

THE MONTRÉAL CLIMATE EXCHANGE (MCeX)

**The Canadian Regulated
Environmental Market**

ICAO Workshop
Aviation and Carbon Markets
Montréal , June 18, 2008



Montréal Climate Exchange

Competing in a Carbon – Constrained World: Risks and Opportunities

- In a carbon-constrained world, successful firms will be those that best understand the **business risks and opportunities** of climate change, and those willing to take an enterprise-wide approach to emissions management.
- Carbon management is a matter of good governance given the associated legal **liabilities**.
- Companies need to have a complete understanding of the **financial dimensions of carbon emissions management** beyond their own corporations' environmental department.

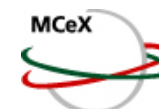
Motivation for a Pro-Active Carbon Emissions Strategy

- Environmental stewardship
- Understanding of emissions risks, liabilities and opportunities
- Meeting carbon emissions reduction targets at the lowest possible cost while maintaining economic competitiveness.

The Montreal Climate Exchange (MCeX)

A market solution to help regulated industrials reach environmental targets at minimum cost

- Market scope: Greenhouse gases (GHG) and air pollutants (SO_x, NO_x)
- Existing experience, infrastructure and regulatory framework
- Global in significance to accommodate potential international linkages with other regulatory-based trading systems
- A carbon futures market in Canada that will optimize the policy guidelines set by the Federal Government and allow industrials to gain practical experience with emission trading.



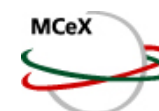
MCeX Partners

Montreal Exchange (MX)

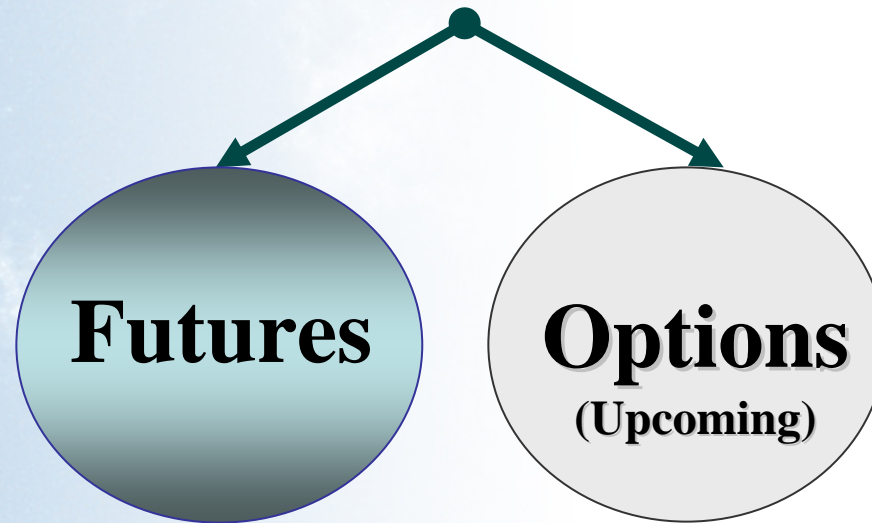
- *A leader in building and operating markets with an established trading and clearing infrastructure*
- The Canadian exchange for financial risk management instruments
- Provider of central counterparty clearing services (AA S&P credit rating)

Chicago Climate Exchange (CCX)

- *A leader in environmental finance*
- North America's first and only legally binding voluntary market
- European Climate Exchange (ECX), the world largest carbon exchange
in the EU Emissions Trading scheme system



