

ACT

*Understanding carbon
markets*

The EU ETS from a Trader
perspective



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We Are ACT

ACT Group provides *tailor-made, end-to-end decarbonization solutions* that have helped thousands of organizations hit compliance targets, achieve their environmental goals, and navigate environmental markets, products, and policies globally for the last 14 years.

ACT Commodities *Team*

5,000+

Clients

80+

Sustainability
products

€ 4b+

Turnover

450+

Sustainability
Professionals

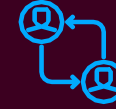
Our *Key Markets*

→ Renewable Energy

→ Emissions

→ Energy efficiency

→ Renewable fuels and feedstock



Offices in Amsterdam, New York, Paris, Shanghai, and Singapore



Over 35 languages spoken



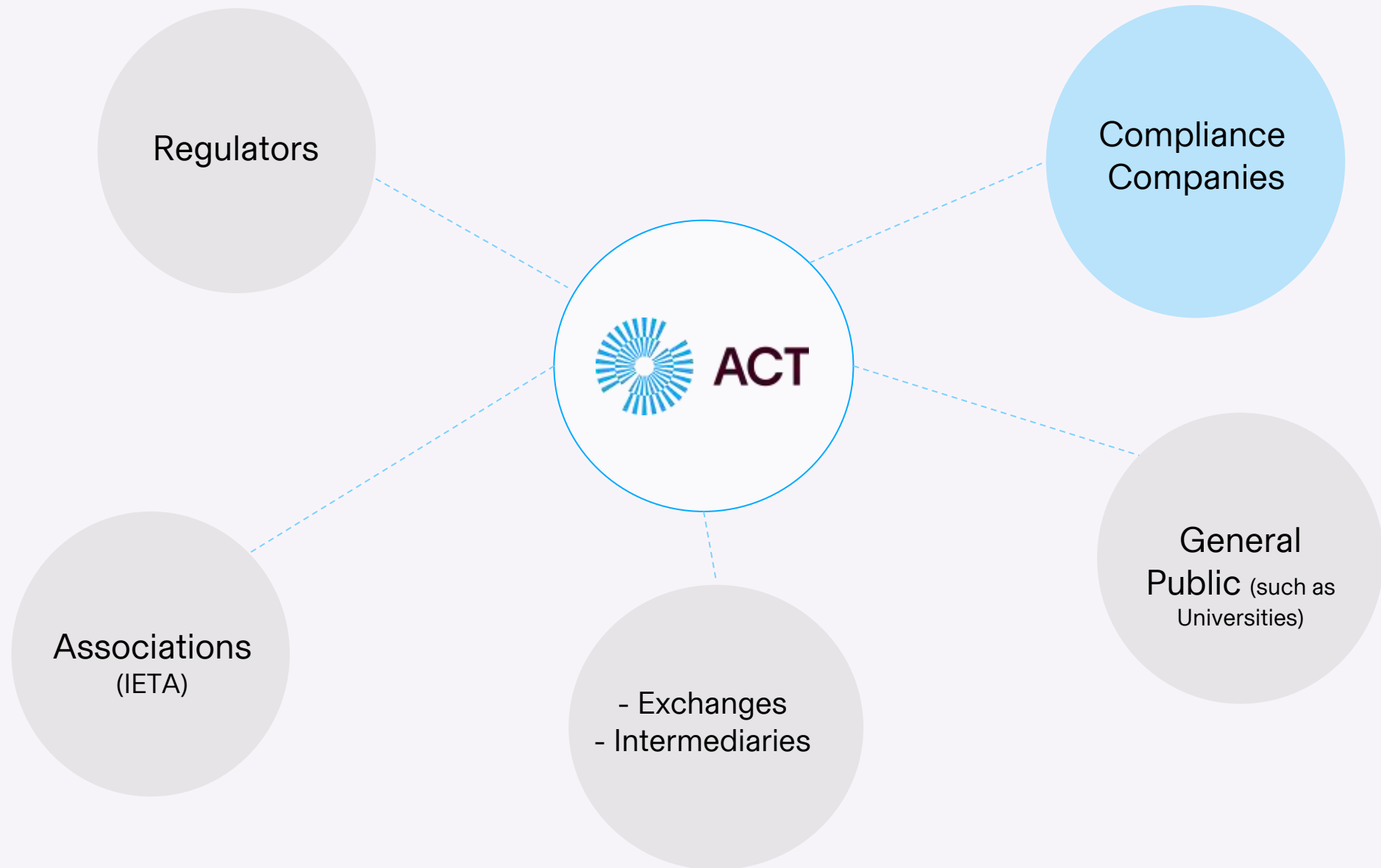
In-house expertise and global reach



Active in more than 50 countries



ACT's role in an Emissions Trading Systems (ETS)





Trading Over the Counter (OTC) vs. an Exchange



Over the Counter

Advantages

- No Exchange access needed (important for SME's)
- Easy ordering process (no screen trading knowledge needed)

Disadvantages

- Counterparty risk



Exchanges

Advantages

- Access to large volumes (through auctions)
- Access to derivatives (such as futures)
- Management of counterparty risk

Disadvantages

- Cost of exchange membership
- Knowledge needed of how to trade
- Minimum volume requirements

[They can and should exist next to each other](#)



A normal day at the office...

