

Forward EUAs

April 2024



**Bank of
Ireland**

Product Overview

An EUA is a European Union Allowance which represents the right to emit Carbon Dioxide and is denominated in 1 tonne of Carbon Dioxide. These allowances are denominated in euros per tonne of Carbon. EUAs are traded under the European Union Trading Scheme (EUETS), which was developed by the EU to reduce carbon emissions in the atmosphere.

At the end of every year a company participating in the EUETS must match the number of EUAs in its registry to the tonnage of carbon that it has emitted during the previous year. In the event that a company exceeds its allocation of EUAs it must purchase additional allowances in the market in order to meet its statutory obligations. If a participating member reduces its carbon emissions below allocation, then the surplus allowances represent an asset and may be sold, allowing the company to realise the value of these assets in the market.

Forward sales and purchases of allowances are agreements between 2 parties to buy or sell EUAs on a future date for a price agreed upon today.

Applications

- Members of the EUETS that forecast a shortage in allowances can secure a price today at which they can buy a certain number of EUAs on an agreed date in the future.
- Members of the EUETS that forecast they will be long EUAs in the future can secure a price today at which they can sell a certain number of EUAs on an agreed date in the future.
- Should a company have a view on the future price of allowances that differs from the forward price in the market, then they can express this view using forward sales or purchases.
- Once requirements are established, Bank of Ireland (BOI) can provide current indication market bid or offer prices for EUAs. Customers can then deal directly on live prices.

Benefits

- Enables budgeting as these instruments present an opportunity to lock in forward prices today.
- The main advantage of these products is that a participant's exposure to EUA price movements in the future is managed.
- If the customer is buying EUAs in order to meet their shortfall, their statutory obligation is completed, at a price which is fixed today.
- The cost of purchasing required EUAs or the profit from selling excess allowances is locked in and the company is free to concentrate on its core business.
- If a customer's view expressed using forwards proves to be correct then these products may lead to a cost saving in the case of a forward purchase or a profit in the case of a forward sale.
- Flexibility is retained as further adjustments to allowance balances may be made by using the EUA spot market if forecasting has not been exact.
- Notional amounts and dates can be tailored to individual customer requirements.

Risks

Market Risk

The customer relinquishes the opportunity to benefit from any possible favourable emission price moves in the future.

Counterparty Risk

By entering into a Derivative contract with Bank of Ireland you have an exposure to Bank of Ireland in the event of insolvency or related events such as bail in.

How does a Forward EUA Contract work?

Example

The example below is indicative only. In order to assess the merits of any particular Forward EUA transaction, you would need to use the actual rates and figures quoted to you at the time.

Company ABC is allocated 70,000 allowances annually, based on its historic carbon emissions. ABC is worried about future rises in the EUA price that are not already priced into the market and so they would like to lock in at current forward prices and concentrate on their core manufacturing business.

ABC would like to buy 70,000 allowances for Dec 2020, 2021, and 2022 to meet its statutory emissions obligations for each of the next 3 years. Bank of Ireland (BoI) quotes ABC the forward prices for all of these forward dates at €25.50, €26.05 and €27.05. ABC accepts these prices and the trades are completed.

Dec 2020: ABC pays BoI $€25.50 \times 70,000 = €1,785,000$ and receives the 70,000 EUAs into their registry account

Dec 2021: ABC pays BoI $€26.05 \times 70,000 = €1,823,500$ and receives the 70,000 EUAs into their registry account

Dec 2022: ABC pays BoI $€27.05 \times 70,000 = €1,893,500$ and receives the 70,000 EUAs into their registry account

Should you wish to transact a Forward EUA transaction:

Please follow the steps below to enter into a Forward EUA transaction:

- Talk to your Bank of Ireland Relationship Manager who will refer you to the relevant contact in our Global Markets unit.
- Ensure you have read and understood this document.
- Before you enter into your first Forward EUA transaction you must enter into an ISDA Master Agreement.
- Talk to your Bank of Ireland Global Markets contact about the particular parameters of the Forward EUA transaction that you require.

In accordance with the rules and requirements set out by the European Union (Markets in Financial Instruments) Regulations 2017 and the Financial Conduct Authority the Bank of Ireland is required to categorise each client either as eligible counterparty, professional client or retail client. Bank of Ireland also has to undertake assess the appropriateness of the product for each customer. Therefore, you may be required to supply supporting documents in order to establish the client category and appropriateness of the transaction. Before your first transaction, you should receive a categorisation letter and associated Terms of Business. If you do not receive these before the proposed transaction, please contact your Bank of Ireland Global Markets contact.

Your Bank of Ireland Global Markets contact will give you an indicative quote based on the details of your Forward EUA transaction. Once you have decided you would like to enter into a Forward EUA transaction, you will be required to provide the necessary documentation, such as:

- Mandate and other account opening requirements
- Confirmation of capacity as detailed in your Memorandum and Articles of Association (if applicable)

All conversations such as telephone conversations and electronic communications will be recorded (even where they do not lead to the conclusion of an agreement). Transactions are also executed on recorded lines.

As the prevailing market rates are constantly changing, the price quoted is only valid for immediate acceptance. This price may differ from the indicative quote given previously.

Any person authorised in your mandate to trade the relevant product may engage and conclude transactions with Bank of Ireland.

Confirmations

Post transaction, Bank of Ireland will send you a Confirmation outlining the relevant commercial terms of the transaction. It is important you check the Confirmation to make sure that it matches your understanding of the trade. If so, please sign and return the Confirmation as directed. In the case of a discrepancy, you will need to raise the matter with your Bank of Ireland Global Markets contact as a matter of urgency.

What are the Fees and Charges?

Typically there are no upfront fees other than the price specified. However the price agreed will incorporate Bank of Ireland's risk, administration costs and revenue margin.

A disclosure of expected Aggregated Costs and Charges and expected Total Consideration will be provided as an indication via a pre trade term sheet in advance of any transaction. This pre trade term sheet will use actually incurred costs as a proxy for the indication costs. We will also provide this information on a post trade term sheet confirming actual Aggregated Costs and Charges and actual Total Consideration following execution of any Derivative trade. An itemised break down of costs will be provided on request.

Dublin

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Disclaimer

Bank of Ireland is regulated by the Central Bank of Ireland. In the UK, Bank of Ireland is regulated by the Central Bank of Ireland and authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.