Environmental Products Conventions

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Preface: AFMA Code of Conduct

AFMA promotes efficiency, integrity and professionalism in Australia's financial markets. The AFMA Code of Conduct (the Code) clearly articulates the ethical principles for minimum acceptable standards of behaviour and supports responsible decision making by firms and individuals engaged in financial markets activities.

All AFMA Financial Markets Members and Partner Members[1] are expected to observe the Code and operate with integrity, professionalism and competence. The Code is designed to support behaviours that put the interests of clients, the firm and the wider community ahead of personal or individual interests, and promotes confident participation by users in Australia's OTC markets.

The Code is presented in two parts – the Ethical Principles and the Guidelines.

Market participants are reminded that they are generally expected to observe and adhere to the market standards and conventions as set out below when engaging in any form of market dealing.

1. Description

Environmental Products
This convention applies to transactions for five legislated Environmental Commodities in the Australian Marketplace and a voluntary scheme for 'Green Power'. **Emissions Reduction Fund (ACCUs)** An Australian carbon credit unit or ACCU is a tradeable commodity created under the *Carbon Credits (Carbon Farming Initiative) Act 2011* (Cth) (CFI Act). The CFI Act provides for two categories of ACCUs: Kyoto Australian Carbon Credit units (KACCUs) and non-Kyoto Australian Carbon Credit Units (NKACCUs). ACCUS are issued for greenhouse gas sequestration or abatement projects. Each ACCU represents a credit of 1 tCO_2-e from eligible offsets projects. Participation in the scheme is voluntary although project proponents may take on contractually binding obligations to deliver KACCUs or NKACCUs. These may include contracts with the Clean Energy Regulator (CER) as part of the Emissions Reduction Fund (ERF) established under the CFI Act to deliver eligible carbon credit units. Only KACCUs (and not NKACCUs) are "eligible carbon credit units" in the ERF. Other eligible (international) units may be prescribed under the CFI Act. The CFI Act sets out the arrangements under which projects can be accredited to earn ACCUs and the rules for the issue of ACCUs. ACCUs are electronic certificates issued by the CER into an account held in the Australian National Registry of Emissions Units. The rules for opening accounts are in the *Australian National Registry of Emissions Units Act 2011* (Cth) (ANREU Act) and underlying regulations. The rules about transfer of units are in the CFI Act and are affected by the ANREU Act. Further information about the ERF is available from the CER website. **Large-Scale Generation Certificates (LGC)** An LGC is a tradeable Commodity created by the *Renewable Energy (Electricity) Act 2000* (Cth) (REC Act) and is used to demonstrate compliance with the requirements of the Commonwealth Government's target for generation from large-scale renewable generators.

[1] As defined in the AFMA Constitution.

The REC Act establishes the rules for creating an LGC. The LGC must be in electronic form, the certificate must have its own unique code and the LGC must be registered by the CER before it is considered valid. Each LGC is equal to 1 megawatt hour (MWh) of eligible renewable energy.

Further information regarding the REC Act and LGCs can be found at the CER website.

GreenPower Program (GREC)

The National GreenPower Accreditation Program was established by various government agencies collectively known as the "National GreenPower Steering Group". A GREC is an LGC created by a generator accredited under the Program and is used to demonstrate compliance with the requirements of the Program.

The Program establishes the rules for recognising GRECs.

Further information regarding the GreenPower Program can be found at the Green Power website.

Small-Scale Technology Certificates (STC)

An STC is a tradeable commodity created under the REC Act. It is used to demonstrate compliance with the requirements of the Commonwealth Government's target for generation from small-scale renewable technology.

The REC Act establishes the rules for creating an STC. The STC must be in electronic form, the certificate must have its own unique code and the STC must be registered by the CER before it is considered valid.

Each STC represents 1 deemed megawatt hour (MWh) of eligible renewable energy.

The CER can also create STCs under the clearing house arrangements established under the REC Act.

Further information regarding the REC Act and STCs can be found at the CER website.

