

EU Emissions Trading Scheme (ETS) – Consultation on design and organisation of emissions allowance auctions

This document is the questionnaire for this consultation. The survey contains **4** initial questions (A-D) to identify respondents, **86** questions for which responses will be made public and **4** questions that are classified confidential, must be sent directly to the European Commission and will not be made public. The questions that are classified potentially confidential are on two separate pages (2 questions on each page) and highlighted in green boxes.

Period of consultation

From 3 June 2009 to 3 August 2009 inclusive

How to submit your contribution

This consultation seeks to obtain feedback from all categories of stakeholders regarding the different aspects of auction design and implementation covered in the Consultation Paper.

We are sorry for the inconvenience, but the web-based survey is not available yet. If participants wish to complete the survey on this document and send their contributions back to contact_ets_auctions_consultation@icfi.com their responses can be accepted in this format. The web-based survey will be available as soon as possible if participants wish to wait till that is available.

Received contributions will be published on the Internet. It is important to read the specific privacy statement attached to this consultation for information on how your personal data and contribution will be dealt with.

Specific privacy statement

"Received contributions, together with the identity of the contributor, will be published on the Internet, unless the contributor objects to publication of his or her personal data on the grounds that such publication would harm his or her legitimate interests. In such cases the contribution may be published in an anonymous form. Otherwise, the contribution will not be published nor will, in principle, its content be taken into account. Responses for questions deemed confidential in the consultation will not be available for view on the website irrespective of contributor objecting or not. "

Instructions to filling out the questionnaire

- Questions may only be answered in designated response fields

- For certain multiple choice questions, simply click on box to indicate choice
- Answer [Y/N] questions by typing “y” / “Y” or “n” / “N” on underlined area (___)
- Some responses require explanations, additional comments and detailed answers. These will either be identified by underline (___) or an answer section (A: ___). The amount of text that can be entered here is unlimited.
- After completing the survey, please save and send to contact_ets_auctions_consultation@icfi.com
- If any questions seem unclear in context or for method of response, please mail contact_ets_auctions_consultation@icfi.com to clarify

Thank you

Section 1: Questions to categorize participants

Question A

Name of Company/Organization: Germany

Principal nature of activities: Member State

Number of employees in 2008:

World-wide NA

Europe-wide NA

Turnover in 2008:

World-wide NA

Europe-wide NA

Question B

Type of respondent:

Member State

Company operating one or more installations covered by the EU ETS

Electricity generators

Energy companies other than electricity generators

Industrial sectors

Aviation

Other. Please specify: _____

Approx Annual Emissions: _____ tCO₂

Intermediary

Financial institution

Trading arm of non-financial institution

- Other. Please specify _____*
- Trader on own account
 - Financial institution*
 - Trading arm of non-financial institution*
 - Other. Please specify _____*
- Regulated market
 - Carbon only
 - Carbon and electricity
 - Carbon and other energy products
- Other carbon market
 - Multilateral trading facility trading carbon derivatives
 - Carbon exchange trading spot carbon
 - Other. Please specify _____*
- Clearing house
- Central counterparty
- Other (multiple choices apply)
 - Non-governmental organisation
 - Trade association
 - Carbon analyst
 - Carbon publication
 - Academic
 - Other. Please specify _____*

Question C

Contact details will not be made public.

Question D

Questions relating to the "Specific privacy statement" above.

- Do you object to publication of your personal data because it would harm your legitimate interests? [Y/N] N

If so, please provide an explanation of the legitimate interests that you think will be harmed:

A:

- Are any of your responses confidential? [Y/N] N

If so, please indicate which ones and provide an explanation:

A:

Section 2: Survey questions (86) and potentially confidential questions (4)

Question 1

As a general rule throughout the trading period, in your opinion, are early auctions necessary? [Y/N] _

If so, what should the profile of EUA auctions be?

- 5-10% in year n-2, 10-20% in year n-1, remainder in year n
- 10-20% in year n-2, 20-30% in year n-1, remainder in year n
- 20-30% in year n-2, 30-35% in year n-1, remainder in year n
- Other? Please specify: This questions has to be evaluated further.

Question 2

Do you think there is a need to auction futures? [Y/N] Y

If so, why?

A: Futures allow for flexibility of companies and have a relevant market share, therefore a part of the overall amount should be auctioned as futures.

Question 3

What share of allowances should be auctioned spot and what share should be auctioned as futures for each year?

	SPOT	FUTURES
• year n	: <u>35%</u>	<u>65%</u>
• year n-1	: ___%	___%
• year n-2	: ___%	___%

Please provide evidence to support your case.

A: The numbers above are only a rough estimate of a possible distribution.

*NB: The answer to this question will be published as part of the public consultation.
Please do not submit confidential information as part of your answer to this question.*

Question 4

Should the common maturity date used in futures auctions be in December (so the maturity date would be December in year n, both when auctioning in year n-2 as when auctioning in year n-1)? [Y/N] Y

If not, please suggest alternative maturity dates and provide evidence to support your view.

A: As December contracts are broadly used in the secondary market they should also be used for auctioning.

