

Improvements EUAs as margin credits

Summary

ECC will improve its offering to use EU Allowances (EUAs) as margin credits as of **February 2022**. Through changes to the model, ECC waives the current minimum holding period of 105 days before deposited EUAs become eligible margin credits. After signing up and approval by the respective Clearing Member, all EUAs transferred to a dedicated ECC Collateral Registry Account will be treated as margin credits as outlined in this circular.

Contact

European Commodity Clearing AG
Clearing & Settlement
Phone: +49 341 24680-444
E-mail: clearing@ecc.de

Usability of EUAs as margin credits

Subject to approval and configuration by the respective Clearing Member, the EUAs can be used as margin credits to offset margin requirements for Initial Margin Spot Market (IMSM) and/or Initial Margin Derivatives (SPAN). For Initial Margin Derivatives (SPAN) a margin credit is only calculated for the equivalent credit value of a net short position in EUA Futures. Furthermore, the credit value from EUAs is capped at 20% of the total margin requirement of a trading participant.

ECC will value the provided EUAs as margin credits by using the current market value and applying an appropriate haircut, currently 30%, to establish the eligible margin credit value.

Legal background

EUAs as margin credits are covered under the ECC Clearing Conditions in Section 3.4.13 and 3.4.2 (2). Trading participants transfer EUAs to the ECC Collateral Registry Account; in case of Non-Clearing Member at the request of its Clearing Member. Such EUAs transferred to the ECC Collateral Registry Account become property of ECC.

The EUAs secure the claims of ECC against the Clearing Member with regard to transactions of the transferring Non-Clearing Member. As long as margin requirements remain covered and the Clearing Member is not in default or has been terminated, the Clearing Member holds a respective claim against ECC for retransfer from the ECC Collateral Registry Account to another registry account. This secures the claims of the Clearing Member against the Non-Clearing Member resulting from a liability of the Clearing Member towards ECC because of transactions of the Non-Clearing Member.

Correspondingly, the Non-Clearing Member holds a claim against its Clearing Member for retransfer to a registry account determined by the Non-Clearing Member as long as margin requirements of ECC remain covered and the Clearing Member is not in default or has been terminated. In order to secure this claim, the Clearing Member pledges its retransfer claim against ECC to the Non-Clearing Member.

Initial Setup

Interested clients have to provide the form **O07a Application form Emission Rights as Margin Credit** including the confirmation of the respective Clearing Member to ECC. ECC performs the required setups in its systems and will inform the client after completion.

Operational procedures

Provision of EUA to be used as margin credit

After confirmation of the initial setup by ECC, EUAs can be transferred to a dedicated ECC Collateral Registry Account **EU-100-5016904-0-2**. Said transfer can be done from any registry account of the trading participant or by a transfer from its holdings with ECC to the ECC Collateral Registry Account. It is recommended that clients add said account to its Trusted Account List to ensure a timely transfer on EU registry level.

After the transfer, the EUAs will be credited to the respective internal holding account (XYZEX_HLDNG_EUACOLL_MRGN_EUR) at ECC and the balance can be retrieved via the ECC Member Area. A respective margin credit will be calculated and displayed in the margin report CC750 as a premium margin under the margin classes IMSM and/or SPAN.

Retransfer of EUAs by ECC

A retransfer of EUAs from the ECC Collateral Registry Account may be requested by the ECC Member Area either to a registry account of the trading participant or to the ECC registry account to fulfil delivery obligations for spot and derivatives trading.

It has to be ensured that sufficient replacement collateral as accepted by ECC for margining purposes (e.g. cash, securities) is deposited at ECC by the Clearing Member before any release can be carried out. ECC will refuse such a request, in case the collaterals on Clearing Member level are not sufficient to cover the current margin requirements.

In addition, it has to be ensured that the cooperating Clearing Member agrees to release the EUAs by signing the form **O07b_Release Emission Rights as Margin Credit**. Such approval by the Clearing Member shall be effected without undue delay (until 12:00 CET of the next ECC Business Day) and may only be refused by the Clearing Member if margin requirements to be newly determined after delivery as well as open claims of the Clearing

Member vis-à-vis the Non-Clearing Member remain uncovered by remaining collateral held by the Clearing Member.

Change of Clearing Member

In case a Non-Clearing Member that transferred EUAs to the ECC Collateral Registry Account intends to change its Clearing Member such EUAs have to be replaced before the effective date of such change by collateral accepted by ECC and a new setup, including the approval of the new Clearing Member, will be required.

Handling fee

For EUAs delivered to be used as margin credits, a fee of 0.15 % p.a. will be charged by ECC. The calculation of the fee will be performed $\text{act} / 365$ based on the value of the eligible margin credit in EUR in the form of emission allowances. ECC will invoice the respective fee amounts on a monthly basis via the respective Clearing Member.