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The Emissions Marketing Association Presents an Index Procedure Guideline for SO₂ and NO_x Allowance Financial Trading

MILWAUKEE, WISCONSIN, USA - Today the Emissions Marketing Association (EMA) published "Procedure Suggestion – A Price Index for SO₂ and NO_x Allowances". This document was prepared by the Ad Hoc Index Exploratory Committee, a group of interested members from the emissions trading, brokerage and publishing communities. The "Procedure Suggestion" is a fully designed index process which any publisher may utilize to develop a new index for allowances on which a financial market may be based.

The aim of the Index Exploratory effort was to stimulate discussion on the development of a financially settled market for SO₂ and NO_x allowances among potential participants. A financial market offers participants tools not currently available in the already successful allowance markets, specifically the ability to enter transactions without the actual transfer of allowances. These new tools offer many advantages and are expected to:

- Build liquidity and increase competition by attracting new counterparties who are constrained by physical allowance deliveries, i.e. financial institutions without regulated emissions sources.
- Build liquidity through greatly reduced transaction cost by allowing a simple method of creating a short position in the allowance market, eliminating the need to borrow and then sell allowances, then repurchase and return allowances to the lender at a future date.
- Enable financially settled and floating price transactions.
- Eliminate physical delivery of allowances (and associated transaction costs) from many transactions.
- Bring swaps and derivatives on swaps to the allowance market.
- Allow the use of standard ISDA (International Swap and Derivatives Association) Master Agreements already in place with many counterparties, reducing transaction costs associated with contract negotiation.

Chair of the EMA Board of Directors, Matthew Most said, "The Index Exploratory effort is another example of EMA using its convening power on a project that will benefit the entire industry. The stakeholders worked diligently to conceive an index to bring even greater vitality, competition, efficiency and scale to the allowance markets. Now we look to the publishing community to adopt the standards into an ongoing index, making this concept a reality."

"Procedure Suggestion – A Price Index for SO₂ and NO_x Allowances" is available at www.emissions.org.

The Emissions Marketing Association consists of more than 290 members from 190 companies worldwide. EMA's goal is to promote market-based trading solutions for environmental control.