MCeX Product Offering

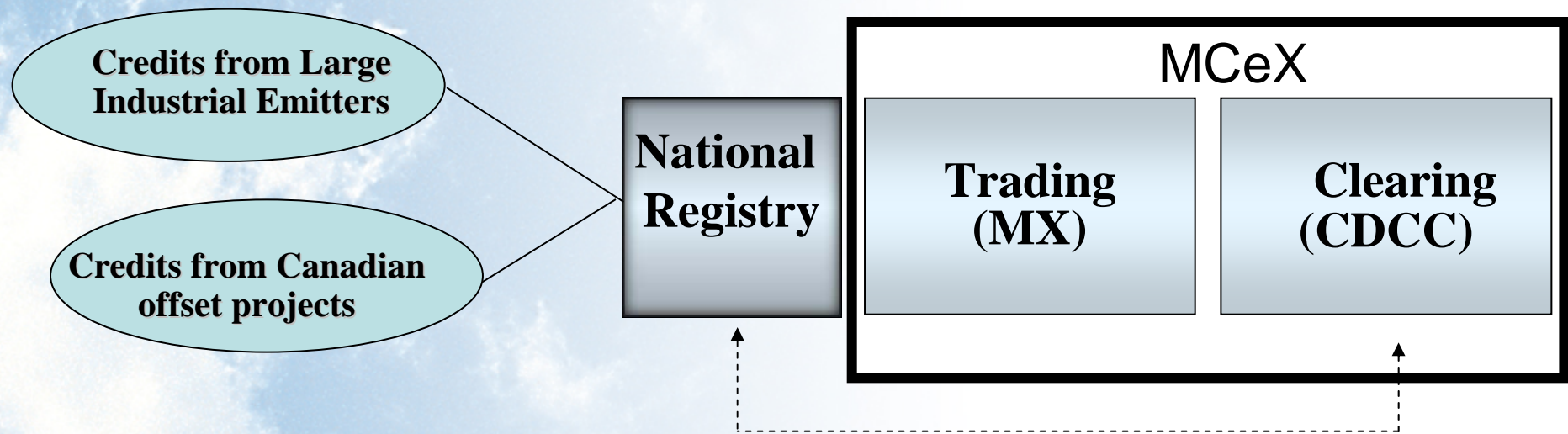


MCX - Futures contract on Canada carbon dioxide equivalent (CO₂e) units.

Carbon Emissions Trading

- Price discovery mechanism
- Flexibility
- Reduce overall compliance costs
- Encourage innovation
- Hedging risks
- Help change environmental behaviour

Launch of a market in an emerging environment



**Government Role :
Policy Determination**
- Establish regulated emitter's targets
- establish criteria for eligible projects (offset credits)

**Government Role :
Setting a regulatory framework**
- Adoption of measurement, reporting, verification and tracking guidelines
- National registry implementation 2009

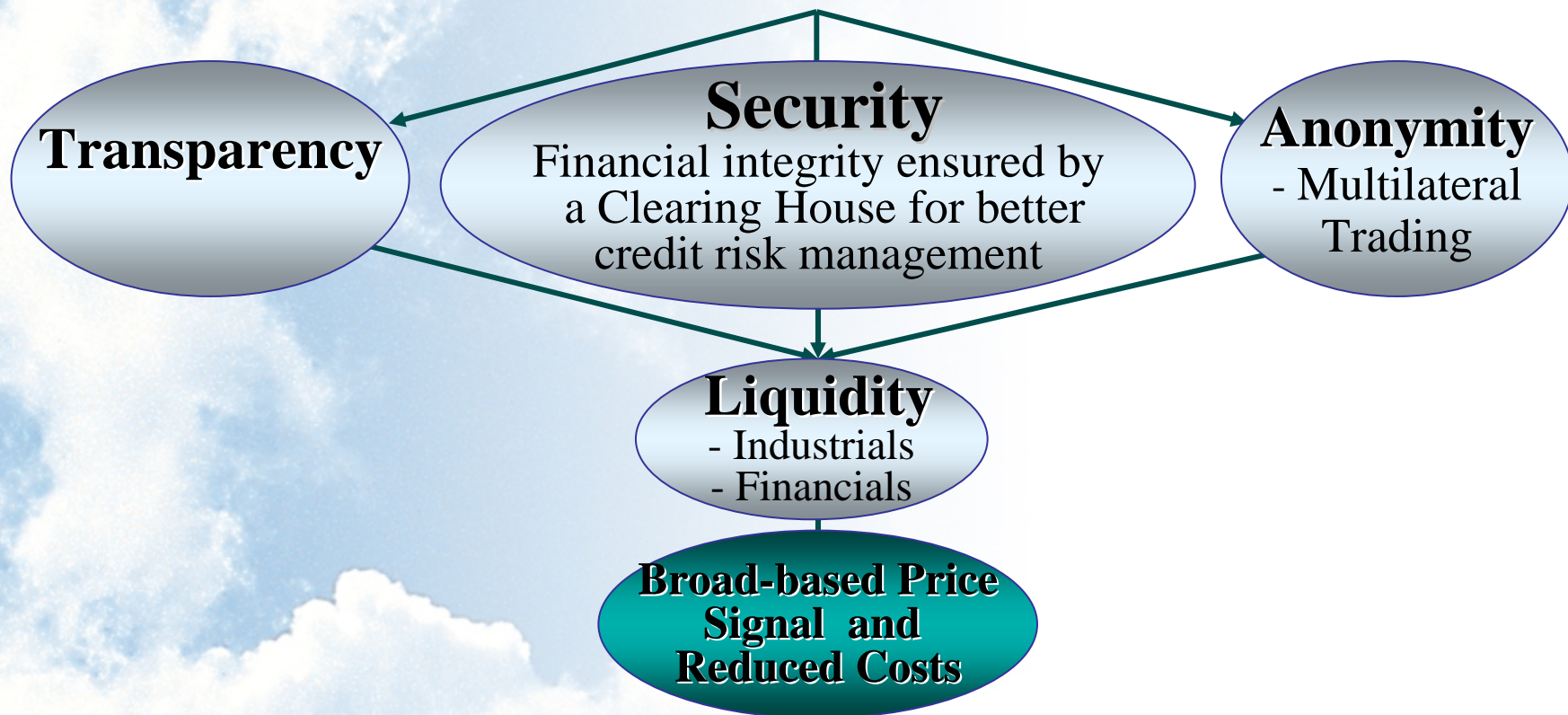
Private Sector Role :
- launch of MCEX derivatives market