This page contains two questions that will not be made public. These questions cannot be completed on this document

Request for potentially confidential information 1

Please send the answer to this question in paper and electronic format, marked on the envelope "Strictly Private and Confidential – Auctioning consultation", directly to the European Commission, DG ENV, Directorate C, Unit C2, to the attention of the Head of Unit, Office BU-5 2/1, 1049 Brussels, Belgium. It will be treated confidentially and will not be disclosed publicly.

For ETS operators: what share of your expected emissions covered by the EU ETS in a given year n do you hedge and how much in advance?

- year n : _____%
- year n-1 : _____%
- year n-2 : _____%
- earlier years (please specify) : _____%

Request for potentially confidential information 2

Please send the answer to this question in paper and electronic format, marked on the envelope "Strictly Private and Confidential – Auctioning consultation", directly to the European Commission, DG ENV, Directorate C, Unit C2, to the attention of the Head of Unit, Office BU-5 2/1, 1049 Brussels, Belgium. It will be treated confidentially and will not be disclosed publicly.

What share of the annual quantity of allowances you intend to purchase *via* auctions would you wish to buy spot or futures respectively?

- | | SPOT | FUTURES |
|------------|----------|---------|
| • year n | : _____% | _____% |
| • year n-1 | : _____% | _____% |
| • year n-2 | : _____% | _____% |

Please specify whether you are an:

- ETS operator; or

- Other participant.

Question 5

For spot auctions:

What should be the **optimum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: Auctions should be held frequently, e.g. daily.

What should be the **minimum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: _____

What should be the **maximum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: daily

Please provide arguments to support your case.

A: High frequency of auctions are market-friendly, as permanent and foreseeable liquidity does not lead to additional price volatility. Furthermore, frequent auctions prevent collusive behaviour.

Question 6

For spot auctions, what should be the:

- Optimum auction size? _____
- Minimum auction size? 500
- Maximum auction size? _____

If deemed appropriate, please indicate a range and/or distribution over different sizes.

Please provide arguments to support your case.

A: As SME might only need a small number of allowances, a minimum ticket size of 500 is deemed to be appropriate for spot auctioning. A maximum ticket size should not be determined upfront but could be considered in case of market abuse.

Question 7

For futures auctions:

What should be the **optimum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: Auctions should be held frequently, e.g. daily.

What should be the **minimum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: _____

What should be the **maximum** frequency of auctions?

- Weekly?
- Fortnightly?
- Monthly?
- Quarterly?
- Other? Please specify: daily.

Please provide arguments to support your case.

A: High frequency of auctions are market-friendly, as permanent and foreseeable liquidity does not lead to additional price volatility. Furthermore, frequent auctions prevent collusive behaviour.

Question 8

For futures auctions, what should be the:

- Optimum auction size? _____
- Minimum auction size? 1000
- Maximum auction size? _____

If deemed appropriate, please indicate a range and/or distribution over different sizes.

Please provide evidence to support your case.

A: For futures a minimum ticket size of 1000 is usual in the secondary market. A maximum ticket size should not be determined upfront but could be considered in case of market abuse.

Question 9

Should volumes of spot allowances be auctioned evenly throughout the year? [Y/N] Y

If not, how should volumes be distributed? (more than one answer possible) Please specify:

- A larger proportion in the first 4 months of the year?

- A larger proportion in December?
- A smaller proportion in July and August?
- Other? Please specify: _____

Question 10

In case futures are auctioned, should the volumes for spot and futures auctions be spread over the year in the same manner? [Y/N] _

If not, how should they differ? (more than one answer possible)

- No futures auctions less than six months before the maturity date.
- A larger proportion in December.
- A smaller proportion in July and August.
- Otherwise? Please specify how and comment: No futures auctions less than 2 months before the maturity date.

Question 11

Does the Regulation need to have provisions to avoid holding auctions during a short period of time before the surrendering date (30 April each year)? [Y/N] N

If yes, how long should this period be:

One week 2 weeks 3 weeks 1 month

In case futures are auctioned, should there be similar provisions with respect to the period immediately prior to the maturity date? [Y/N] N

If yes, how long should this period be:

One week 2 weeks 3 weeks 1 month

Question 12

Which dates should be avoided? (more than one answer possible)

- Public holidays common in most Member States? _____
- Days where important relevant economic data is released? _____
- Days where emissions data are released? _____
- Other? Please specify: _____

Please specify the dates you have in mind in your answers.

Question 13

Is a harmonised 10-12 hrs CET auction slot desirable? [Y/N] _

If not, what alternative(s) would you suggest?

A: The auction calendar and dates should be transparent and foreseeable. There is no need to determine a concrete time slot at this stage.

Question 14

How long in advance should each element of the calendar be determined?

Annual volumes to be auctioned:

- 1 year in advance
- 2 years in advance
- 3 years in advance
- more years in advance

Distribution of annual volumes over spot and futures (if applicable):

- 1 year in advance
- 2 years in advance
- 3 years in advance
- more years in advance

Dates of individual auctions:

- 1 year in advance
- 2 years in advance
- 3 years in advance
- more years in advance

Volume and product type for individual auctions:

- 1 year in advance
- 2 years in advance
- 3 years in advance
- more years in advance

Each auctioneer carrying out auction process (if more than one):

- 1 year in advance
- 2 years in advance
- 3 years in advance
- more years in advance

Please provide arguments to support your case.