New South Wales Energy Saving Certificates (ESC)

An ESC is a tradeable Commodity created under Division 7 of Part 9 of the *NSW Electricity Supply Act 1995* (NSW) (NSW ESA) and is used to demonstrate compliance with the requirements of the NSW legislative energy savings scheme set out in Part 9 of the NSW ESA.

The NSW ESA establishes the rules for creating an ESC. The ESC must be in electronic form, and must be registered by the Independent Pricing and Regulatory Tribunal (IPART) of NSW before it is considered valid. Each ESC is equal to 1 tCO_2-e (one tonne of carbon dioxide equivalent) attributable to energy savings arising from an eligible activity.

Further information regarding the NSW ESA and ESC can be found at the Energy Savings Scheme website.

Victorian Energy Efficiency Certificates (VEEC)

A VEEC is a tradeable Commodity created under Division 3 of Part 3 of the *Victorian Energy Efficiency Target Act 2007* (VIC) (VEET Act) and is used to demonstrate compliance with the requirements of the VEET scheme set out in the VEET Act.

The VEET Act establishes the rules for creating a VEEC. The VEET Act states that the VEEC must be in electronic form, that every certificate must have unique identification code and that the VEEC is not valid until registered by the Scheme Administrator, being the Essential Services Commission. Each VEEC is equal to 1 tCO_2-e (one tonne of greenhouse gas emissions) abated by an eligible activity.

Further information regarding the VEET Act and VEECs can be found at the Victorian Essential Services Commission website.

2. Products

2.1. Spot Contract

Spot Contract
A Spot contract is a contract for a physical exchange of a specified Commodity, quantity, and price. The payment date and transfer date are the dates specified in the Contract. Typically, products are due for delivery on the same day as the trade is negotiated, or on a T + 3 settlement basis.

2.2. Forward Contract

Forward Contract
The Forward contract is a contract for the delivery of a specified Commodity in a specified quantity on the delivery date and payment of the fixed price on the payment date (which may be the same as the delivery date). In respect of the environmental products covered by these Conventions, settlement should take place by means of physical settlement. While the agreement governing the transaction may make provision for cash settlement in addition to physical settlement, this is intended only to provide a fallback settlement mechanism in the event that physical cannot be performed due to extenuating circumstances. In the event that physical settlement will not be possible in whole or in part, the Seller must notify the Buyer not less than 2 Business Days before each delivery date if cash settlement, or a combination of cash and physical settlement will apply on that delivery date. The Commodity sold under a Forward contract must be created on or before the date specified in the relevant legislation in order that the Commodity can be surrendered by the Buyer on the next date for surrender of such Commodities following the delivery date. Different rules apply to Eligible ACCUs, principally because they are issued as part of a voluntary scheme. Only physical settlement applies to ACCUs and the creation date is not specified.

2.3. Option Contract

Option Contract
The option buyer pays a premium to the option seller to acquire the right, but not the obligation, to buy (Call Option) or sell (Put Option) a quantity of the Commodity at a predetermined price. The Option has an expiry date and it can be either exercised on the expiry date (European Option) or at any time preceding the expiry (American Option). The delivery and payment dates can be different to the Option expiry date.

2.4. Swaption Contract

Swaption Contract
The option buyer pays a premium to the option seller to acquire the right, but not the obligation, to cause the Underlying Transaction to become effective. The Underlying Transaction is a Forward contract.

3. Dealing

3.1. Methods of Dealing

All Products
Negotiated bilaterally between counterparties, through a broker or directly by telephone, email, instant messaging or other process as may be agreed.

3.2. Electronic Dealing

All Products
At the discretion of the parties.

3.3. Business Days

All Products
Business Day means a day on which the banks are open in the capital cities of the State or Territory in Australia in which the parties' head offices are located. Counterparties may negotiate variations to this convention on a bilateral basis at the time of dealing.

3.4. Standard Transaction Size (market parcel)

All Products

Standard Market Parcels (and therefore assumed for quoted prices, unless otherwise specified) are:

Commodity	*Number of units*
ESC	5,000
VEEC	5,000
LGC	5,000
STC	5,000
GREC	5,000
ACCU	5,000

3.5. Two Way Pricing

All Products
This is where a counterparty quotes simultaneous bid and offer prices for a product. Counterparties are not obliged to quote two way prices, and may choose only to quote either a bid or an offer.

