



# Auctioning Regulation

## Joint Procurement of an Auction Monitor Information Day

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**Disclaimer: The views expressed are purely those of the speaker and may not in any circumstances be regarded as stating an official position of the European Commission**

## Auctioning (1)

- As of 2013 (3<sup>rd</sup> trading period), auctioning will progressively replace free allocation as main method for allocating allowances to all EU ETS sectors except aviation
  - All allowances not allocated free of charge must be auctioned
  - In principle no free allocation for electricity production
  - Remaining free allocation in particular for sectors exposed to significant risk of carbon leakage
- Roughly half of the allowances will be auctioned, i.e. about 1 billion/year
- "Early auctions": 120 million phase 3 EU allowances will be auctioned from 2012

## Auctioning (2)

- Auctioning Regulation No 1031/2010 adopted in November 2010
- Principles:
  - Openness, transparency & non-discrimination
  - Harmonisation
  - Predictability
  - Cost-effectiveness & efficiency
  - Access for SMEs covered by the EU ETS and small emitters:
    - Direct participation
    - Indirect access through a clearing member
    - Outsourcing to an intermediary who may aggregate
  - Mitigate risk of fraud, money-laundering and market abuse

## Auctioned product

- Auctioning spot
  - AR: 2-day spot or 5-day futures, delivery within maximum of 2 or 5 working days after the auction
  - Product specifications are determined in the tender for the appointment of the auction platform(s)
    - TCAP: 2-day spot or 5-day future with a delivery of no more than 2 trading days
  - Same platform may auction more than one product
    - Commodity
    - Financial instrument (MiFID, MAD)

## Auction calendar

- Frequency of auctions:
  - Auctioning Regulation: weekly auctions
  - TCAP: two auctions per week for general allowances, one per week for aviation
  - DE and UK: weekly auctions
- Auctions according to the auction calendar:
  - Sets out the dates, bidding windows, size and other details of each auction to be held in a calendar year
  - Fixed in advance: common auction platform by 28 February of the preceding year; opt-outs by 31 March (different for 2012)
  - Established by the auction platform after consulting the Commission
  - TCAP: available on <http://www.eex.com/en/>
  - DE: <http://www.eex.com/>
  - UK: <http://www.theice.com/>

## Access

- Internet access and option of dedicated connections
  - Alternative means are possible, provided that they do not lead to any discrimination
  - Training & helpline
- List of persons eligible to apply for admission to bid in order to protect integrity of the auction and facilitate know-your-customer check (KYC)
  - ETS operators and business groupings of operators (bidding on own account only)
  - Investment firms and credit institutions as defined in EU financial legislation (on own account and as intermediary)
  - Intermediaries exempt from EU financial legislation, but authorised by Member States (e.g. electricity and gas traders)

## Requirements for admission to bid

- Requirements (*inter alia*):
  - Auctioning Regulation: at least weekly auctions
  - Existing members of the selected platform (regulated market), do not need to apply again, provided that the requirements of the exchange are as strict as those imposed by the AR
  - Establishment in the EU, except for ETS operators (aviation)
  - Bidder's representative established in the EU
  - Satisfy KYC
    - To prevent auctions being used as a vehicle for money laundering, terrorist financing, criminal activity or market abuse
  - Administrative and technical capacity
- Detailed procedural provisions on processing of applications

## Member States' participation

### **Auctioneers** appointed by each Member State

- One auctioneer can be appointed by several Member States
- Public or private bodies entrusted with a public service function
- Responsible for offering the allowances to be auctioned to the auction platform on behalf of the appointing Member State
- Receive the auction proceeds and disburse them to the appointing Member State
- Must be recognised by the auction platform following KYC procedure



## Auction platform (1)

Regulated market authorised pursuant to EU financial markets legislation

- Bound by EU law: Market in Financial Instruments Directive (MiFID), Market Abuse Directive (MAD)
- Provide safeguards in the conduct of their operations, e.g. arrangements to:
  - Identify and manage the potential adverse consequences of any conflicts of interest
  - Identify and manage risks that the market is exposed to
  - Have transparent and non-discretionary rules and procedures for fair and orderly trading
- Use the market infrastructure that already exists on the secondary market for allowances
- Maximum duration for appointment: 5 years

