

#### Carbon market oversight 🛧

#### Identifying the right scope and substance

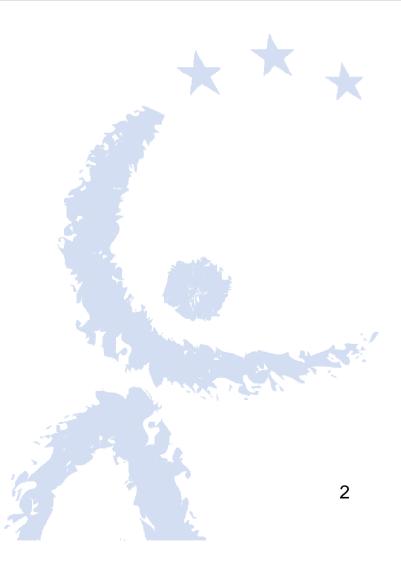
Directorate General for Climate Action European Commission

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# Identifying the right scope and substance

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



#### **Context of the work**

- 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

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- > 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;

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- ➤ 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

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- 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

#### . Climate Action Identified objectives

- 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

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#### Questions

- 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?