3.6. Quotation and Dealing

All Products
Commodity prices are quoted as a price per Unit. The party taking delivery is liable for any fees payable under the relevant Act in order to transfer the Commodities. The quoted price per Unit is increased to incorporate any GST payable on the sale and transfer of the Units. When quoting and dealing in the market, dealers should assume that the latest version of the Environmental Products Addendum is applicable to the transaction unless otherwise agreed or specified by the counterparties.

3.7. Basis

All Products
Not applicable.

3.8. Maturity Conventions

All Products

The payment date is the same as the delivery date unless the parties agree a different arrangement at the time of dealing. Note that if any of the delivery dates listed below falls on a non-business day, then it is assumed that the next business day applies.

Commodities other than ACCUs

Parties should consider specifying forward deals to mature two weeks before acquittal date for the particular scheme. If the seller elects to cash settle, this still gives a buyer who is a liable party, adequate time to source replacement certificates to acquit. This maturity methodology is used to determine forward prices in the weekly AFMA "Environmental Products Curve".

Delivery dates for Commodities other than ACCUs would therefore be:

Commodity	*Date*
LGC	1 February
ESC	14 April
VEEC	14 April
GREC	14 March
STC quarter 1	14 April
STC quarter 2	14 July
STC quarter 3	14 October
STC quarter 4	1 February

ACCUs

In the case of ACCUs, a 14 day convention applies. If a date is not confirmed at the time of dealing, then the delivery date will be assumed to be the 14th day before the end of the month in which the trade date falls (or the following month if that day has already passed). If that day is not a Business Day in any one of the counterparty regions, the date will be the Business Day preceding the 14th day before the end of the relevant month.

3.9. Settlement Rate or Index

All Products
Not applicable.

3.10. Premium Payment Date(s)

All Products
Parties should confirm the premium payment date at the time of dealing. Premium payment dates should generally be 3 business days after trade date, unless otherwise agreed between the parties.

3.11. Expiry Conventions

All Products

Counterparties should confirm the precise date for the Option's expiration at the time of dealing. Conventions for each product are set out below. Note that if any of the expiry dates listed below falls on a non-business day, then it is assumed that the next business day applies.

Option expiry time will be up to 3:00pm AEDT on the Option expiry date. If this day is not a Business Day in any one of the counterparty regions, the expiry date will be the following Business Day.

The Option Contract allows for partial exercise. If the parties require 'all or nothing' exercise, then this should be negotiated bilaterally on a deal by deal basis between the parties.

Commodities other than ACCUs

Parties should consider specifying Options to expire one week before the delivery date. Assuming the maturity conventions above are followed the expiry date for Options for commodities other than ACCUs would therefore be:

Commodity	*Date*
LGC	23 January
ESC	7 April
VEEC	7 April
GREC	7 March
STC quarter 1	7 April
STC quarter 2	7 July
STC quarter 3	7 October
STC quarter 4	23 January

ACCUs

Assuming the maturity conventions above are followed, the expiry date will be the 21st day before the end of the month in which the trade date falls (or the following month if that day has already passed). If that day is not a Business Day in any one of the counterparty regions, the date will be the Business Day preceding the 21st day before the end of the relevant month.

3.12. Broker Conventions

All Products

Firmness

Dealers and brokers must clearly indicate whether prices being quoted are firm or indicative. A price quoted is firm unless otherwise stated in an unambiguous manner.

A price given to a broker by a counterparty remains firm even if the dealer who has placed the order is unavailable and/or away from his/her desk.

If a dealer provides a firm order with a broker, and is hit on that order, the dealer must deal at the level specified for the specified transaction size. It is not necessary for the broker to communicate to the counterparty that the live price has been hit in order for the deal to be completed. Prices displayed on broker screens must be firm unless clearly indicated otherwise.

If the volume of an order quoted is in a transaction size which is greater than the standard transaction size, dealers must not refuse orders of volumes less than their quoted order size, provided that the volume requested is at least the standard transaction size. For example, if a firm order is for 25,000 units in a product (which has a standard transaction size of 5,000 units), and the dealer is hit on that order for 8,000 units only, the dealer must transact in the 8,000 units requested.

A transaction is entered into at the time that the terms of the transaction are agreed between the dealers (whether orally or otherwise). This occurs when a dealer communicates to another dealer its acceptance of an offer that the other dealer has made however that dealing occurs (see *Section 3.1*).

Offers to enter into a transaction communicated by a broker on behalf of a dealer must be firm offers (unless unambiguously expressed otherwise) which can be accepted until they are withdrawn by the broker at the offering dealer's request. A broker must communicate offers only in the exact terms instructed by the offering dealer and must not vary any offer which a dealer requests be communicated by the broker. An offer communicated by a broker may be accepted by another dealer communicating acceptance to the broker (which is received by the broker on behalf of the offering dealer). The transaction is agreed, and the dealers are bound to its terms, from the time that the acceptance of the offer is communicated to the broker, whether or not acceptance has been communicated to the offering dealer.

If the terms of a transaction accepted by a dealer differ from the terms which the offering dealer made, and instructed the broker to communicate, then the offer made by the offering dealer has not been accepted and no transaction is entered into. This applies whether or not the difference was caused by an error of the broker. A broker is authorised only to communicate the offers made by a dealer and receive acceptance of them on behalf of the dealer. A broker is not authorised to vary any offer made by a dealer or to negotiate its terms and an offering dealer is not responsible for any error of the broker or anything done by the broker outside its limited authority.

Credit Constraints

Brokers must maintain up to date knowledge of any counterparty credit constraints. Dealers must inform brokers of their credit availability with their counterparties and any specific limits, such as tenor, that may be applicable for each counterparty. Credit constraints cannot be revised at the point of execution.

Dealers must not cite the non-availability of credit limits for the purpose of avoiding a deal with a counterparty or completing an agreed deal when this is not true.

Referencing Prices

If an order is placed with a broker 'under reference' then that price should not be displayed on the broker screen unless clearly marked as being under reference and the broker should refer to the trader before dealing at the specified price.

A broker may only 'reference' their entire broker screen if all the respective traders have specifically referenced every price on that particular screen. If this is not the case, then the broker must instead remove the prices that have been specifically referenced, leaving only live prices on the screen

Refreshed Prices

End of day prices must be cleared before 08:50 AEDT the following day. All onscreen prices are deemed to be firm from 08:50 AEDT till 12:30 AEDT and again from 14:00 AEDT until 17:00 AEDT. Screens should be refreshed by 14:00 AEDT.

Outside these times, dealers should check the firmness of a price with the broker before dealing.

Off Screen Prices

Off screen bids/offers are a genuine trading strategy. However, dealers and brokers should continue to apply OTC Conventions and Code of Conduct principles in the use of off screen bids/offers. For example:

- Firmness of quotation rules are the same whether a price is on screen or not.
- Timing of stack rules still apply, e.g. first bid at a given price is the first one to trade if a price is given.

Reporting of Transactions

In order to improve market transparency and efficiency, Brokers should report trades to their client base (without disclosing the names of counterparties). Trades should be reported in a timely manner and sequentially.

Brokers should take care to avoid reporting trades in a way that is likely to deceive or confuse the recipient of the information.

Dealers should not discourage Brokers from reporting trades.

3.13. Confidentiality

All Products

Point of Dealing

Brokers must not pass names of counterparties prior to dealing, unless both parties have agreed to the passing of names.

Subsequent to Deal Execution

When dealing directly or through a broker, neither of the parties should disclose the name of the counterparty to other market participants.

3.14. Credit

All Products

Deals are subject to credit limits. If a party is unable to deal with a counterparty due to credit constraints, the relevant counterparty must be informed of this as soon as it is practicable. This should be done prior to informing brokers of any credit constraints.

