



Carbon market oversight

Identifying the right scope and substance

Directorate General for Climate Action

European Commission

Brussels, 4 May 2011



Identifying the right scope and substance

- Context of the work
- Issues to be addressed
- Identified objectives
- Questions



- Carbon trade strongly reliant on financial markets infrastructure
 - trade in financial instruments amounting to some 90% of total volume
 - security incidents led to even greater prominence of the financial segment
 - gradual shift from brokers to exchanges (brokers originated 33% of transacted volume in 2010 from 65% in 2007)
 - approx. 89% of OTC volumes are cleared on exchanges
 - less than 10% of the OTC trade is spot
- Market is maturing and growing in size
 - 20-fold increase from 2006 to 2010 only
- Supervision so far existent only in financial segment
 - but would be deficient/ineffective without complete coverage

Issues to be addressed (1)

- Starting premises of the exercise:
 - avoid regulatory intervention where rules already exist → focus on spot secondary trade where gaps have been detected
 - some issues better addressed separately (e.g. VAT, IT security)
- Proportionality is important but should not lead to lax rules which can be abused

Issues to be addressed (2)

- Gaps in transparency, investor protection for spot trade
 - No EU-wide ban on insider dealing and market manipulation for spot carbon trade
 - No harmonised rules on conduct of intermediaries towards their clients e.g.:
 - assurance of acting in the client's best interest
 - protection of client's assets
 - compensation in case of default
 - prohibitions of conflicting interests
 - Transactions not reported to authorities for supervisory purposes
 - Desirability of increased transparency of trading data

Issues to be addressed (3)

- Unlevel playing field for intermediaries:
 - Uneven status of intermediaries across the EU competing in spot segment (regulated for financial markets purposes, regulated at national level, and unregulated)
- Compartmented approach:
 - Transparency/conduct rules of one or several industry sectors cannot provide a solution for all carbon participants with different profiles and motivations to come to the market
- How does the EU ETS registry architecture fit with the ongoing regulatory work on post-trade infrastructure proposals (Central Securities Deposits, Securities Law Directive and European Market Infrastructure Regulation)?
 - Work will need to be done in that area to secure same standards of clearing and settlement for both spot and derivatives trade

1. Comprehensive and cross-border supervision of the carbon market with robust rules for detecting and sanctioning cases of market misconduct or abuse
2. High standards of market transparency and investor protection
3. A level playing field for intermediaries and trading venues active in the various parts of the carbon market (primary and secondary, spot and derivatives)
4. Consistency with the EU ETS Directive and the Auctioning Regulation, financial markets regulations and energy markets regulations
5. A regime where the costs to market participants are proportionate to the benefits of enhanced market integrity

- What objectives for carbon market oversight?
- Is carbon market sufficiently transparent?
- Does carbon market have adequate investor protection?
- Should other ETS compliance units be covered?
- Specific treatment for any class of participants necessary?