

Spot EUAs

November 2023



**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 (EU ETS), which was developed by the EU to reduce green house gases including Carbon Dioxide.

At the end of April every year a company participating in the EU ETS 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.

Applications

- ▶ A company wishing to buy or sell EUAs in order to meet a shortfall or realise the value of a surplus allowances will typically enter into a spot emissions transaction. This spot trade is essentially purchasing or selling a certain quantity of EUAs in the market at an agreed price, for delivery in 2 business days time (T+2). The cash and EUAs settle separately.
- ▶ Once requirements are established, BOI can provide current indication market bid or offer prices for EUAs. Customers can then deal directly on live prices.

Benefits

- ▶ The main advantage of these products is that a participant's emissions exposure is managed.
- ▶ If the customer is buying EUAs in order to meet their shortfall, their statutory obligation is completed.
- ▶ 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.
- ▶ Notionals 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 contract with Bank of Ireland the business has an exposure to Bank of Ireland in the event of insolvency or related events such as bail in.

How does a Spot EUA contract Work?

Example

The example below is indicative only. In order to assess the merits of any particular spot 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 historical carbon emissions. By the 30th April, ABC has to ensure that the number of EUAs in its registry match its carbon exposure.

In March it is calculated that it has only emitted 50,000t/CO₂e and so has a surplus of 20,000 EUAs in its registry account. ABC contacts BoI on the 20th March and explains its intention to sell 20,000 EUAs. Bank of Ireland returns with an indicative bid of €25.50. ABC is happy with this price, Bank of Ireland confirms the bid of €25.50 and the deal is traded.

The allowances are transferred from ABC's registry account to Bank of Ireland on 22nd March. ABC receives €25.50 X 20,000 = €510,000 on the 27th March and their registry account is balanced prior to the reporting date.

Should you wish to transact a Spot EUA transaction:

Please follow the steps below to enter into a Spot 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.
- ▶ Although not specifically required, before you enter into your first Spot EUA transaction you or we may wish to enter into an ISDA Master Agreement.
- ▶ Talk to your Bank of Ireland Global Markets contact about the particular parameters of the Spot 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 Spot EUA transaction. Once you have decided you would like to enter into a Spot 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).
- ▶ Any other relevant documents.

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.

Costs and Charges?

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. We will also provide this information on a post trade term sheet confirming actual Aggregated Costs and Charges and actual Total Consideration following execution. An itemised break down of costs will be provided on request.

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