

The SparkChange Physical Carbon EUA ETC (“CO2”) -UCITS Eligibility

This note explains why The SparkChange Physical Carbon EUA ETC (“CO2”) is UCITS eligible. This note is not legal advice and should be used for guidance purposes only.

What is it: A Transferable Security

CO2 is an exchanged traded commodity (“ETC”) that meets the definition of a Transferable Security under the UCITS Directive as ETCs are “debt instruments traded on a regulated market”. CO2 is listed on the Official List of the London Stock Exchange. An investment in CO2 is not a direct investment in EU carbon dioxide emissions allowances (“EUAs”) but in a note that is physically backed by EUAs and is therefore UCITS eligible.

Protection Mechanism Against Physical Settlement for UCITS

A UCITS cannot purchase EUAs directly. CO2 carries a right to redemption by the delivery of EUAs from the Issuer and any eligible investor may redeem ETCs in exchange for EUAs directly with the Issuer. However, the Issuer has the absolute discretion to reject a physical redemption order and will screen out Prohibited Allowance Holders.

UCITS schemes are deemed Prohibited Allowance Holders. In the event a UCITS elects to redeem their CO2 in exchange for EUAs, they will need to complete a redemption form and KYC. At this stage, it will become obvious that the securityholder trying to redeem is a UCITS and the redemption form will not be validated. A UCITS must always sell their ETCs on an exchange, via their broker, or to an Authorised Participant.

Subscriptions by Authorised Participants

Only Authorised Participants (“APs”) are able to subscribe for CO2 securities directly with the Issuer in the primary market. APs deliver EUAs to the Issuer. APs may then sell their ETCs on the secondary market or hold them.

Purchase and Sale on Exchange

CO2 can be bought and sold on the secondary market by investors like other shares or ETFs.

Agreements are in place between the Issuer and several APs, who invest directly in EUAs and deliver to the Issuer. APs facilitate the accurate pricing and liquidity of CO2. Market makers commit to the Issuer to provide liquidity on exchange.

Contact



What it is Not: A Financial Instrument Embedding a Derivative

The ETC should not be mistakenly characterised as a “financial instrument embedding derivatives with delivery mechanisms transferring commodities”. Firstly, there is no derivative instrument in the structure and secondly, CO2 is secured 100% by physical EUAs.

If you need any further information or have any questions regarding the above please contact us at info@hanetf.com

Disclaimer: This document should under no circumstances to be construed as an advertisement or public offering. Investors are encouraged to seek independent and appropriate advice on the relevance of the product with regards to their investment objectives and tax circumstances. As with any financial product, prices may go up or down and an investor may not get back the amount invested. Past performance is not a reliable indicator of future performance.

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