Fundamental Regulatory Requirements to Ensure Market Effectiveness

- **Primary Market Liquidity Requirements:**
 - Definition of a **broad scope** of regulated sectors, eligible domestic offset projects and early actions credits.
 - Intensity targets must be set at reasonably stringent levels to create the **scarcity** necessary to establish a price signal that will stimulate emissions reduction.
 - **Equivalency agreements** with Canadian provinces and US initiatives (RGGI, WCI).
- **Environmental Confidence:** The integrity of the market rests on the **certainty, predictability and transparency** of the Government carbon policy.
 - Registry: A registry, is key to track ownership and provide environmental integrity.
 - Transparency and proper disclosure requirements.

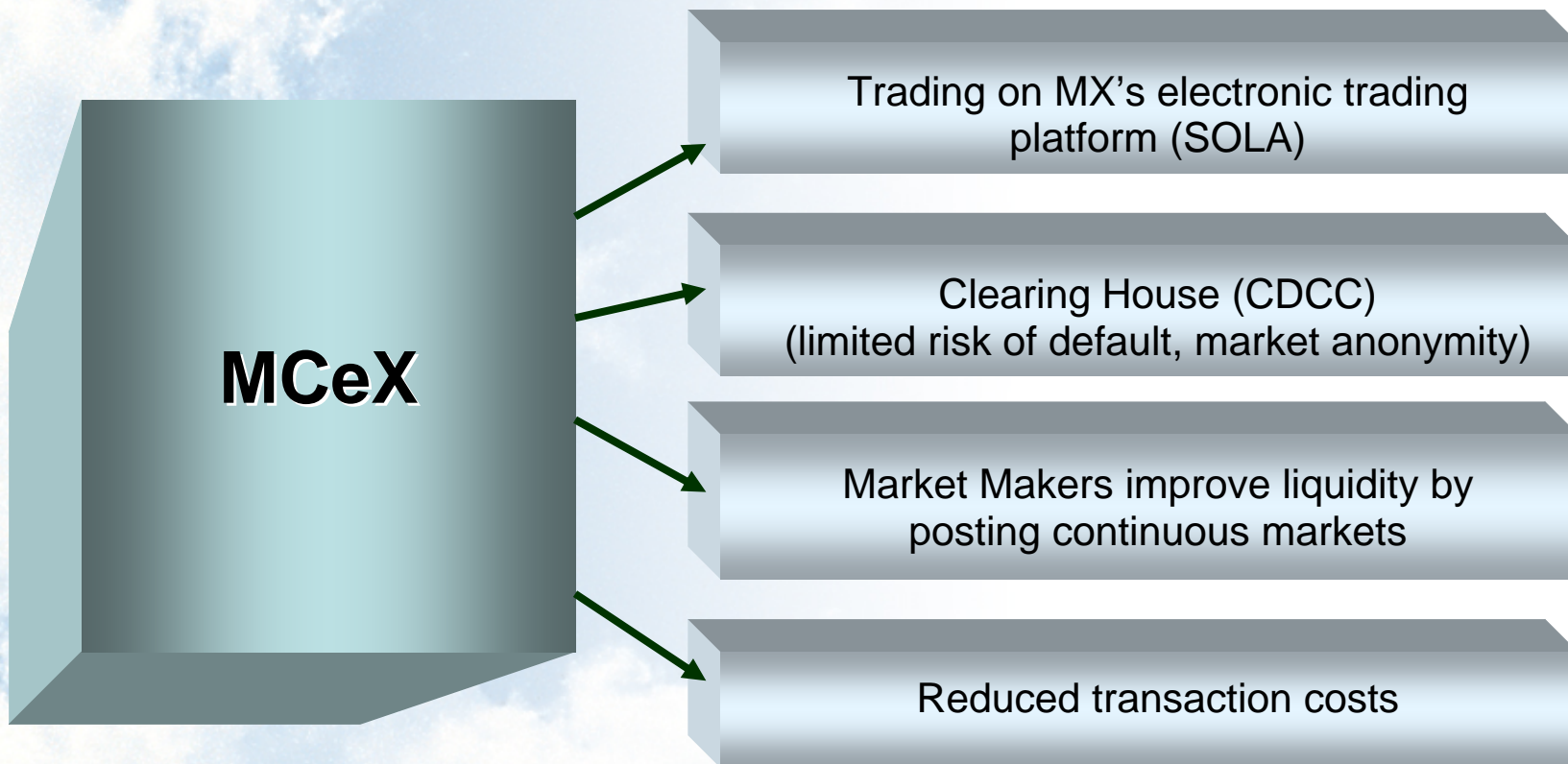
MCeX Regulated Carbon Futures Market

Standardisation via exchange traded futures contracts allows for:



Trading on MCEX

Potential stakeholders can trade MCEX futures contracts by sending their orders to Approved Participants (APs) of the MX using the current trading infrastructure



MCeX Participants

- **Large regulated industrial emitters:** Mainly for price risk management in order to comply with the mandatory emission limits at minimum cost.
- **Parties behind domestic voluntary projects:** Mainly for downside price risk management by entering into a short position to secure today the sale price of one credit starting with the 2010 compliance year.
- **Financial institutions and institutional investors:** Investors see these instruments as a new asset class. They can also be used for hedging transactions in portfolios exposed to carbon price risk.
