

ECCP stakeholder meeting on ETS registry security and stolen allowances

Date: 15 March 2011

Location: Albert Borschette Conference Centre (Brussels), Room 2A

Important note: The subject of this stakeholder meeting is forward-looking measures in the context of the forthcoming amendment of the ETS Registries Regulation. Specific cases and ongoing law enforcement cases are not the focus of the meeting.

Introduction [10:00 to 10:15]

As a result of recent cyber attacks a number of IT and other security measures have been elaborated and put in place in national ETS registries. Security standards in the single ETS registry must be set correspondingly high. An overview will be provided of these measures.

Presentation by the Commission

Reactions by Eurelectric, BusinessEurope, IETA [10:15-10:30]

Delivery delay mechanism in ETS registries [10:30 to 11:45]

Current registry rules allow for the almost immediate transfer of allowances between registry accounts. This is an important feature to facilitate the spot market in carbon allowances, while not all exchanges offering spot trading require this feature.

The Commission contemplates to introduce in the forthcoming amendment of the Registries Regulation a delivery delay mechanism applicable in the single registry in the sense that transfers of allowances between registry accounts are not executed immediately but after a certain time delay has expired. This would increase the likelihood that fraudulent transfers of allowances can be stopped before execution and even in case of a fraudulent transfer the allowance can not be delivered further to a third party as rapidly as under current circumstances.

The Commission wishes to consult stakeholders on the following issues:

- Do you support the introduction of such a delivery delay mechanism?
- What is the appropriate delay that should be considered?

Introduction by the Commission

Lead discussant: tbd

Panelists: tbd

Coffee break [11:45 to 12:00]

Differentiation of account categories in ETS registries [12:00 to 13:15]

Current registry rules foresee the same architecture for all operator and personal holding accounts. This facilitates taking possession of carbon allowances for all persons, whether they

intend to take active part in the carbon market or acquire allowances for other purposes (e.g. retirement for the benefit of the global atmosphere).

The Commission contemplates to introduce in the forthcoming amendment of the registries regulation differentiated account categories within the same account types (operator and person holding accounts), to be implemented in the single registry. The default account category would e.g. only allow transfers out of the account with a delay mechanism and may be subject to transfer limits per day or transaction. More flexible account categories, waiving some of these restrictions would be subject to certain conditions (e.g. for companies with obligations under the EU ETS, for companies subject to financial market rules, for account holders with insurance against allowance theft). This would ensure that accounts have in place security measures that are proportionate to the security risk and make it more difficult to turn stolen allowances into money.

In addition it is under consideration to introduce a specific account category for companies with compliance obligations under the ETS, which would only allow transfer of allowances to an account held by the same company or for surrendering. This would further enhance the security of allowances that are held by companies merely for compliance purposes with no immediate intention to actively participate in the carbon market.

The Commission wishes to consult stakeholders on the following issues:

- Do you support the introduction of differentiated account categories?
- How many different account categories should be created and under what conditions should more flexible account categories be allowed?
- Do you support the introduction of a specific account category for companies with compliance obligations?

Introduction by the Commission

Lead discussant: tbd

Panelists: tbd

Lunch break [13:15 to 14:15]

Displaying serial numbers of allowances in ETS registries [14:15 to 15:30]

Current registry rules provides that individual account holders and market participants can see the serial number of individual allowances, while allowances in principle all have the same value as compliance instruments across the EU. The serial numbers are based on the UN numbering of the corresponding assigned amount units (AAUs). In the single registry the allowances will no longer be mirrored by AAUs. This offers the possibility to discontinue displaying the serial numbers to account holders and market operators in the single registry.

The Commission considers to propose in the forthcoming amendment of the Registries Regulation to discontinue the display of serial numbers in the single registry. This would facilitate taking ownership and trading of carbon allowances in good faith, even when there is a marginal amount of allowances in circulation that at some stage has been transferred without the authorisation of the owner.

The Commission wishes to consult stakeholders on the following issues:

- Do you support the discontinuation of displaying serial numbers in the single registry?

Introduction by the Commission

Lead discussant: tbd

Panelists: tbd

Coffee break [15:30 to 16:00]

Disclosure of serial numbers of (allegedly) stolen allowances [16:00 to 17:15]

Following the alleged theft of allowances transferred without authorisation from registry accounts, some serial numbers of allegedly stolen allowances have been disclosed in some form, without there being a court judgment establishing that a theft has indeed taken place.

Current registry rules do not regulate the disclosure of serial numbers, while data on transfers are subject to strict confidentiality for a period of 5 years. There are reasons for and against publicly disclosing serial numbers of (allegedly) stolen allowances.

The Commission considers in the forthcoming amendment of the Registries Regulation to put in place provisions regulating the public disclosure of (allegedly) stolen allowances and wishes to consult stakeholders on the following issues:

- Should public disclosure of serial numbers of (allegedly) stolen allowances be allowed or prohibited?
- If allowed, who should be authorised to disclose serial numbers of (allegedly) stolen allowances?
- What conditions should be met before any disclosure of serial numbers of (allegedly) stolen allowances?
- Who should be held liable for erroneous or falsified disclosure of serial numbers?

Introduction by the Commission

Lead discussant: tbd

Panelists: tbd

Carbon market oversight – state of play [17:15 to 17:30]

The Commission is currently considering various options to enhance carbon market oversight, including the classification of allowances as financial instruments in the review of the Market in Financial Instruments Directive (MiFID). The Commission will present an update of the state of play and the next steps (written stakeholder consultation and stakeholder meeting).

Presentation by the Commission