A: Determination and information about exact dates and auctioneers could also be published at a later dates than 1 year in advance if well known mechanisms and infrastructure of the secondary market are used.

Question 15

What should be the volume of allowances to be auctioned in 2011 and 2012?

- in 2011: _____ % of the 2013 volume and _____ % of the 2014 volume
- in 2012: _____ % of the 2013 volume and _____ % of the 2014 volume

What percentage of these shares should be auctioned as futures?

- in 2011: _____ % of the 2013 share and _____ % of the 2014 share
- in 2012: _____ % of the 2013 share and _____ % of the 2014 share

Please provide evidence to support your case.

A: This question has to be evaluated further.

Question 16

What should be the rule with respect to allowances not auctioned due to *force majeure*?

- They should automatically be added to the next auction on the calendar, irrespective of the auction process.
- They should be auctioned within one month, though leaving flexibility as to which auction(s) the EUAs should be added.
- They should be auctioned within three months, though leaving flexibility as to which auction(s) the EUAs should be added.
- Other? Please specify: _____

Question 17

Is 1,000 allowances the most appropriate lot size? [Y/N] _

If not, why not?

A: See answers to Questions 6 and 8.

Question 18

Is a single-round sealed-bid auction the most appropriate auction format for auctioning EU allowances? [Y/N] Y

If not, please comment on your alternative proposal?

A:

Question 19

What is the most appropriate pricing rule for the auctioning of EU allowances?

- Uniform-pricing.
- Discriminatory-pricing.

Indifferent.

Please provide arguments to support your case.

A: Uniform pricing is commonly used in the secondary market. It is easy to understand and transparent.

Question 20

Should the rules for solving ties in the Regulation be:

- random selection; or
- pro-rata re-scaling of bids?

Please comment on your choice.

A: This questions needs further evaluation. A first come, first serve rule could also be considered.

Question 21

Should a reserve price apply?

A: This question needs further evaluation.

Question 22

In case a reserve price would apply, should the methodology/formula for calculating it be kept secret? [Y/N] _

Please comment on your choice.

A:

Question 23

Is a maximum bid-size per single entity desirable in a Uniform-price auction?

[Y/N] _

Is a maximum bid-size per single entity desirable in a discriminatory-price auction?

[Y/N] _

Please comment on your choice.

A: See answers to Questions 6 and 8.

Question 24

If so, what is the desirable bid-size limit (as a percentage of the volume of allowances auctioned per auction – only one choice is possible):

10%: 15%: 20%:

25%: 30%: More than 30%: Please specify: _____

Please comment on your choice.

A:

Question 25

In case only one of the two following options would be chosen, to limit the risk of market manipulation or collusion, which one would be preferable?

A discriminatory-price auction format?

A maximum bid-size per single entity?

Please comment on your choice.

A: We don't see the necessity for an either-or question regarding this issue. If a market-based approach is taken, existing mechanisms to prevent market manipulation can be used.

Question 26

Are the following pre-registration requirements appropriate and adequate?

Identity:

- Natural or legal person;
- Name, address, whether publicly listed, whether licensed and supervised under the AML rules; membership of a professional association; membership of a chamber of commerce; VAT and/or tax number;
- Contact details of authorised representatives and proof of authorisation; and
- CITL-Registry account details.
- Anything else? Please specify: Generally, usual secondary market registration requirements should also be used for auctioning.

Declarations with respect to the past 5 years on absence of:

- Indictment or conviction of serious crimes: check corporate officers, directors, principals, members or partners;
- Infringement of the rules of any regulated or unregulated market;
- Permits to conduct business being revoked or suspended;
- Infringement of procurement rules; and
- Infringement of disclosure of confidential information.
- Anything else? Please specify: Generally, usual secondary market registration requirements should also be used for auctioning.

Declarations and submission of documentation relating to:

- Proof of identity;
- Type of business;
- Participation in EU ETS or not;
- EU ETS registered installations, if any;
- Bank account contact details;
- Intended auctioning activity;
- Whether bidding on own account or on behalf of another beneficial owner;
- Corporate and business affiliations;
- Creditworthiness;
- Collateral; and
- Whether it carries out transactions subject to VAT or transactions exempted from VAT.
- Anything else? Please specify: Generally, usual secondary market registration requirements should also be used for auctioning.

Question 27

Do you agree that the pre-registration requirements for admittance to EU auctions should be harmonised throughout the EU?

Yes

No

Please comment on your choice.

A: Generally, usual secondary market registration requirements should also be used for auctioning. The Regulation should acknowledge the different pre-registration methods already existing in the secondary market; there is no need for harmonisation as long as registration requirements do not do lead to market barriers.