- **Hedge funds:** Hedge fund managers are attracted by the prospect of achieving high returns by purchasing speculative positions in an emerging market.
- **Insurance companies:** To hedge insurance products related to carbon price risk.

MCeX Market Makers

- **ORBEO**

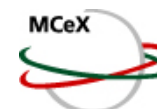
- Operating globally and headquartered in Paris, ORBEO is a unique joint-venture (Société Générale and Rhodia) combining industrial and financial expertise in the realm of carbon emission trading

- **T.D. Securities Inc.**

- TD Securities is actively involved in exchange traded derivatives markets in Canada. TD is the first major bank in Canada working to ensure their Canadian operations are carbon neutral in 2010.

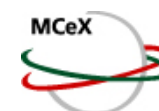
- **TradeLink LLC**

- Headquartered in Chicago, TradeLink Holdings LLC is a diversified alternative investment and proprietary trading firm. Since its organization in 1979, TradeLink has been actively engaged in the securities, futures, options, and commodities trading industries.



MCeX Partners

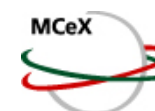
- Caisse de dépôt et placement du Québec
- CantorCO2e, L.P.
- Carbon Capital Management
- Deloitte & Touche LLP
- Écoressources Consultants
- Fasken Martineau Dumoulin
- MF Global Canada Co
- Ogilvy Renault LLP
- Orbeo
- TD Securities Inc.
- Rio Tinto Alcan
- SNC-Lavalin Inc.
- Société Générale (Canada)
- TradeLink LLC



MCeX Value Proposition : An Integrated Solution

WE OFFER

- Know-how in environmental and financial markets and an existing **trading** infrastructure
- A well capitalized **clearing** corporation
- Risk management instruments
- **Registry** services



The Montréal Climate Exchange

For more information

www.mceX.ca

