

FAQ's on the International Emissions Trading Master Agreement

16 April 2012

1. Where can I find the new International Emissions Trading Master Agreement (IETMA)?

For the IETMA and schedules, click <u>here</u>.

2. What are the differences between the IETMA and the ETMA v 3.0?

The ETMA v 3.0 was designed for use in Phase 2 of the EU's Emissions Trading Scheme (EU ETS) only. Therefore, IETA needed to either overhaul the ETMA or replace it with a new principal trading document for use in Phase 3 of the EU ETS and for trading Kyoto certificates in the post-2012 world. In order to recognize the changing shape of the emissions trading world and its expansion to new regions, as well as to meet the market need for providing trading standards that are simple and flexible at the same time, the new trading documentation developed by IETA can be used in combination with multiple regional or national emissions trading systems around the world, as and when they develop. For each region or type of carbon unit, schedules can be added to the IETMA. In a first step, a schedule for the Phase 3 of the EU ETS has been finalized. A Kyoto schedule is in the making. Further schedules for Australia, California and potentially other systems will follow as the need arises.

3. What advantages do I get in using IETMA over other trading documents?

Existing standardized emissions trading documentation is solely designed for trading under the EU ETS. As explained above, the IETMA is designed to meet any Phase 3 trading requirements under the EU ETS, as well as the market need for providing trading standards that are simple and flexible, and which can be used in combination with multiple regional or national emissions trading systems around the world.

4. When will schedules follow for other regions and in particular the Kyoto mechanisms?

IETA's Legal WG is currently working on a Kyoto schedule, which should be available soon. IETA is closely following developments in other markets and will draft new schedules as appropriate when new systems arise.

5. Can I still trade CERs/ERUs in the absence of a Kyoto schedule?

Yes, you can trade CERs/ERUs by choosing the relevant 'allowance type' in the EU ETS schedule and provided that your purpose is to use them in the context of the EU ETS.

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6. Transactions are frequently undertaken on a spot basis using the IETA Single Trade Agreement (STA). Has there been any discussion of updating this document?

A suitable STA for trading in Phase 3 of the EU ETS will be produced in due course and should be available soon.

7. Where can I find netting opinions for the IETMA?

IETA currently does not have netting opinions for the IETMA but is consulting its members to see if this service should be provided. If you are interested in receiving netting opinions, please contact ieta@ieta.org.

8. Can we use the EU ETS schedule for trading in Phase 2 of the EU ETS and, if so, how will this work?

Yes, the EU ETS schedule includes transitional provisions allowing you to trade in Phase 2 of the EU ETS.

In addition, IETA has also published a form of confirmation to the ETMA v 3.0 which contains the relevant wording for trading in the Union Registry in Phase 2 of the EU ETS. A copy of the form of confirmation can be found *here*.

9. What is a registry under the EU ETS schedule?

The migration of registry accounts to the single Union Registry (expected to occur during the second half of 2012) is covered in the EU ETS schedule of the IETMA. Once trading in the EU ETS is undertaken within the Union Registry, users are advised that a 'registry' shall include the Union Registry as well as, collectively, all the accounts within the Union Registry that are under the jurisdiction of a National Administrator designated by a Member State.

Disclaimer: This FAQ answer is a high level explanation of some key concepts. Please refer to the IETMA and the EU ETS schedule for a more precise definition.

10. What is a suspension event under the EU ETS schedule?

There are two kinds of suspension event under the EU ETS schedule for Phase 3 transactions:

- 1. An absence of Registry Operation, i.e. if the registry or the relevant transaction logs are not functioning; and
- 2. The occurrence of an Administrator Event, i.e. the suspension of some or all of the processes of a registry or the EU transaction log by a National Administrator or the Central Administrator



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11. How will stolen allowances in the EU ETS be treated?

After much deliberation, the IETA Legal WG has decided on the following approach to stolen allowances. First, the existing No Encumbrances representation has been replaced by an No Encumbrances Obligation, and stolen allowances are dealt with as a separate category of breach of this obligation.

In summary, if a Seller did not acquire the stolen allowances in good faith, it will always be liable to the Buyer for its breach of the No Encumbrances Obligation. If, however, the Seller did acquire the stolen allowances in good faith, liability will depend on whether the Buyer has a claim brought against it (a) by the original victim of the theft or (b) by any other person to whom the Buyer has sold or transferred the stolen allowances. In the case of (a), the Buyer is required to use best endeavours to defend a claim by the original victim, i.e. the Buyer must utilise any available defence (including Article 37 of the Registries Regulation) and cannot agree to settle a claim. It is only if the Buyer is unsuccessful in such defence that it can pass liability to the Seller. In the case of (b), the Buyer is subject to a lesser test to use all reasonable endeavours to mitigate its losses. It is only if the Buyer can satisfy this test that it can pass liability to the Seller.

The purpose of this new wording is to address the issue of stolen allowances in a manner consistent with the Registries Regulation by providing clear rules for and discouraging initiation of claims, thereby restoring confidence in the carbon market. EFET has adopted the same wording in their documentation for Phase 3 of the EU ETS.

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12. What if AEUAs (aviation allowances) will not survive due to the political pressure by the international community?

The IETA Legal WG considered that users will have their own risk appetite for trading AEUAs and it would be appropriate for users to consider including their own language to address such concerns.