AFS GROUP

EU Allowances (EUAs)

Risks & Characteristics Disclosure

Prepared in accordance with MiFID II Commission Delegated Regulation (EU) 2017/565, Articles 44 and 48

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1. Purpose of This Document

This document is provided by AFS Energy B.V. ("AFS") in fulfilment of its obligations under MiFID II, specifically Article 44 (fair, clear and not misleading information) and Article 48 (information about financial instruments) of Commission Delegated Regulation (EU) 2017/565.

Before engaging in any EUA transactions through AFS, all clients must read and confirm understanding of this document. It describes the nature, functioning and material risks of EU Allowances as a financial instrument, so that clients can make informed investment and trading decisions.

2. Instrument Overview

Instrument Name	EU Allowance (EUA)
Instrument Type	Tradable carbon credit / environmental commodity
Underlying System	EU Emissions Trading System (EU ETS)
Legal Basis	Directive 2003/87/EC (as amended); EU ETS Phase IV (2021–2030)
Unit Value	1 EUA = right to emit 1 tonne of CO_2 equivalent
Primary Markets	ICE Endex (Amsterdam / London); EEX (Leipzig)
Settlement	Physical delivery or cash settlement (contract-dependent)
Regulation	Regulated as a financial instrument under MiFID II; oversight by ESMA and national NCAs
Currency	Euro (EUR)

3. How EUAs Function

3.1 The EU Emissions Trading System

The EU ETS operates on a "cap and trade" principle. The EU sets an overall cap on the total greenhouse gas emissions from covered installations (power plants, industrial facilities, aviation). This cap is progressively reduced each year. Covered entities receive or purchase allowances and must surrender one EUA for every tonne of CO_2 they emit. Entities with surplus allowances may sell them; those requiring more must purchase them.

3.2 Market Operation

EUAs trade on regulated exchanges and OTC markets. Prices are determined by supply and demand dynamics including: energy prices, industrial production levels, weather, policy announcements, and macro-economic conditions. AFS provides execution services for spot and forward EUA transactions on behalf of its clients.

3.3 Performance in Different Market Conditions

Clients should understand that EUA prices behave differently across market environments:

- **Bullish conditions:** In periods of high energy demand or elevated fossil fuel prices, demand for EUAs increases, typically supporting higher prices.
- **Bearish conditions:** In periods of economic contraction or low industrial output, demand for EUAs may fall sharply, leading to significant price declines.
- **Policy-driven volatility:** Policy announcements — such as changes to the Linear Reduction Factor, Market Stability Reserve (MSR) interventions, or extensions of the EU ETS to new sectors — can cause sudden and significant price movements in either direction.
- **Low liquidity conditions:** Low liquidity periods (e.g. year-end compliance deadlines, summer holidays) can exacerbate price moves and widen bid-ask spreads.

4. Risk Disclosure

Article 48 of Regulation (EU) 2017/565 requires that clients receive a description of all material risks specific to this financial instrument. The following risks apply to EUA trading.

Risk	Level	Description
Market / Price Risk	HIGH	EUA prices are highly volatile. Significant price swings of 20–40% or more within a year have historically occurred. Clients may sustain losses equal to the full value of their position.
Regulatory / Policy Risk	HIGH	The EU ETS is a policy-created market. Legislative changes (e.g. MSR adjustments, Phase V design, CBAM interactions) can materially alter supply-demand balances and pricing at short notice.
Liquidity Risk	MEDIUM	While EUAs are generally liquid on major exchanges, liquidity can deteriorate during stress periods, making it difficult to enter or exit positions without material price impact.
Counterparty Risk	MEDIUM	OTC transactions carry the risk that the counterparty may fail to perform its obligations. Exchange-cleared transactions mitigate this risk through central clearing.
Settlement / Delivery Risk	MEDIUM	Physical settlement requires a valid EU ETS registry account. Failure to hold a compliant registry account may prevent settlement and result in financial penalties.
Operational Risk	MEDIUM	Technology failures, connectivity issues, or human error in order entry can result in unintended positions or missed execution opportunities.
Currency Risk	LOW	EUAs are priced in EUR. Clients reporting in other currencies bear additional foreign exchange risk.
Total Loss Risk	APPLICABLE	It is possible to lose the entire capital invested or committed to EUA positions. There is no capital protection or guarantee on EUA trading.

IMPORTANT WARNING

Past EUA price performance is not a reliable indicator of future results. EUA prices can fall as well as rise and you may receive back less than you invested. The information in this document does not constitute investment advice.

5. Leverage, Margin and Additional Obligations

Certain EUA transaction structures may involve margin requirements. Clients should be aware of the following:

- **Leverage effect:** Leveraged positions can amplify both gains and losses beyond the initial capital deployed.
- **Margin requirements:** Margin calls may require clients to post additional funds at short notice. Failure to meet a margin call may result in the forced liquidation of positions, potentially at a loss.
- **Additional costs:** In addition to the purchase price, clients will incur exchange fees and potential late payment penalties.

6. Liquidity and Exit Considerations

EUAs are generally considered liquid instruments on major exchanges. However, the following limitations may apply:

- Liquidity can be materially reduced during year-end compliance surrender periods, holiday periods, or times of market stress.
- OTC transactions may be less liquid than exchange-traded equivalents and may not have a readily available secondary market.
- Early exit from a contract may involve break costs or require offsetting transactions that incur additional expense.
- In the event of a regulatory suspension or market halt, clients may be unable to exit positions for an extended period.

7. Regulatory Framework

EUAs are classified as financial instruments under MiFID II. Trading is subject to:

- Directive 2014/65/EU (MiFID II) and Commission Delegated Regulation (EU) 2017/565
- Regulation (EU) No 596/2014 (Market Abuse Regulation — MAR): insider trading and market manipulation prohibitions apply to EUA trading
- Regulation (EU) 2015/2365 (SFTR): securities financing transaction reporting may apply
- Directive 2003/87/EC (EU ETS Directive) and associated Phase IV implementing regulations
- ESMA guidelines on commodity derivative markets and position limits

AFS Energy B.V. is authorised and regulated as an investment firm. Clients are required to comply with all applicable laws and regulations in their own jurisdictions in addition to EU requirements.

8. Client Classification and Suitability

AFS provides EUA execution services exclusively to professional clients as defined under MiFID II (Annex II to Directive 2014/65/EU). Clients must meet at least two of the following criteria to qualify automatically as a professional client:

Balance Sheet	€ 20,000,000 or more
Net Turnover	€ 40,000,000 or more
Own Funds	€ 2,000,000 or more

Clients who do not meet these criteria automatically but who have relevant knowledge, experience and expertise to make their own investment decisions may apply to be treated as professional clients through the Opt-Up procedure described separately. Clients who opt up waive certain retail client protections.

9. No Investment Advice

AFS provides market access and execution services only. Nothing in this document or in any communication from AFS constitutes investment advice, a personal recommendation or an inducement to trade. The decision to trade EUAs rests solely with the client.

Clients are encouraged to seek independent financial, legal and tax advice before entering into EUA transactions, and to ensure that EUA trading is consistent with their internal risk management frameworks and corporate treasury policies.

10. Client Acknowledgement

By proceeding to trade EUAs through AFS and signing the trade agreement, the client confirms that:

- It has read and understood this Risks & Characteristics document in its entirety;
- It understands the nature, functioning and risks of EUAs as described above;
- It has the knowledge, experience and financial capacity to bear the risks involved;
- It has not relied solely on AFS communications in making its trading decision; and
- It accepts that past performance is not indicative of future results.