



Carbon Market 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) is to establish a common understanding of the standard of behaviour expected of all AFMA Member organisations and their employees when conducting business with clients, counterparties and colleagues and when providing financial services to retail and wholesale clients.

All AFMA Financial Markets Members and Partner Members¹ 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.

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

Australian carbon credits units

This set of conventions applies to OTC transactions for Australian carbon credits units (ACCU).

ACCUs are a tradeable asset created under the *Carbon Credits (Carbon Farming Initiative) Act 2011* (Cth) (CFI Act). The CFI Act provides for Kyoto and non-Kyoto ACCUs unless otherwise indicated all references in this document are to Kyoto ACCUs.

An ACCU is a unit issued to a person by the Clean Energy Regulator (Regulator) by making an entry for the unit in an account kept by the person in the electronic [Australian National Registry of Emissions Units](#). ACCUs are issued for greenhouse gas sequestration or abatement projects.

Each ACCU issued represents one tonne of carbon dioxide equivalent (tCO₂-e) from eligible offsets projects.

ACCUs may be:

- sold to the Commonwealth's Emissions Reduction Fund (ERF) under the CFI Act
- surrendered to meet obligations under the Safeguard Mechanism established under the *National Greenhouse and Energy Reporting Act 2007*
- Voluntarily surrendered to achieve carbon neutral certification under the Commonwealth's voluntary Climate Active program

¹ As defined in the AFMA Constitution.

2. Products

Kyoto Australian Carbon Credits Unit (ACCU), as described in 1.

2.1. Spot Contract

Spot Contract

A Spot contract is a contract for a physical delivery of an ACCU at a specified quantity and price. Typically, spot contract ACCUs are due for delivery on a T + 3 settlement basis.

2.2. Forward Contract

Forward Contract

A Forward contract is a contract for the physical delivery of an ACCU in a specified quantity and price on a forward delivery date.

An ACCU traded under a Forward contract must be created on or before the date specified in the relevant legislation in order that the ACCU can be surrendered by the Buyer on the next date for surrender following the delivery date.

Only physical settlement applies to ACCUs

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 ACCUs 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

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

At the discretion of the parties.

3.3. Business Days

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)

Standard Market Parcels (and therefore assumed for quoted prices, unless otherwise specified) are 5,000 Units

3.5. Two Way Pricing

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

ACCU 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 ACCU.

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

Not applicable.

3.8. Maturity Conventions

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.

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

Not applicable.

3.10. Premium Payment Date(s)

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

Counterparties should confirm the precise date for the Option's expiration at the time of dealing. 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.

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

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.

3.13. Confidentiality

Point of Dealing

Names of counterparties are not to be passed prior to dealing, unless both parties have agreed to the passing of names.

Subsequent to Deal Execution

When dealing directly or through a broker the dealing parties should not disclose the name of the counterparty to other market participants.

3.14. Credit

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

If automatic exercise for an ACCU 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

Not applicable.

3.17. Pricing Formulas

Not applicable.

3.18. Other Dealing Conventions

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.

4. Confirmation

4.1. Timing

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

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

Counterparties should refer to the AFMA documentation "[Environmental Products](#)," the Spot Contract and accompanying Explanatory Note.

Forward Contract

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

Not applicable.

5. Settlement

5.1. Physical Settlements

Spot Contract

ACCU 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. The exception to this rule is described in 5.2.

5.2. Other Settlements Conventions

The standard ISDA[®]-based agreement allows 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 ACCU could trigger default of all transactions under an ISDA Master Agreement, including those in unrelated products