The quoting of a firm price direct to a counterparty signifies that the counterparty has credit lines in place sufficient to cover the transaction quoted OR the standard sized dealing parcel if no amount has been stated.

3.15. Exercise of Options

All Products
If automatic exercise for an Environmental Commodity transacted under an Option contract is to apply, then the parties should agree this at the time of dealing. Otherwise a party wishing to exercise an option must notify the counterparty by the nominated expiry time, on the expiry date, whether they intend to exercise the option.

3.16. Data Source

All Products
Not applicable.

3.17. Pricing Formulae

All Products
Not applicable.

3.18. Other Dealing Conventions

All Products

Capacity to Deal

It is the responsibility of the counterparty to a transaction to ensure that their counterpart dealer is an authorised dealer for that entity.

However, if an authorised dealer enters into negotiations or shows a price for a transaction, all other dealers are entitled, without further enquiry, to assume in all dealings that the counterparty's authorised dealer has in place all necessary authorities and delegations to enter into the transaction. It is inappropriate for a counterparty to require other dealers to take the risk that the counterparty's dealer is trading without authority by advising the counterparty of the dealer's dealing limits.

Exclusions

Unless otherwise agreed, the transaction of an LGC, STC or GREC Commodity under any Product will exclude any generated from wood waste.

4. Confirmation

4.1. Timing

All Products
Written confirmation of transactions will be initiated by the Seller and then authorised and returned by the Buyer. The parties may agree to vary these arrangements from time to time. The Seller should send the signed Confirmation no later than the Business Day following the trade date and the Buyer should return it counter-signed by the next Business Day after that.

4.2. Obligations of Dealers

All Products
The trader should enter the deal in a timely manner to enable written confirmations to be sent out in accordance with Section 4.1. If one party to a deal wishes to affirm it, the trader, or another suitably authorised employee, should contact the counterparty to verbally affirm it. Ideally such affirmations should be done within one hour of the trade but at the latest by close of business the same day.

4.3. Documentation

Spot Contract
For each Commodity, counterparties should refer to the AFMA documentation "Environmental Products" , the Spot Contract and accompanying Explanatory Note.
Forward Contract
For each Commodity, counterparties should refer to the ISDA®-based agreement, with the terms and conditions as outlined in section 3.11 of the subscription-based "Guide to Australian OTC Transactions".

4.4. Other Confirmation Conventions

All Products
Not applicable.

5. Settlement

5.1. Physical Settlements

Spot Contract
Spot contracts must be physically settled. The payment date and transfer date are the dates specified in the contract.
Forward Contract
It is established market practice that forward transactions will be physically settled, although the standard ISDA®-based agreement does allow for both physical and cash settlement, or a combination of both, at the election of the Seller. If no election is made, the default position is physical delivery. Care should be exercised as, if cash settlement is not specified, a failure to effect physical delivery of the specified Commodity could trigger default of all transactions under an ISDA Master Agreement, including those in unrelated products. Only physical settlement applies to spot contracts and transactions for ACCUs.

5.2. Cash Settlements

Forward Contract

Where a forward contract is to be cash settled in whole or part, the default cash settlement price as specified in the "Pro-Forma Confirmation for Environmental Products, using Australian Environmental Products Addendum" in the AFMA "Guide to Australian OTC Transactions" is:

$$Cash\ Settlement\ Price = \left(\frac{P}{1-T}\right) \times 1.2$$

- P = penalty rate per Commodity unit
- T = company tax rate in Australia
- 1.2 = a multiplier designed to encourage physical delivery and recognise that the market may trade at or above the tax adjusted penalty level for a particular Commodity.

The expression in parentheses is referred to as the "Tax Adjusted Legislative Charge" in the Addendum.

If cash settlement applies then, by virtue of sections 2(a) and 2(c) of the ISDA Master Agreement and the definition of 'Cash Settlement' in the "Australian Environmental Products Addendum", the Seller must pay the Buyer the difference between the cash settlement price and the fixed price multiplied by the number of Commodity units to which cash settlement applies.

5.3. Other Settlements Conventions

All Products
Not applicable.