutions) to provide the services, provided that at least the following conditions are met:

- i. The custodian and the broker must perform the registration control of the CBIO investor, indicating whether it is a non-obligated party or an obligated party;
- ii. The relationship between the custodian and the broker must include, at a minimum: the services that will be provided in the trading and/or custody;

the amount to be charged for these services; how to transfer the buyer's trade orders to the broker; the method of settlement of the amounts; the condition of available balance prior to the inclusion of orders on the trading platform; and the date on which custody statements are made available.

- iii. The custodian must inform the registrar of the retirement of the CBIOs requested by its clients;
- iv. The custodian must keep the investor's registration data up-to-date at the registrar.

CBIO Operationalization Guide

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