

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

Italian Government

Section 1: Questions to categorize participants

Question A

Name of Company/Organization: **Republic of Italy**
Presidenza del Consiglio dei Ministri
Department for European Affairs
Secretariat of the Ministerial Committee
for European Affairs (CIACE).

Principal nature of activities: Central Government

Number of employees in 2008:

World-wide _____ Europe-wide _____

Turnover in 2008:

World-wide _____ Europe-wide _____

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] Y

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:

The idea is to maximize early presence of EUAs on the market, also in order to give clear market signals.

Question 2

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

It depends on the kind of approach used: centralised or coordinated. In a centralised approach the futures market is conceivable, while in a coordinated approach it would not be advisable.

Explanation:

In general terms, the coexistence of futures and spot markets would make it easier for polluting firms to make investment decisions in renewables and less polluting technologies. Furthermore, the presence of a futures market would make less burdensome the financial commitment of firms.

On the other hand, the introduction of a futures market implies more complexities to be managed by the auctioneer, and furthermore it must be considered that the principal aim of the auctioning system is to allocate quotas, rather than to provide financial services – futures and other derivatives can be provided by intermediaries and traders on the secondary market.

For all these reasons, Italy believes that the relative size of the two markets (spot and futures) is related to the degree of centralisation of the system. A fully centralised/hybrid system would be compatible with a futures market, while a coordinated system would not.

In any case, it is necessary that the rules on spot and futures market are harmonised.

Question 3

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

In a centralized approach:

	SPOT	FUTURES
year n :	50%	50%
year n-1 :	50%	50%
year n-2 :	50%	50%

Please provide evidence to support your case.

A: These percentages should strike a reasonable trade-off between the benefits of both spot and future markets. See answer to question 2 for more details.

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]

Yes, provided that a futures market exists (see question 2)

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

A:

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:

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

Weekly?

Fortnightly?

Monthly?

Quarterly?

Other? Please specify:

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

Weekly if the system is centralised

Fortnightly if the system is coordinated

Monthly?

Quarterly?

Other? Please specify:

Please provide arguments to support your case.

A: If the frequency is too high, it would raise participation costs, especially those of large operators. This could also imply that market prices might be influenced by external events and incorporate too much "noise". Furthermore, the optimal maximum frequency would also depend on the system (centralised or coordinated).

Question 6

For spot auctions, what should be the:

- Optimum auction size? $1/12^{\text{th}}$ of the total number of allowances.
- Minimum auction size?
- Maximum auction size?

If deemed appropriate, please indicate a range and/or distribution over different sizes. Please provide arguments to support your case.

Italy is in favour of an uniform distribution of allowances across the calendar. This would allow better predictability and planning by operators.

Question 7

For futures auctions: (see also answer to questions 2, 3, 5)

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

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

What should be the minimum frequency of auctions?

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

What should be the maximum frequency of auctions?

- Weekly if the system is centralised
- Fortnightly if the system is coordinated
- Monthly?
- Quarterly?

Other? Please specify: Please provide arguments to support your case.

Question 8

For futures auctions, what should be the:

Optimum auction size?

Minimum auction size?

Maximum auction size?

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

Please provide evidence to support your case.

See answers to questions 2, 3, 6.

Question 9

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

Yes (see question 6)

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] Yes

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:

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] Y

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] Yes

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:

Question 13

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

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

A:

Question 14

How long in advance should each element of the calendar be determined? (See also the comment to this question)

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

A: To fulfil the need of providing predictability to firms and to the system as a whole, the calendar should be fixed as much as possible in advance, to avoid uncertainty and volatility in the market, which would result in negative impacts on the efficiency of the EU ETS. For these reasons, Italy proposes that a reference calendar is established for the whole period 2013-2020, to be validated every two years.

Question 15

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

in 2011: 20-30% of the 2013 volume and 0 % of the 2014 volume

in 2012: 30-35% of the 2013 volume and 20-30% of the 2014 volume

What percentage of these shares should be auctioned as futures? 50%

Please provide evidence to support your case. (see questions 1, 2, 3, 5)

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: evenly spread over the next auctions and within the year

Question 17

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

If not, why not?