Question 28

Should the amount of information to be supplied in order to satisfy the pre-registration requirements for admittance to EU auctions depend on the:

means of establishing the trading relationship;

identity of bidder;

whether auctioning spot or futures;

size of bid;

means of payment and delivery;

anything else? Please specify: Generally, usual secondary market registration requirements should also be used for auctioning.

If so, what should the differences be?

A:

Question 29

Should the bidder pre-registration requirements under the Regulation apply in the same manner irrespective of whether or not the auctioneer is covered by the MiFID or AML rules? [Y/N] _

A: Generally, usual secondary market registration requirements should also be used for auctioning.

If not, why not?

A: Generally, usual secondary market registration requirements should also be used for auctioning.

Please provide arguments to support your case.

Question 30

Do you agree that the auctioneer(s) should be allowed to rely on pre-registration checks carried out by reliable third parties including: [Y/N] _

Other auctioneers?

Credit and/or financial institutions?

Other? Please specify: Generally, usual secondary market registration requirements should also be used for auctioning.

Please comment on your choice.

A:

Question 31

In order to facilitate bidder pre-registration in their home country, should the auctioneer(s) be allowed to provide for pre-registration by potential bidders in other (or all) Member States than the auctioneer's home country e.g. by outsourcing this to a reliable third party?

Yes

No

Please comment on your choice:

A: Generally, usual secondary market registration requirements should also be used for auctioning.

If so, should such entities be:

Covered by the AML rules?

Covered by MiFID?

Covered by both?

Other? Please specify: Generally, usual secondary market registration requirements should also be used for auctioning.

Please comment on your choice:

A:

Question 32

Should the Regulation prohibit the multiplicity of pre-registration checks in the case of Member States auctioning jointly?

Yes

No

Please comment on your choice.

A: Generally, usual secondary market registration requirements should also be used for auctioning.

Question 33

Do you agree that the *level* of collateral accepted in EUA auctions should be harmonised for all EU ETS auctions? [Y/N] N

If so, how should they be harmonised?

A:

If not, why not?

A: Generally, usual secondary market collateral requirements should also be used for auctioning.

Question 34

Do you agree that the *type* of collateral accepted in EUA auctions should be harmonised for all EU ETS auctions? [Y/N] N

If so, how should they be harmonised?

A:

If not, why not?

A: Generally, usual secondary market collateral requirements should also be used for auctioning.

Question 35

Do you agree that 100% collateral in electronic money transfer ought to be deposited up-front at a central counterparty or credit institution designated by the auctioneer to access spot auctions? [Y/N] N

If not, why not?

A: Generally, usual secondary market collateral requirements should also be used for auctioning.

What alternative(s) would you suggest? Please provide arguments to support your case:

A:

Question 36

In case futures are auctioned, should a clearing house be involved to mitigate credit and market risks? [Y/N] Y

If so, should specific rules – other than those currently used in exchange clearing houses – apply to:

- the level of the initial margin;
- the level of variation margin calls;
- the daily frequency of variation margin call payments?

If you have answered yes, please justify and elaborate on the rules that should apply and the mechanisms to implement them:

A: Current exchange systems and clearing houses are appropriate and adequate

Question 37

What are the most preferable payment and delivery procedures that should be implemented for auctioning EUAs?

- Payment before delivery.
- Delivery versus payment.
- Both.

Please comment on your choice.

A: Generally, usual secondary market payment and delivery procedures should also be used for auctioning.

Question 38

Irrespective of the payment procedure, should the Regulation fix a maximum delay of time for payment and delivery to take place? [Y/N] _

If yes; what should it be?

- 4 working days
- 5 working days
- 6 working days
- 7 working days

Other? Please specify: Generally, usual secondary market payment and delivery procedures should also be used for auctioning.

Question 39

Should the Regulation provide any specific provisions for the handling of payment and delivery incidents or failures? [Y/N] N

If yes, what should they be?

A:

Question 40

Should the Regulation provide for all matters that are central to the very creation, existence and termination or frustration of the transaction arising from the EUA auctions? [Y/N] N

If not, why not?

A: This would be duplication of exchange systems and procedures and would be inefficient

If so, are the matters enumerated below complete? [Y/N] _

- The designation of the parties' to the trade.
- The characteristics of the auctioned product:
 - Nature: EUAs or EUAAs, trading period concerned.
 - Date of delivery: date at which winning bidders will receive the allowances on their registry account.
 - Date of payment: date at which payment will be required from winning bidders.
 - Lot size: number of allowances associated with one unit of the auctioned good.
- Events of 'force majeure' and resulting consequences.
- Events of default by the auctioneer and/or the bidder and their consequences.
- Applicable remedies or penalties.
- The regime governing the judicial review of claims across the EU.

If not, what additional matters should be foreseen in the Regulation and why?

A:

Question 41

Should the Regulation provide for rules on jurisdiction and the mutual recognition and enforcement of judgments? [Y/N] N

If so, should these be:

- specific to the Regulation;
- by reference to the Brussels I Regulation;
- by citing exceptions from the Brussels I Regulation;
- by citing additions to the Brussels I Regulation?

Please comment on your choice:

A:

If not, why not?