Daily questions that we get from our clients:

Where do you expect that the allowance price will be end of the year?

When do we need to hand in our monitoring report?

What is the current allowance price?

How can we shape our purchase strategy?

Are there any regulatory changes that will influence our company?

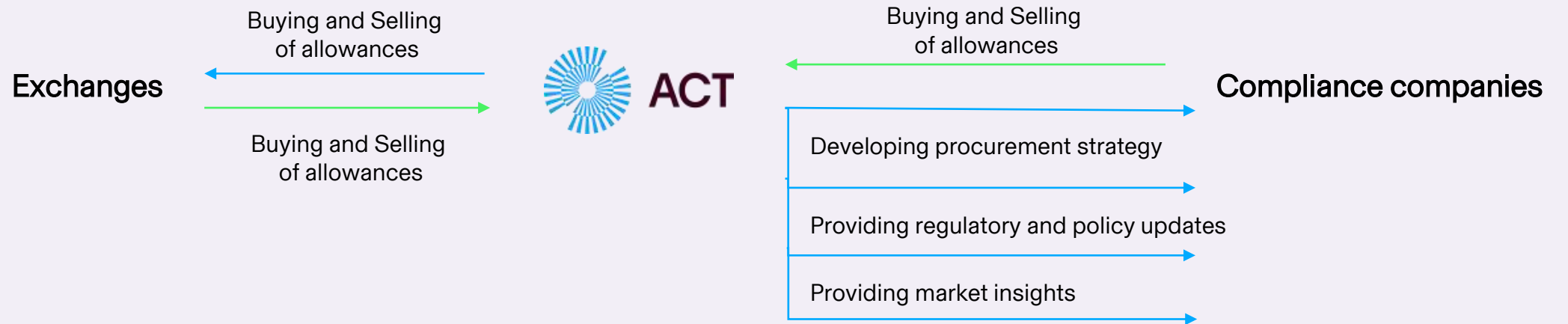
Do you have any recommendations for verification companies?

Our subsidiary in Asia will be part of an ETS soon, can you help?

We expect some surplus allowances end of this year: can you help sell these?



A normal day at the office...





Trading strategies among market actors

Power companies

- **Daily trading activities**
- Allowances are part of their core business
- Dedicated teams
- Access to the Exchange
- Existing market and product knowledge
- Sophisticated trading strategies

Financial/trading intermediaries

- **Providing liquidity (!)**
- Enabling easy market access
- Sharing market and product knowledge
- Offering financial solutions

Industrial compliance companies

- **Typically purchase allowances 1 -3 times a year**
- Allowances trading not part of the core business
- Need of easy market access
- Providing market knowledge
- Sending updates on regulatory changes

However:

- As markets mature, their capabilities grow
 - Higher price -> bigger effect on costs
 - Growing need for specialized department t



The role of derivatives in an ETS: Futures



Futures
Managing cashflow risk

APPROACHES

- Futures purchasing manages future budgetary risk and reduces upfront cash outlays
- Easier to commit further into the future
- Delivery and payment for the Allowances occur at expiry of the future
- In the meantime, you may be subject to margin payments to maintain the position

KEY CONSIDERATIONS

Advantages

- Payment and delivery only when you need the Allowances
- Cashflow management

Disadvantages

- Margining conditions may require payments to maintain your position
- Forwards are derivatives and require an IETA/ISDA to be signed (complex contracts)



The role of derivatives in an ETS: Options



Options

Hedging against market risks with Calls and Puts

APPROACHES

- Effective way to hedge against market risk is through purchasing an option
- Call option: right to buy at certain price
- Put option: right to sell at a certain price

KEY CONSIDERATIONS

Advantages

- Call option: set a price ceiling (when buying)
-> If the price falls, you simply buy at a lower price
- Put option: set a price floor (when selling)
-> If the price rises, you simply sell at a higher price
- No margining requirements, as the premium is paid upfront

Disadvantages

- You pay a premium upfront (cash out)
- Options are derivatives and require an IETA/ISDA to be signed (complex contracts)



The influence of policy on the functioning of an ETS

Inclusion of different sectors

Which sectors will fall under the ETS

Banking of allowances

Whether Participants are allowed to carry over allowances from one phase to the next phase.

Allocation of allowances

How will allowances be distributed over the different sectors

Linear Reduction Factor

What will be the annual decrease of the allowances cap

Market Stability Reserve (MSR)

How the EU Commission steers the supply of allowances in the market

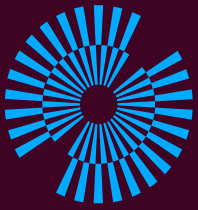
Changes in auction schedule

This can result in a smaller or larger number of allowances supplied in a certain period



The influence of policy on the functioning of an ETS





Thank you

If you have any questions:

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