500 allowances would be more appropriate to guarantee access to SMEs. If non competitive auctions should exist, they should have no minimal lot size. In any case, the lot size has to be uniform across the EU.

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: The uniform-price mechanism presents clear advantages such as:

- it provides a unique market price that would become a clear reference price for the secondary market

- it is simple and transparent

- under some circumstances, it is less manipulable by "big players"

- it is also used in the electricity market

Question 20

Should the rules for solving ties in the Regulation be:

? random selection; or

? pro-rata re-scaling of bids?

A: pro rata is generally recognised to be a pro-collusive tie-breaking rule mechanism. This means that the auctioneer would become the one enforcing a "split-the-market" collusive strategy.

Question 21

Should a reserve price apply?

YES. A reserve price guarantees a minimum revenue to the seller and is generally recognised as an anti-collusive device. Ideally, if the risk of collusion or coordinated strategy among players is high the reserve price should be kept secret. The reserve price should be determined by means of dynamic mechanism.

Question 22

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

Please comment on your choice.

A: Both the mechanism and the reserve price should be kept secret: if the reserve price is publicly announced, it doesn't make much difference whether or not the formula is kept secret.

Question 23

Is a maximum bid-size per single entity desirable in a Uniform-price auction? [Y/N] Yes

Is a maximum bid-size per single entity desirable in a discriminatory-price auction? [Y/N] Italy is against this system.

Please comment on your choice.

A: A maximum bid-size would limit big players' ability to manipulate market price formation. In any case, it is necessary to establish and enforce an adequate system able to punish collusive or manipulative strategies.

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% X**

Please specify: between 30 and 60%, the desirable bid size will depend on the degree of centralisation of the system.

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.

Question 26

Are the following pre-registration requirements appropriate and adequate?

Identity:

X ? 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:

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

X Indictment or conviction of serious crimes: check corporate officers, directors, principals, members or partners;

Infringement of the rules of any regulated or unregulated market;

X Permits to conduct business being revoked or suspended

Infringement of procurement rules; and

Infringement of disclosure of confidential information. Anything else? Please specify:

Declarations and submission of documentation relating to:

X Proof of identity;

X Type of business;

Participation in EU ETS or not;

EU ETS registered installations, if any;

X Bank account contact details;

Intended auctioning activity;

X Whether bidding on own account or on behalf of another beneficial owner;

Corporate and business affiliations;

Creditworthiness;

Collateral;

Whether it carries out transactions subject to VAT or transactions exempted from

VAT.

Anything else? Please specify:

Pre-registration requirements should be harmonised (see 27)

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: uniform admission criteria across Member States would help not to have discrimination among the same bidders in different markets and would avoid regulatory arbitrage.

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: If so, what should the differences be?

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] Y

A:

If not, why not?

A:

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] Y

Other auctioneers?

Credit and/or financial institutions?

? Other? Please specify: 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:

If so, should such entities be:

Covered by the AML rules? Covered by MiFID? Covered by both? Other? Please specify:

Please comment on your choice:

Question 32

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

X Yes

No

Please comment on your choice.

In the case of Member States auctioning jointly, we believe that the Regulation should prohibit the multiplicity of pre-registration checks as we consider this unjustified.

Question 33

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

If so, how should they be harmonised?

A: The level and the type of collateral accepted in EUA auctions should be commensurate to the risks associated with the counterparty and the type of trade. In addition to that, we believe that such rules should be harmonised at European level to ensure comparable access standards. A minimum level of required collateral should be established at the European level.

If not, why not?

Question 34

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

If so, how should they be harmonised?

See question 33

Question 35

Do you agree that 100% collateral in electronic money transfer ought to be deposited upfront at a central counterparty or credit institution designated by the auctioneer to access spot auctions?

[Y/N] Y

If not, why not?

A:

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:

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: It ensures a high degree of bidders' commitment on the seriousness of their bid. It is the most binding contractual form.

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] Y

If yes; what should it be?

4 working days

5 working days

6 working days

7 working days Other? Please specify:

Question 39

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

Specific provisions for the handling of payment and delivery incidents or failures should be the same for all MS.

If yes, what should they be?

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] Y

If not, why not?

