

An Overview of The Role of Exchanges

October 2010



About the Green Exchange

Overview

- The Green Exchange is comprised of a diverse group of industry leaders that share a common goal and bring together deep expertise and vast experience in environmental markets.
- The 12 founders of the Green Exchange include CME Group, Constellation NewEnergy, Credit Suisse Energy, Evolution Markets, Goldman Sachs, ICAP Energy, J.P. Morgan Ventures Energy, Morgan Stanley Capital Group, RNK Capital, Spectron Energy, TFS Energy, Tudor Investment, and Vitol

- On July, 23 2010, the U.S. Commodity Futures Trading Commission (CFTC) approved the Green Exchange as a designated contract market (DCM). Contracts on emissions allowances and credits in CO₂, NO_x, and SO₂ will continue to be listed for trading by NYMEX until they are transferred to the Green Exchange on January 24th, 2011.

About the Green Exchange

Value Proposition



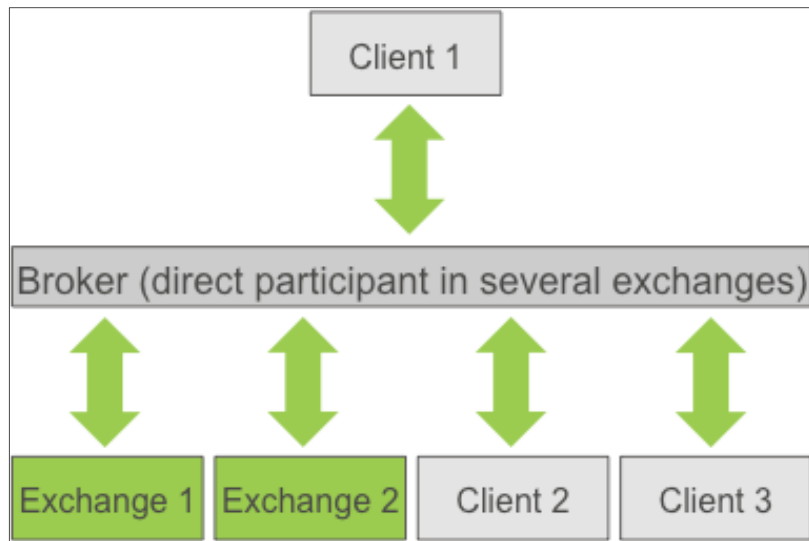
- Competitive cost structure
- Global clearing across Green Exchange and CME® in one, consolidated account
- Straight-through-processing, leveraging Globex® and ClearPort® technologies and CME Group's global distribution
- Creating a highly regulated global marketplace
- Capital efficiency through margin offsets across asset classes
- Worldwide access to markets

Two Models

Rules Change as the Market Matures

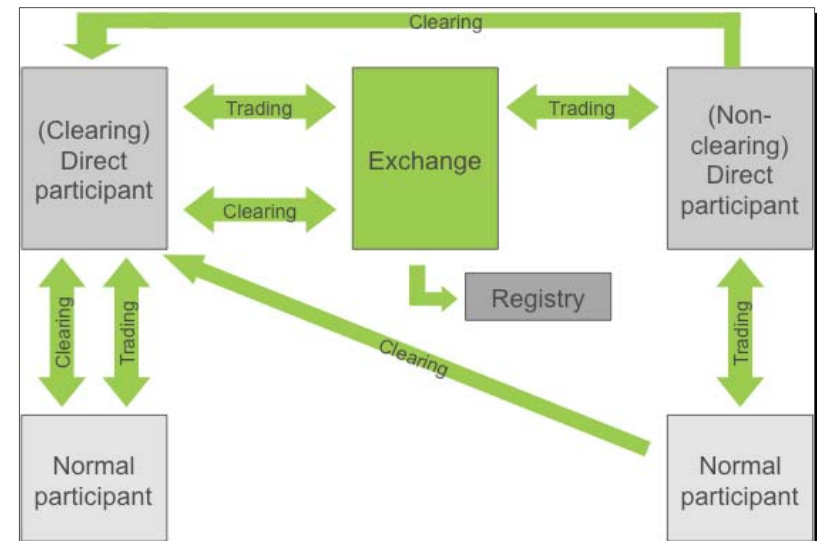


The Broker Model (clearing optional)



