

ARBITRAGE/SLEEVING TRANSACTIONS POLICY

Context

- Energy Broking Ireland (EBI) offers an ability for companies which have contracted with EBI (**Counterparties**) to post bid and/or offer prices for specific products (e.g. Within-Day gas) on an electronic trading platform (**Trading Platform**).
- Counterparties are not able to determine from the Trading Platform the name of the other Counterparties posting bids and offers.
- A Counterparty is able, via a colour coding system, to determine whether it can transact a bid or offer inserted by another Counterparty. (The absence of a bilateral trading agreement or the absence of agreed credit terms can prevent a transaction taking place between Counterparty A and Counterparty B.
- In accordance with the provisions of EBI's agreement with Counterparties for the use of Trading Platform, each Counterparty is responsible for advising EBI as to which other Counterparties it is willing to transact with (**Counterparty Matrix**).
- EBI is then obliged to insert into the Trading Platform the Counterparty Matrix.
- The vast majority of transactions on the Trading Platform are conducted on the Trading Platform electronically with no intervention by EBI.
- EBI has undertaken actions on the Trading Platform, at the specific request of Counterparties, under the following circumstances
 - For short term technical reasons, Counterparties are unable to access or utilise the Trading Platform themselves and therefore have requested EBI to undertake actions on its behalf
 - Counterparties have not been familiar with some of the options/facilities of the Trading Platform and have therefore requested EBI to assist in actions on the Trading Platform on behalf of Counterparties
 - Counterparties have agreed subsequently to the conclusion of a transaction on the Trading Platform that the transaction should be modified or cancelled and provided written instructions for EBI to undertake the appropriate actions.
- Where there have been bids and offers inserted onto the Trading Platform, but the highest priced bid and the lowest priced offer are not able to transact directly with each other, EBI has been asked by Counterparties to investigate whether there are Counterparties which could either trade such arbitrages or provide a "sleeving" service by buying from the lowest priced offer and selling to the highest price. EBI has facilitated such requests by drawing the attention of market participants to such arbitrage or sleeving opportunities by email or other electronic messaging systems or by telephone.

EBI's Policy on Arbitrage/Sleeving Transactions

- It is in the interests of wholesale market operation and energy pricing transparency, that EBI facilitates as many transactions as possible on the Trading Platform.
- However it is fundamental and a legal obligation that market participants can have confidence in the integrity of electricity and gas markets and that prices set on wholesale energy markets reflect a fair and competitive interplay between supply and demand and that no profits can be drawn from market abuse.ⁱ
- Therefore, whilst EBI will facilitate and encourage market participants to undertake market arbitrage opportunities and/or provide sleeving services the following rules are to apply:-
 - EBI can draw Counterparties' attention to arbitrage opportunities present on the Trading Platform, but only the information available to Counterparties can be mentioned in any communication to Counterparties
 - EBI can request Counterparties to provide a sleeving service, but it can only provide to the sleeving party, the information provided on the Trading Platform, including any confirmation that the parties to the sleeving transaction are Counterparties with which the sleeving party is able to transact.

For the avoidance of doubt, the following types of transactions are not permitted on the Trading Platform:-

- Circular Trading – the process of inserting an offer or bid in the knowledge that an offsetting bid or offer is being placed at exactly the same time. Such activity is illegal because it excludes the opportunity for other Counterparties to be able to transact such offers or bids.ⁱⁱ
- Pre-arranged trading – where two or more Counterparties deal with each other at prices upon which they have agreed in advance to exclude other counterparties or to gain such advantage (e.g. tax).

Whilst ACER considers that crossing/pre-arranged trades could be considered acceptable market practicesⁱⁱⁱ, EBI considers that the market integrity of the Trading Platform is fundamental to the Irish Energy market and therefore it will not get involved in the promotion of pre-arranged trades. Counterparties wishing to participate in sleeving transactions must therefore insert bids or offers, which will be available to all market participants to avoid any perception that counterparties are being excluded from ability to transact such bids or offers.

ⁱ Preamble (1) Regulation (EU) No 1227/2011 on wholesale energy market integrity and transparency.

ⁱⁱ See 6.4.3 (c) of ACER guidance on the application of REMIT – dated 17/06/2016

ⁱⁱⁱ See 6.4.3 (d) of ACER guidance on the application of REMIT – dated 17/06/2016