## Auction platform (2)

- Common auction platform:
  - Appointed by the Member States and the Commission through joint action
    - Article 91(1) Financial Regulation (FR) and 125 c Implementing Rules (IR)
  - 24 ("participating") Member States signed the Joint Procurement Agreement for procuring a *transitional and definitive* common auction platforms
- Germany, UK and Poland opted out and decided to appoint their own opt-out auction platform
- The common auction platform will also be used by:
  - Poland, until the appointment of its own platform
  - EEA-EFTA States
    - Poland and EEA-EFTA States will aggregate their volumes with the volumes of the 24 Member States participating in the joint action<sup>10</sup>

## Auction platforms currently appointed

|                   | Starting date                  | Duration  |
|-------------------|--------------------------------|---|
| <b>TCAP</b>       | European Energy Exchange (EEX) | 3 + 1 years, possible earlier termination upon the appointment of DCAP (but: guaranteed volume of allowances to be auctioned)                               |
| <b>DE opt-out</b> | European Energy Exchange (EEX) | until at least 31 March 2013, and 31 December 2013 at the latest<br>Call for the definitive platform launched on 6 October 2012 and will end on 26 November |
| <b>UK opt-out</b> | ICE Futures Europe             | 3 + up to 2 years   |
| <b>PL opt-out</b> | unknown but not in 2012        | unknown   |

# Supervision of the auctions

- Auction Monitor
  - Responsible for reporting to Member States and the Commission on the functioning of all auction platforms
  - Appointed jointly by the Commission and the Member States – joint procurement
- Competent national authority for financial market of the Member State in which an auction platform is located (e.g. BaFIN, FSA)
  - Responsible for supervising the auction platform
- Relevant national authorities
  - Responsible for supervising the conduct of investment firms, credit institutions and other persons authorised to bid on behalf of others
    - including any necessary investigation and prosecution of fraud, money laundering or market abuse

## Auction design (1)

- Single-round, sealed-bid, uniform-price auctions
- Single window of the auction
  - Open for at least two hours
  - Bids may be submitted, modified and withdrawn during the bidding window
  - Only authorised bidders are entitled to place bids
  - Each bid will specify:
    - Bid volume
    - Price in Euro for each allowance
    - Identity of the client when bidding on behalf
- Lot size of 500 or 1000 allowances

## Auction design (2)

All successful bids are allocated at the auction *clearing price*:

- Bids are sorted in descending order of price
- Bid volumes are added starting with the highest bid
- *Clearing price* = the price at which the sum of volumes bid matches or exceeds the volume of allowances auctioned
- Tied bids are sorted through random selection according to an algorithm
- All bids with a price higher than the auction clearing price are successful
- Execution of bids depends on their ranking in the random selection

## Auction design (3)

- Auction reserve price:
  - the secret minimum clearing price of an auction, set on the basis of the market price for emission allowances before the auction
  - given the objective of a clear price signal for the carbon market, the AR requires the auction to be cancelled in case of such a low clearing price
- "All or nothing" system:
  - the volume is auctioned in its entirety; if not possible, then the auction is cancelled → the auctioned volume will be distributed evenly over the next auctions scheduled on the same auction platform

## Other issues

- Payment, delivery and management of collateral
  - Auctioning revenues go directly to Member States, less costs of the Auction Monitor
- Fees and costs
  - Cost of the platform to be paid in full from fees payable by bidders
- Collateral (guarantees & financial assurances):
  - Auctioneer: pre-depositing of the allowances
  - Bidder: decided by the clearing and settlement system
- Transparency and confidentiality
  - All information made available to the market, on non-discriminatory basis, timely manner (e.g. reports)
  - Ensuring the business secrecy and confidentiality
- Special language regime – mainly EN



# Thank you for your attention!

For more information see:

[http://ec.europa.eu/clima/policies/ets/auctioning/third/index\\_en.htm](http://ec.europa.eu/clima/policies/ets/auctioning/third/index_en.htm)

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