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European Commission
Public Consultation on
Auctioning third phase EU Allowances prior to 2013 ('early auctions')

Reply from NASDAQ OMX

The NASDAQ OMX Group, Inc. is the world's largest exchange company. The company offers trading across multiple asset classes including equities, derivatives, debt, commodities, structured products and exchange-traded funds.

NASDAQ OMX Commodities is the brand name for the NASDAQ OMX Group's worldwide suite of commodity related products and services. The NASDAQ OMX Commodities offerings include power, natural gas and carbon emission markets and clearing services. NASDAQ OMX Commodities has more than 390 members from 22 countries across a wide range of energy producers and consumers as well as financial institutions.

NASDAQ OMX Commodities Europe is the trade name of NASDAQ OMX Oslo ASA which is authorized as a commodity derivatives exchange. It is the world's largest power derivatives exchange and operates one of Europe's well established carbon market places. All trades with NASDAQ OMX Commodities Europe are subject to clearing with NASDAQ OMX Stockholm AB, which is authorized and supervised as a multi-asset clearinghouse.

NASDAQ OMX has a core interest in orderly, efficient and well functioning primary allocation of allowances via auctions in the Phase III of EU ETS in the light of their close interaction with secondary market we operate. Against this background we use the opportunity to express our views on the subject of early auction volumes.

NASDAQ OMX continues to question the idea of auctioning prior to 2013 for the benefit of supporting the integrity of secondary and derivatives markets. This is in line with our response to public consultation on EUA auctions in 2009. In case early auctions are given a green light anyway, as a temporary initiative to phase-in auctioning mechanism, we would suggest as small volumes as possible and the use of financial forwards as the auctioned product. Below we develop our views.

We do not see a need for 'early auctions'. Today, secondary spot and derivatives emissions markets arising from the EU ETS provide a continuously accessible source of liquidity and immediacy for hedging and directional trading activities for both compliance as well as financial participants. Moreover, European energy markets, which are of all covered sectors most subjected to auctioning, are recognized for making a good use of those markets for the purpose of risk management of their carbon prices. We observe that the derivatives emission markets have significantly matured since its inception and most of European emission trading is concentrated in those markets. Several trading venues have included in their offerings the emission products with delivery in the first years of Phase III. The increasing number of open trading positions in post-2012 emission derivatives may indicate participants' confidence in adequacy of exchange markets for long term risk hedging.

With reference to recommended auctioned product - forwards, we base our opinion on the experience from financial electricity market where this type of contracts is widely used for the purpose of long term hedging. The distinctive product feature preferred by market participants is non-cash margining to cover the risk of daily price fluctuations. Consequently, the fluctuations in daily margin calls may be covered by bank guarantee, cash deposits and other accepted securities (e.g. state obligations). We expect that this type of margining will also be preferred by Member States as auctioneers. Member States will then be able to provide a non-cash collateral security until the single EU ETS registry is ready for the issuance of allowances, rather than having to pay/receive cash on a daily basis. In any other aspects the contract does not differ from futures contracts traded on derivatives markets.

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