- Most prominent in thin, developing markets, and/or for complex transactions
- Clients might ask broker to find counterparty
 - On a specific exchange
 - B2B/outside exchange

The Exchange Model



- Usually become primary marketplace as markets become standardized and more liquid
- Exchanges help standardize contracts, reduce transaction costs, and provide credit protection

Not mutually exclusive nor necessarily competitive as many brokered deals often are executed in part and cleared using the exchange's clearing service

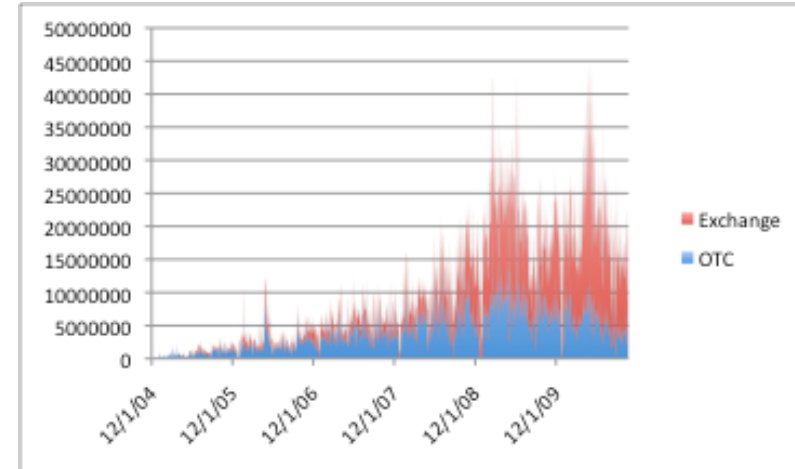
Point of Transaction

Changes as the Market Matures

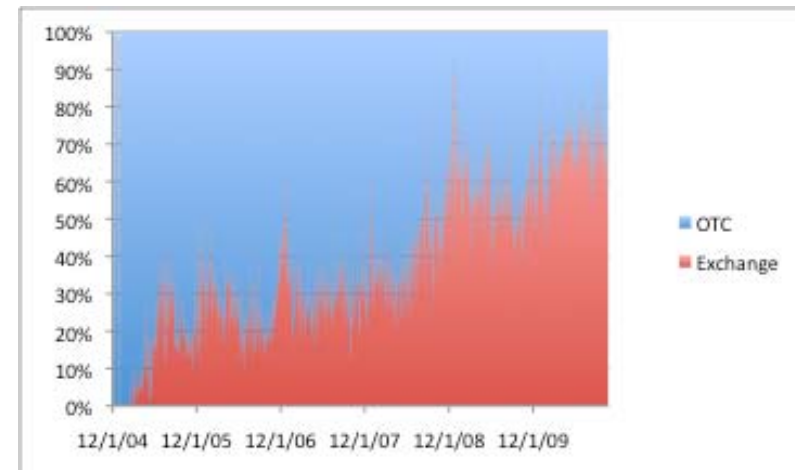


- More Liquid European Markets are Mainly on Exchanges
 - In Europe, the carbon products have become more standardized (especially EUAs and CERs) and volume has increased, which has led to more of the transactions occurring on the exchange
- Nascent U.S. Carbon Market Transactions are Mostly Brokered Today
 - At this point, the US market remains illiquid and the types of transactions are often more complex (e.g., customers need to make educated assumptions on which projects will qualify in the future)

Exchange & OTC Volume



Percentage Transactions Exchange/OTC



Benefits of Exchange Transactions



- As markets mature, exchanges offer many benefits over traditional bilateral transactions, including:
 - reduced credit risk,
 - enhanced market liquidity,
 - efficient use of credit through cross-position and cross-commodity netting,
 - capital efficiency through margin offsets across asset classes
 - faster transactions in fast-moving markets,
 - anonymity of trading, and
 - a potentially less cash-intensive way to comply with the Dodd-Frank Act.

Contact Us



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