A: Conflicts with the use of existing exchange infrastructure and the regulation of these

Question 42

Which auction model is preferable?

- Direct bidding?
- Indirect bidding?
- Both?

Please comment on your choice.

A: Generally, usual secondary market bidding procedures should also be used for auctioning.

Question 43

If an indirect model is used, what share of the total volume of EU allowances could be auctioned through indirect bidding? _____

Please provide arguments to support your case.

A:

Question 44

If the primary participants model is used, what provisions would be desirable for mitigating disadvantages of restricting direct access (more than one answer is possible):

Allow direct access to largest emitters, even if they trade only on their own account?

If so, who should have direct access and what thresholds should apply? _____

Disallow primary participants trading on their own account?

Impose strict separation of own-account trading from trading on behalf of indirect bidders?

Other? Please specify: _____

Question 45

If the primary participants' model is used, what conflict of interest requirements should be imposed? (more than one answer possible)

- Separation of client registration and trading on behalf of clients from all own account trading activities.
- Separation of collateral management, payment and delivery on behalf of clients from all own account trading activities.
- Separation of anything else, please specify: _____

Question 46

What obligations should apply to primary participants acting in EU-wide auctions as:

- Intermediaries? A:
- Market makers? A:

Please provide arguments to support your case.

Question 47

Under what conditions should auctioning through exchanges be allowed (more than one answer possible):

- Only for futures auctions open to established members of the exchange?
- Also for spot auctions open to established members of the exchange?
- Only when the exchange-based auction is open to non-established members on a non-discriminatory cost-effective basis?
- Other? Please specify: _____

Please provide arguments to support your case.

A:1. Most of the infrastructure for auctioning already exists. The Carbon Market has evolved and is maturing further – most of this infrastructure is also suitable for auctioning allowances. Therefore, we should make use of existing institutions as far as possible instead of creating a new/parallel infrastructure. This is cost efficient and leads to a consistent regulatory framework. Before creating any additional structures we should consider whether they are really needed and how far existing structures could be modified. Moreover, customer checks are already carried out by market institutions (e.g. exchanges, intermediaries). Extra and additional checks only produce costs without leading to additional safety.

2. Professional service providers (also for SME) are already available. There are highly professional intermediaries active in the carbon market – as well as in the financial and other markets. In the coming years they will develop more differentiated and adequate services for the demand side. Costs for these services will be reduced by competition. Concerning access of SME and small emitters we do not agree that special rules would be necessary. Buyers of small amounts might prefer to buy via a professional service provider (bank or other financial institution, broker or consultant) –as this is common standard for example in financial services. The experience with the sale of EUA in Germany indicates that the system of intermediate bids serves its purpose, and there is a tendency of small compliance buyers to use the intermediate way. Summarising, the cost-benefit analysis might not support the need for implementing special rules, such as for instance non-competitive bids, to ensure cost-efficient direct access for small bidders.

Question 48

Should direct auctions be allowed through:

- 1) Third party service providers? [Y/N] Y
- 2) Public authorities? [Y/N] _

Please comment on your selection:

A: Already existing market infrastructure (exchanges) should be used.

Question 49

Do the general rules for auctioning EUAs suffice for ensuring full, fair and equitable access to allowances to SMEs covered by the EU ETS and small emitters? [Y/N] Y

If not, why not?

A:

Question 50

Is allowing non-competitive bids necessary for ensuring access to allowances to SMEs covered by the EU ETS and small emitters in case of:

- discriminatory-price auctions? A:
- uniform-price auctions? A: N

Question 51

If non-competitive bids are provided for in spot auctions, what maximum share of allowances could be allocated through this route?

- 5%
- 10%
- Other? Please specify: _____

Please comment on your choice.

A:

Question 52

What rule should apply for accessing non-competitive bids (more than one answer possible):

- Participants should only be allowed to use one of the two bidding routes?
- Non-competitive bids should be restricted to SMEs covered by the EU ETS and small emitters only?
- Other? Please specify: _____

Please comment on your choice.

A:

Question 53

What should be the maximum bid-size allowed for SMEs covered by the EU ETS and small emitters submitting non-competitive bids?

- 5 000 EUAs
- 10 000 EUAs
- 25 000 EUAs
- Over 25 000 EUAs, please specify exact size and give reasons for your answer: _____

Question 54

Are there any other specific measures not mentioned in this consultation that may be necessary for ensuring full, fair and equitable access to allowances for SMEs covered by the EU ETS and small emitters? [Y/N] N

If so, please specify:

A:

Question 55

What should be the minimum period of time before the auction date for the release of the notice to auction?

2 weeks 1 month 2 months

Other Please specify: _____

Please comment on your proposal.

A: Generally, usual secondary market transparency and information procedures should also be used for auctioning.

Question 56

What should be the minimum period of time before the auction date for the submission of the intention to bid?

1 week 2 weeks 1 month

Other Please specify: _____

Please comment on your proposal.

A: Generally, usual secondary market transparency and information procedures should also be used for auctioning.

Question 57

Are there any specific provisions that need to be highlighted in:

- The notice to auction?
- The intention to bid?
- Both?