A:

If so, are the matters enumerated below complete? [Y/N] 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: All possible ex-post information about auction outcome that could be disclosed in order to harmonise rules among MS (e.g., winning bidder(s)' identity and awarded quantity; auction clearing price); rules on the functioning of future market and the clearing house.

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:

Question 42

Which auction model is preferable?

Direct bidding?

Indirect bidding?

Both

Please comment on your choice.

A: Big players will have an interest in bidding directly, while probably small players will rely mainly on financial institutions.

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.

Using an indirect model does not imply for Italy the exclusion of a direct model (see 42): the systems can coexist. For this reason, Italy does not support the allocation of a particular share of allowances to one model. Furthermore, all limits that apply to operators (see question 23) need to apply to intermediaries in the same way.

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:
Italy doesn't have a preference because it does not support the primary participants model.

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:

See 44.

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.

See 44

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:

For Italy the existence of an exchanges system needs to respect a number of conditions:

- Harmonisation, meaning that, if no centralised platform exists, the rules for exchanges are harmonised and every national platform has an exchange.
- Freedom of access, meaning that there cannot be barriers, in the forms of:
 - Excessive regulation
 - Excessive costs
- Special provisions must be in place to protect SMEs

Please provide arguments to support your case.

Question 48

Should direct auctions be allowed through:

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

Please comment on your selection:

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:

Italy is exploring the mechanisms to ensure an adequate and easy participation of SMEs to the system.

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: see question 50; in any case the share depends on the weight of SMEs in each country's economy.

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.

See question 50

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:

See question 50

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]

If so, please specify:

A: See question 50

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: 2 years

Please comment on your proposal.

(see question 14)

To fulfil the need of providing predictability to firms and to the system as a whole, the calendar should be fixed as much as possible in advance, to avoid uncertainty and volatility in the market, which would result in negative impacts on the efficiency of the EU ETS. For these reasons, Italy proposes that a reference calendar is established for the whole period 2013-2020, to be validated every two years.

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:

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: identity of winning bidders and quantity of allowances obtained

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: as soon as possible, taking into consideration eventual technical lead times of auctioneer, indicating homogeneity and specifying the delay depends on technical factors.

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]

If so, what may they be?

Question 61

Should an auction monitor be appointed centrally to monitor all EU auctions?[Y/N] Y

If not, why not?

A:

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:

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

If not, why not?

We agree on the need of operational guidelines but they need to be defined through a coordinated process between the Commission and the Member States. They need to be defined ex ante and not subject to continuous revisions, and respect the proportionality principle.

Question 63

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

Italy agrees there is a need, but underlines that such provisions need not be limited to the auction phase, but also be extended to the secondary carbon market.

If not, why not?

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:

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? it should be linked to the gain obtained from the market abuse in order to constitute a disincentive for firms

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:

Question 66

Should such enforcement measures apply at:

? EU level?

? National level?

? Both?

Please comment on your choice.

A:

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: Please provide evidence to support your case.

A:

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.

Auctioning should be based on EU-wide harmonised principles. This is the reason why a fully centralised system or an hybrid system would seem the most efficient, avoiding differences among MSs and guaranteeing the same price for a homogenous good.

However, they may not be feasible since there already exist developed national markets and some Countries have already expressed the clear intention to develop national platforms.

Therefore, in the absence of a general consensus for a centralised system, Italy intends to develop its own national platform in the context of a limited number of coordinated 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 maximum number of platforms will depend on market conditions, and on the number of MSs that will want to develop their platform.

Question 70

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

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:

A:

Please elaborate what additional requirements would be desirable.

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: All provisions must take into specific account the needs of SMEs.

Question 73

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

A:

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

A:

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:

Question 75

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

If so, what form should that sanction take?

A:

Note on auctioning EUAA:

in general terms, Italy maintains that the same rules should apply to ETS and ETS-Aviation as far as auctioning is concerned. However, Italy is still examining the questions related to Aviation, and therefore does not answer to the following questions.

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-2, remainder in year n
- Other? Please specify: _____

Question 77

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

If so, why?

A:

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: _____

Please comment on your choice.

A:

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] _

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] _

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] _

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:

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

A:

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:

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: