

# MARKET OVERSIGHT AND REGISTRY SYSTEM

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# Background Reading



## ICAP/PMR Handbook

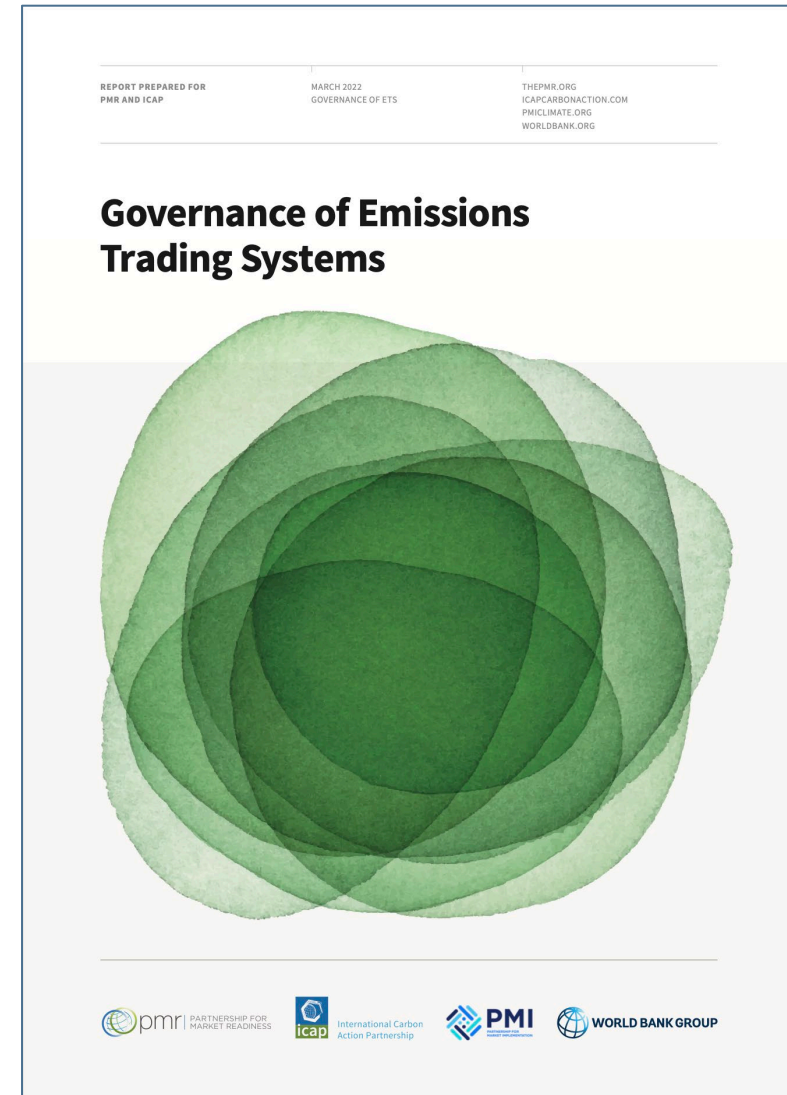
Governance of Emissions Trading Systems (2023)

Chapter 5.3: “Overseeing the market for emission units” (pp. 51-56)



Available at:

[https://icapcarbonaction.com/system/files/document/governance-of-ets\\_paper\\_march\\_2022\\_0.pdf](https://icapcarbonaction.com/system/files/document/governance-of-ets_paper_march_2022_0.pdf)



# Why do we need carbon market oversight?

- Unlike physical commodities, emission units are intangible, instantly transferable in large volumes, and subject to an artificially constrained supply
- Goal of market oversight is a market that is
  - **Efficient, transparent** and **fair**
  - Sufficiently **liquid** and **accessible**
  - Yielding a carbon price that reflects the fundamental drivers of supply and demand (**price discovery**)
  - Protected against **fraud** and **market abuse**

# Dimensions of carbon market oversight

- Involves design choices on
  - **Who** can participate in the market
  - **Who** is responsible for overseeing the market
  - **What** exactly can be traded on the market
  - **Where** transactions may take place; and
- Other rules that affect the market's safety, volatility, and vulnerability to fraud

# Oversight of the primary market (auctions)

<b>Risk</b>	<b>Solutions</b>
Successful bidders defaulting on their bid	Rules on access to auctions, rules on collateral/deposit, exchange clearing
Collusion among bidders	Auction reserve price Market monitoring and reporting
Information asymmetries	Information disclosure to stakeholders/public
Abuse of market power – price manipulation, cornering or squeezing of the market	Monitoring of the market, disclosure rules Position limits Licensing requirements, access rules
Insider trading, money laundering, fraud	KYC-checks, technological safeguards in the registry Market and transaction monitoring Financial criminal law

# Oversight of the secondary market

<b>Risk</b>	<b>Solutions</b>
Buyers or sellers defaulting on a transaction	Rules on access to trading platforms, clearing and settlement systems to lower counterparty risk
Information asymmetries	Information disclosure to stakeholders/public
Abuse of market power – price manipulation, cornering or squeezing of the market	Monitoring of the market, disclosure rules Holding and position limits Licensing requirements, access rules
Insider trading, money laundering, securities fraud, cybercrime	Mandatory use of trading platforms and increased licensing/transparency requirements for risky activities KYC-checks and technological safeguards in the registry, waiting periods before unit transfers Market and transaction monitoring, rapid intervention Financial criminal law

# Market Oversight in the EU ETS (Part 1)

- When first established, the EU ETS created a **new market**
  - Trading occurred at **exchanges** alongside **established commodities**
  - **Futures contracts** and other **derivatives** emerged to cater to demand by market participants for **hedging** and **speculative** purposes
  - **Derivatives** were treated like other **financial instruments**, but **allowances** initially were **not**
  - Market **intermediaries** such as **exchanges**, **brokers** and **clearing houses** were also regulated under financial market rules, but **compliance entities** and many other market participants were not
- Multiple **challenges** emerged: insider trading, money laundering, tax fraud, cybertheft and phishing, offset credit recycling
- **Market oversight** needed to keep pace with the ETS allowance market, hence financial market rules were extended to allowances (see next slide)

# Market Oversight in the EU ETS (Part 2)

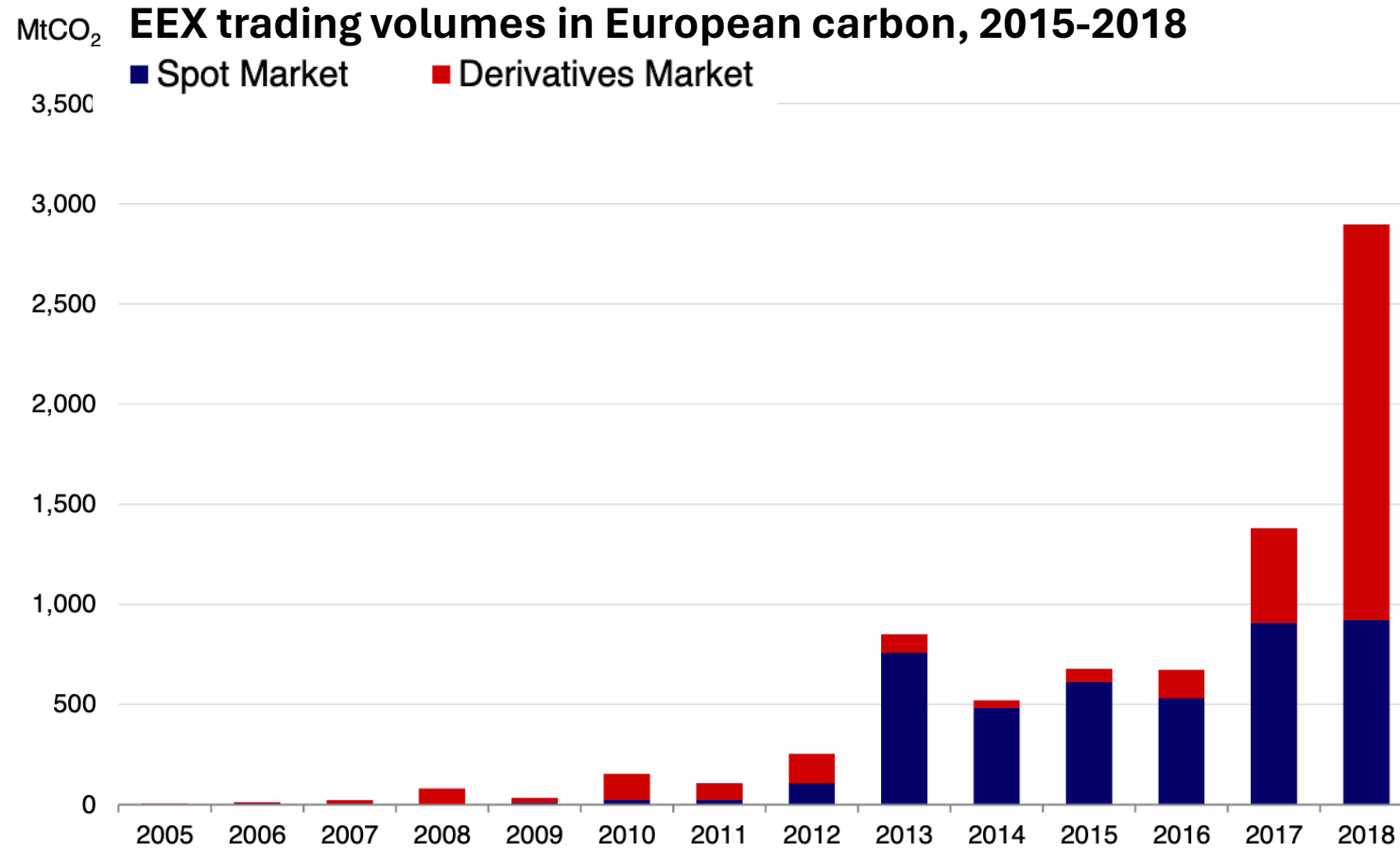
- **Markets in Financial Instruments Directive and Regulation (MiFID/MiFIR)**
  - Defines “investment activities” and “financial instruments” (resulting in licensing requirements)
  - Defines exemptions with regard to compliance companies
  - Enhances market transparency and integrity rules for market players and platforms
  - Reduces the scope of OTC trading activities
- **Market Abuse Directive and Regulation (MAD/MAR)**
  - Specific legal framework on insider dealing and market manipulation
  - Rules apply to auctions and secondary market trading → transaction analysis
  - Market abuse can be punished with multi-year prison sentences (CSMAD)



# Market Oversight in the EU ETS (Part 3)

- **Anti-money Laundering Directive**
  - Due diligence and reporting requirements to combat money laundering and terrorist financing
  - Applies to all financial transactions, i.e. also to emission allowances payment transactions
- **Auctioning Regulation**
  - Specific legal framework for all auctions in the EU ETS
  - Prohibition of insider dealing and market manipulation to make sure the protection applies to all auction platforms; same with money laundering provisions

# Tighter regulation – a threat to carbon markets?



Source: EEX

## Lessons learnt with market oversight

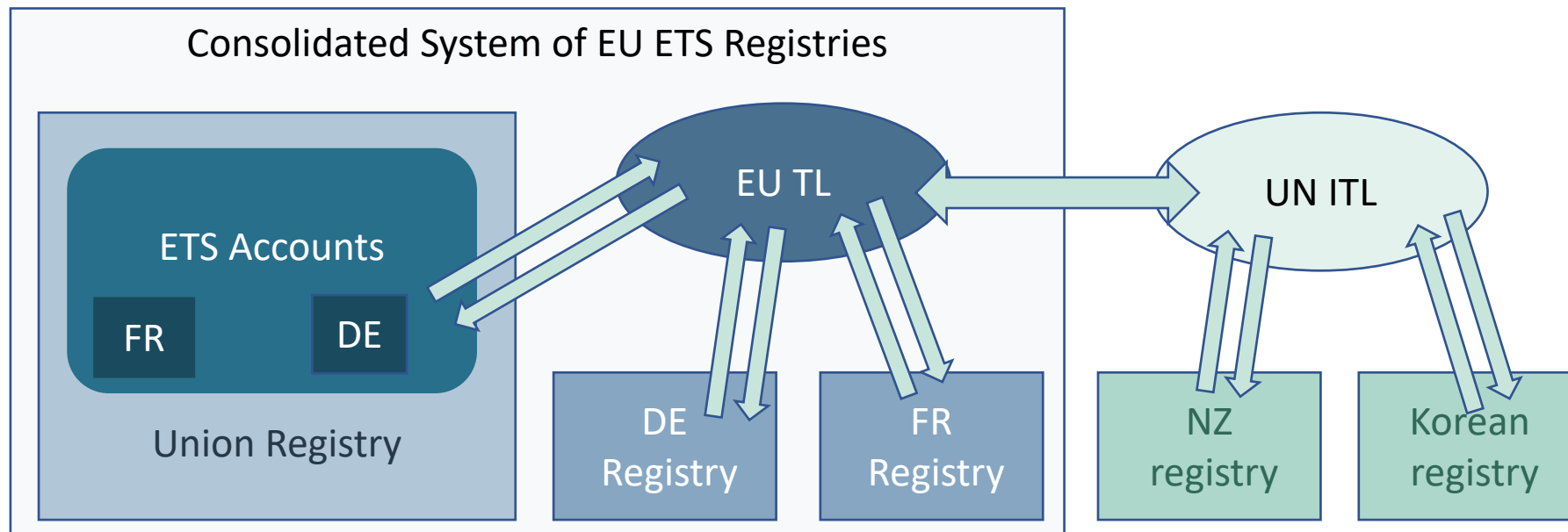
- Carbon markets are **financial markets**, but designed by environmental regulators. They require financial market expertise, and are usually subject to existing financial market regulation
- Broad **access** to the carbon market is helpful for liquidity and can limit market power
- **Service providers** are useful: they allow compliance companies to pursue the trading strategy that best meets their needs
- Regulation is not necessarily bad for the market – it creates clarity
- Information disclosure and transparency are key – and that also applies to the regulator

# What is a registry, and why is it needed?

- In an ETS, a registry is an **electronic database system** with specific features:
  - Contains accounts which hold emission units
  - Online access, with public and secure private section
  - Defines different user roles
  - Allows conducting transactions
- ETS Registries ensure **proper accounting** of emission units and market activities
  - **tracking** of allowances from issuance to deletion
  - proof of **property** and **compliance**

# Example: EU ETS registry system (1)

- The EU registry system is a web-based database that records emission unit issuance, holding and transfers, verified emissions, and compliance
- Every EU Member State maintains a national EU ETS registry, and the EU maintains a single consolidated Union Registry and EU Transaction Log



## Example: EU ETS registry system (2)

- EU ETS registry system contains over 15,000 accounts:
  - operator and aircraft operator holding accounts
  - person holding accounts
  - trading accounts
  - Management accounts
- The EU ETS registry system:
  - enables trading (directly and through trading platforms)
  - is a definitive evidence of unit holdings (safe commerce)
  - controls unit issuance and compliance (enforcement and oversight)
  - Prevents double counting (environmental integrity)
  - Provides information to the public

# Example: EU ETS registry system (3)

Account Main | Holdings | Authorised Representatives | Additional Authorised Representatives | Trusted Accounts | Account Statements

ID	Account Holder Name	Account Name	Account Status	Account Type
EU-100			Open	Trading Account

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Unit Type	Original CP	Applicable CP	Project Number	Project track	Eligible	Ineligible	Balance	Reserved for transaction
Aviation allowance	2	2			0	0	4,034,046	0
General allowance	2	2			0	0	82,231,062	0
CER	1	1	CL248		60,000	0	60,000	0
CER	1	1	CN1008		31,340	0	31,340	0
CER	1	1	CN1276		2,673	0	2,673	0
CER	1	1	CN1452		5,673	0	5,673	0
CER	1	1	CN544		11,128	0	11,128	0
CER	1	1	MX163		9,890	0		
CER	1	1	MX53		407	0		
CER	1	1	MX57		85	0		
CER	2	2	CN3503		4,673	0		
CER	2	2	CN4725		134,141	0		
CER	2	2	UZ3339		24,156	0		
ERU from AAU	1	1	DE1000168	TRACK_1	34,275	0		
ERU from AAU	1	1	RO1000219	TRACK_1	55,040	0		
ERU from AAU	1	1	RU1000366	TRACK_1	3,243	0		
ERU from AAU	1	1	UA1000438	TRACK_1	13,220	0		
ERU from AAU	1	1	UA1000492	TRACK_1	285,545	0		
ERU from AAU	1	1	UA1000499	TRACK_1	4,789	0		
ERU from AAU	1	1	UA1000513	TRACK_1	150,000	0		
<b>Total:</b>					<b>87,095,386</b>	<b>0</b>		

GREEN: eligible to be held and used on an EU ETS account      RED: ineligible to be held and used

Propose a transaction

European Commission  
**Climate Action**  
Energy for a Changing World

Open another registry

Enrolment

3 Franz MUSTERMANN

5 URID: DE850260337282

[Un-enrol](#)

[Edit your personal details](#)

28 Home page

15 Task list

**Accounts**

- [Accounts](#)
- [Account Request](#)
- [Claim account](#)
- [Release account](#)
- [List of account requests](#)
- [Transactions](#)

**Mandatory Fields**

[Help](#)

**Transfer of Kyoto units**

\* Acquiring account identification code:

EU - 100 - 5012345 - 0 - 65

Due date: 15/11/2012

Comment:

Unit Type	Commitment Period	Available quantity	Quantity to transfer	Project number
CER	1	990000	100	
EUA	1	523960		

Next
Cancel

## Example: EU ETS registry system (4)

- **Fraud prevention** and security measures in the EU :
  - Regulatory requirements & terms of use of the registry
  - Know-your-Customer (KYC) checks at account opening and in periodic intervals
  - Secure Socket Layer (SSL), two-factor-authentication, SMS confirmation & additional authorized representative (AAR)
  - Trusted account list and transaction delay of 26 hours
  - Transaction monitoring for suspicious patterns
  - Working Group on Fraud Prevention of the UNFCCC Secretariat, Agency for the Cooperation of Energy Regulators (ACER)
  - Intensive cooperation with national and international investigation bodies (police, INTERPOL, prosecutors)



# THANK YOU!



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