Please specify what they are.

A:

Question 58

What information should be disclosed after the auction:

- Clearing price (if allowances are awarded on a uniform-price basis or in the case of non-competitive bids being allowed)?
- Average price (if allowances are awarded on a discriminatory-price basis)?
- Any relevant information to solve tied bids?
- Total volume of EUAs auctioned?
- Total volume of bids submitted distinguishing between competitive and non-competitive bids (if applicable)?
- Total volume of allowances allocated?
- Anything else? Please specify: _____

Question 59

What should be the maximum delay for the announcement of auction results?

- 5 minutes 15 minutes 30 minutes
1 hour

Other Please specify:

Please comment on your proposal.

A: Generally, usual secondary market transparency and information procedures should also be used for auctioning.

Question 60

Do you feel that any specific additional provisions should be adopted in the Regulation for the granting of fair and equal access to auction information? [Y/N] Y

If so, what may they be? Access to auction information should be free of discrimination and continuous.

Question 61

Should an auction monitor be appointed centrally to monitor all EU auctions?

[Y/N] N

If not, why not?

A: Generally, usual secondary market transparency and monitoring procedures should also be used for auctioning. Monitoring should be carried out on that basis by the member state responsible for the auction.

Question 62

Do you agree that the Regulation should contain general principles on [mark those that you agree with,]:

- the designation and mandate of the auction monitor; and
- cooperation between the auctioneer(s) and the auction monitor?

If not, why not?

A: Generally, usual secondary market transparency and monitoring procedures should also be used for auctioning. Monitoring should be carried out on that basis by the member state responsible for the auction.

Should these be supplemented by operational guidance, possibly through Commission guidelines? [Y/N] N

If not, why not?

A: Generally, usual secondary market transparency and monitoring procedures should also be used for auctioning.

Question 63

Is there a need for harmonised market abuse provisions in the Regulation to prevent insider dealing and market manipulation? [Y/N] N

If not, why not?

A: Gaps in regulation have to be addressed for the whole market. Many of the issues identified in the consultation paper as to be regulated in the auctioning regulation (e.g. money laundering, market manipulation, etc.) are not specific for the auctioning process but for the secondary market as well (and maybe even more relevant there). If there are any regulatory gaps in the secondary market (e.g. concerning spot certificates), they cannot be healed by addressing these issues in the auctioning regulation. Also, addressing the issue selectively only in the auctioning regulation will not overcome the risk of manipulation, since manipulative behaviour could very easily focus on the secondary market instead of the auctioning process. In any case, auctioning prices would be affected.

Market manipulation/market abuse can occur in all markets. The problem of market manipulation is a wider one – if manipulation takes place on a large scale, this also concerns other markets (e.g. energy, electricity) – and adequate measures for monitoring and prevention have to cover these related markets as well. As the Commission is currently revising the rules for the electricity and gas markets, maybe carbon markets could be integrated into that revision in order to create a uniform and comprehensive regime for the future. Furthermore, creating new or additional regulation for auctioning leads to inconsistent legal rules which would create new gaps and incomplete oversight responsibilities.

Please comment on your choice outlining the provisions you deem necessary and stating the reasons why.

A:

Question 64

Should the Regulation provide for harmonised enforcement measures to sanction [mark those that you agree with,]:

- Non-compliance with its provisions?
- Market abuse?

Please provide arguments to support your case.

A: see answer to question 63. Generally, usual secondary market enforcement measures should also be used for auctioning.

Question 65

Should the enforcement measures include [mark those that you agree with,]:

- The suspension of the auctioneer(s) and/or bidders from the EU-wide auctions?
If so, for how long should such suspension last? _____
- Financial penalties?
If so, at what level should such penalties be fixed? _____
- The power to address binding interim decisions to the auctioneer(s) and/or bidders to avert any urgent, imminent threat of breach of the Regulation with likely irreversible adverse consequences?
- Anything else? Please specify: _____

Please provide arguments to support your case.

A: Generally, usual secondary market enforcement measures should also be used for auctioning. At most exchanges there is a code of conduct including sanctions like suspension from dealing at the exchange.

Question 66

Should such enforcement measures apply at:

- EU level?
- National level?
- Both?

Please comment on your choice.

A: Generally, usual secondary market enforcement measures should also be used for auctioning. Enforcement measures at existing exchanges usually apply exchange level.

Question 67

Who should enforce compliance with the Regulation (more than one answer is possible):

- The auction monitor?
- The auctioneer?
- A competent authority at EU level?
- A competent authority at national level?
- Other? Please specify: The contracted exchange for auctioning.

Please provide evidence to support your case.

A: Generally, the first responsibility for enforcement is with the contracted auction platform and the auctioneer. The secondary market institutions are supervised by the competent authority at the national level; this should also be the case for auctioning.

Question 68

Which of the three approaches for an overall EU auction model do you prefer? Please rate the options below (1 being the most preferable, 3 being the least preferable)

- _ Limited number of coordinated auction processes.
- _ Full centralisation based on a single EU-wide auction process.
- _ The hybrid approach where different auction processes are cleared through a centralised system.

Please give arguments to support your case.

A: For reasons of subsidiarity, Germany does not support a European-wide single auctioning body. We believe that it is for each Member State to decide on the body which is to be charged with running the auction and how the costs of the auction are covered. Auctioning should be based on EU-wide harmonised principles in order to avoid market distortion among member states and avoid unnecessary costs. Existing carbon exchanges are well-suited to staging auctions. Different Member States should be allowed to share an auctioning body.

German proposal:

1. Auctioning should build on existing infrastructures, coordination is necessary, but only for certain issues; joint approaches of MS should be allowed.
2. Details for Phase II: Germany will in 2010 introduce auctioning of allowances as an own product at an existing carbon exchange (to be selected by open tender). This allows full use to be made of the existing infrastructure for oversight, monitoring, clearing, auction platform, customer checks, collaterals, code of conduct and sanctions. If necessary, additional requirements (e.g. on reporting) will be included in the contract with the exchange. This concept of using existing infrastructure instead of inventing a new framework generally also holds for Phase III.

The risk of a fragmentation of the EU may be avoided. First of all, it is not realistic that there will be auctioning at 27 different platforms. The new regulation will make sure that MS will work together, for instance, by contracting the same exchange. The regulation should fix the framework for joint auctions at already existing secondary market institutions. More centralisation does not seem to be necessary, as the secondary market currently also copes with more than one platform. Existing professional intermediaries, routines and information channels will provide for a uniform price (between different auctions as well as between auctions and secondary market). Since auctions are only one click away from the secondary market, any abuse or manipulation can be best prevented by high participation, high frequency, the control by supervisory authorities and other control mechanisms already existing for secondary market institutions.

3. Generally, emissions trading is built on the concept of efficiency and market approach. This should also apply for the choice of instruments for the future EU auctioning procedures. Using existing platforms, procedures, supervisory structures and

existing EU instruments, deserves consideration before creating supplementary platforms.

Question 69

If a limited number of coordinated auction processes develops, what should be the maximum number?

- 2
- 3
- 5
- 7
- more than 7, please specify: _____

Please give arguments to support your case.

A: The answer to this question depends on the approach chosen. A market-based approach would allow to use the already existing variety in the secondary market. There is no need to limit auction processes.

Question 70

Is there a need for a transitional phase in order to develop gradually the optimal auction infrastructure? [Y/N] _

If so, what kind of transitional arrangements would you recommend? _____

Question 71

Should the Regulation impose the following requirements for the auctioneer(s) and auction processes? [mark those that apply,]:

Technical capabilities of auctioneers:

- capacity and experience to conduct auctions (or a specific part of the auction process) in an open, fair, transparent, cost-effective and non-discriminatory manner;
- appropriate investment in keeping the system up-to-date and in line with ongoing market and technological developments; and
- relevant professional licences, high ethical and quality control standards, compliance with financial and market integrity rules.

Integrity:

- guarantee confidentiality of bids, ability to manage market sensitive information in an appropriate manner;
- duly protected electronic systems and appropriate security procedures with regards to identification and data transmission;
- appropriate rules on avoiding and monitoring conflicts of interest; and
- full cooperation with the auction monitor.

Reliability:

- robust organisation and IT systems;
- adequate fallback measures in case of unexpected events;
- minimisation of the risk of cancelling an individual auction once announced;
- minimisation of the risk of failing functionalities (e.g. access to the bidding platform for certain potential bidders); and
- fallback system in case of IT problems on the bidder side.

Accessibility and user friendliness:

- fair, concise, comprehensible and easily accessible information on how to participate in auctions;
- short and simple pre-registration forms;
- clear and simple electronic tools;
- (option of) accessibility of platforms through a dedicated internet interface;
- ability of the auction platform to connect to and communicate with proprietary trading systems used by bidders;
- adequate and regular training (including mock auctions);
- detailed user guidance on how to participate in the auction; and
- ability to test identification and access to the auction.

Please elaborate if any of these requirements need not be included.

A: In a market-based approach, existing exchanges could compete to carry out the auctions. Competition and an EU-wide selection process will ensure that the most experienced and cost-efficient exchanges would be contracted by Member States. Joint contracts of Member States would also allow for efficient auctioning of small amounts.

Please elaborate what additional requirements would be desirable.

A:

Question 72

What provisions on administrative fees should the Regulation include (more than one answer is possible)?

- General principles on proportionality, fairness and non-discrimination.
- Rules on fee structure.
- Rules on the amount of admissible fees.
- Other? Please specify: _____

Please provide arguments to support your case.

A: Generally, usual secondary market fee structures should also be used for auctioning.

Question 73

Should there be provisions for public disclosure of material steps when introducing new (or adapted) auction processes?

A: Not relevant in a market-based approach.

Should new (or adapted) auction process be notified to and authorised by the Commission before inclusion in the auction calendar?

A: Not relevant in a market-based approach.

Question 74

Which one of the following options is the most appropriate in case a Member State does not hold auctions (on time)?

- Auctions by an auctioneer authorised by the Commission.
- Automatic addition of the delayed quantities to those foreseen for the next two or three auctions.

What other option would you envisage? Please specify:

A: This question needs further consideration. Possible fall back approaches depend on the general approach chosen. In a market-based approach it would be easily possible to carry out an additional auction in case of delays.

Question 75

Should a sanction apply to a Member State that does not auction allowances in line with its commitments? [Y/N] _

If so, what form should that sanction take?

A:

Question 76

As a general rule throughout the trading period, in your opinion, are early auctions necessary? [Y/N] _

If so, what should the profile of EUAA auctions be:

- 5-10% in year n-2, 10-20% in year n-1, remainder in year n
- 10-20% in year n-2, 20-30% in year n-1, remainder in year n
- 20-30% in year n-2, 30-35% in year n-1, remainder in year n
- Other? Please specify: This questions has to be evaluated further.

Question 77

Do you think there is a need to auction EUAA futures? [Y/N] Y

If so, why?

A: Futures allow for flexibility of companies and have a relevant market share, therefore a part of the overall amount should be auctioned as futures.

This page contains two questions that will not be made public. These questions cannot be completed on this document

Request for potentially confidential information 3

Please send the answer to this question in paper and electronic format, marked on the envelope "Strictly Private and Confidential – Auctioning consultation", directly to the European Commission, DG ENV, Directorate C, Unit C2, to the attention of the Head of Unit, Office BU-5 2/1, 1049 Brussels, Belgium. It will be treated confidentially and will not be disclosed publicly.

For aircraft operators covered by the EU ETS:

Have you determined a corporate hedging strategy for carbon needs?

Yes [] No []

If so, what share of your expected emissions covered by the EU ETS in a given year n do you (intend to) hedge and how much in advance?

- year n : _____%
- year n-1 : _____%
- year n-2 : _____%

Request for potentially confidential information 4

Please send the answer to this question in paper and electronic format, marked on the envelope "Strictly Private and Confidential – Auctioning consultation", directly to the European Commission, DG ENV, Directorate C, Unit C2, to the attention of the Head of Unit, Office BU-5 2/1, 1049 Brussels, Belgium. It will be treated confidentially and will not be disclosed publicly.

What share of the annual quantity of allowances you intend to purchase *via* auctions would you wish to buy spot or futures respectively?

- | | | SPOT | FUTURES |
|---|----------|----------|---------|
| • | year n | : _____% | _____% |
| • | year n-1 | : _____% | _____% |
| • | year n-2 | : _____% | _____% |

Question 78

What should be the optimal frequency and size of EUAA auctions:

- 2 auctions per year of around 15 million EUAAs?
- 3 auctions per year of around 10 million EUAAs?
- More than 3 auctions per year? Please specify: at least monthly or even more frequently.

Please comment on your choice.

A: High frequency of auctions are market-friendly, as permanent and foreseeable liquidity does not lead to additional price volatility. Furthermore, frequent auctions prevent collusive behaviour.

Question 79

What would be your preferred timing for EUAA auctions:

- Equally spread throughout the year?
- November – March?
- Other? Please specify: _____

Question 80

Should any of the EUAA auction design elements be different compared to EUA auctions (see section 3)? [Y/N] N

If so, please specify and comment on your choice.

A:

Question 81

Do you agree there is no need for a maximum bid-size? [Y/N] Y

If not, why not?

A:

Question 82

Is there any information regarding aircraft operators made available as part of the regulatory process to the competent authorities that could facilitate the KYC checks performed by the auctioneer(s)? [Y/N] N

If so, please describe what information is concerned and whether it should be referred to in the Regulation or any operational guidance published by the Commission.

A:

Question 83

In your opinion, is there a specific need to allow for non-competitive bids in EUAA auctions?

A:No, see answer to Questions 47 - 53

Would this be the case even when applying a uniform clearing price format?

A:No

Please provide arguments to support your case.

Question 84

Do you agree that there is no need for any specific provisions for EUAA auctions as regards [mark those that you agree with,]:

- Involvement of primary participants, exchanges or third party service providers?
- Guarantees and financial assurance?
- Payment and delivery?
- Information disclosure?
- Auction monitoring?
- Preventing anti-competitive behaviour and/or market manipulation?
- Enforcement?

If not, please describe in detail what rules would be needed and why.

A:

Question 85

Taking into account the smaller volume of EUAA allowances to be auctioned compared to EUAs, which of the three approaches for an overall EUAA auctioning model do you prefer? Please rate the options below (1 being the most preferable, 3 being the least preferable)

- Limited number of coordinated auction processes.
- Full centralisation based on a single EU-wide auction process.
- Hybrid approach where different auction processes are cleared through a centralised system.

Does your choice differ from the approach preferred for EUAs? [Y/N]

Please provide arguments to support your case.

A: See answer to Question 68.

Question 86

Do you agree that there is no need for any specific provisions for EUAA auctions as regards. [mark those that you agree with,]:

- Requirements for the auctioneer(s) and auction processes?
- Administrative fees?
- Rules to ensure appropriate and timely preparation of the auctions?

If not, please describe in detail what rules would be needed and why.

A: