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# Emissions Auctions - FAQ

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# 1. FAQ

## 1.1 What are Emissions Auctions?

Auctioning is the basic principle of allocating allowances within the EU Emissions Trading System (EU ETS). This means that businesses have to buy an increasing proportion of allowances through auctions by way of a regular series of auctions in accordance with Commission Regulation (EU) No. 1031/2010 ("EU Auctioning Regulation"). For 2017, the Commission estimates a total amount of 947,706,000 European Union Allowances (EUAs) and a total amount of 4,730,500 EU Aviation Allowances (EUAAAs) to be auctioned.

EEX is the leading auction platform. About 90 percent of all allowances auctioned in the EU ETS are allocated via EEX

## 1.2 How often do Emissions Auctions take place and for what quantities?

At the moment EEX conducts weekly auctions for EUAs on Monday, Tuesday, Thursday and Friday, as well as bi-weekly auctions for EUAs on Wednesday from 9 to 11 am CET. Auctions for EUAAAs are conducted on several Wednesdays from 1 to 3 pm CET.

All details (including the quantities) can be found in the Auction Calendar.

## 1.3 How is the design of the Emissions Auctions including the determination of the Auction Clearing Price?

For all auctions of general allowances (EUAs) and for all auctions of aviation allowances (EUAAAs), the common rules of the EU Auctioning Regulation apply. This also includes the main requirements for the auction's design:

Auctioned product:

- EUAs valid for compliance in the 4th trading period of the EU ETS (2021-2030)
- EUAAAs valid for compliance in the 4th trading period of the EU ETS respectively

Auction delivery: Next-day delivery (T+1)

Auction format:

- Single round: Bids will be submitted during one given bidding window
- Sealed bid: Bids will be submitted without seeing other participant's bids
- Uniform price: All successful bidders will pay the same auction clearing price

Lot size: 500 allowances

Submission and withdrawal of bids:

- Bids may be submitted, modified and withdrawn during the bidding window
- Only authorized persons are entitled to place bids (bidder's representatives)
- Each bid shall state:
  - Bid volume as integral multiples of lots of 500 allowances
  - Price in Euro for each allowance (in two decimal points)
  - Identity of the client when bidding on behalf

Determination of the Auction Clearing Price:

> All successful bids will be allocated at the Auction Clearing Price, determined as follows:

- Bids are sorted in descending order of the price bid
- Bid volumes are added, starting with the highest bid; the price at which the sum of volumes bid matches or exceeds the volume of allowances auctioned, shall be the Auction Clearing Price
- Tied bids will be sorted through random selection according to an algorithm
- All bids with a price higher than the Auction Clearing Price are successful; execution of bids made at the Auction Clearing Price depends on their ranking in the random selection
- Partial execution of orders may be possible for the last successful bid matching the Auction Clearing Price, depending on the remaining quantity of allowances

## 1.4 Why might an Emissions Auction be cancelled and what happens with the volume?

There are three reasons provided for in the EU Auctioning Regulation for a cancellation of an auction.

- Article 7(5): the total volume of bids has fallen short of the volume of auctioned allowances
- Article 7(6): the auction clearing price has been significantly under the price on the secondary market
- Article 9: the proper conduct of the auction is disrupted or likely to be disrupted

In case of general allowances, the number of auctions over which the combined volume to be auctioned must be distributed shall equal four times the number of auctions that were cancelled.

In case of aviation allowances, the number of auctions over which the combined volume to be auctioned must be distributed shall equal two times the number of auctions that were cancelled.

## 1.5 What is the “Reserve Price”?

The “reserve price” is the minimum price that has to be reached for an auction to be cleared. In accordance with the rules governing the auctions, the methodology for determining the “reserve price” as well as its underlying definitions are handled strictly confidentially.

The EU Auctioning Regulation is clear and binding: Information on the reserve price methodology is

considered confidential information by law (see Article 62.1i of the Auctioning Regulation). This is in order to prevent any kind of manipulation or misconduct in the auctions, which could arise from the knowledge of this methodology.

## 1.6 When is delivery and payment scheduled?

- T+0: Auction date – the Auction is held and the results are known.

- T+1:

- Between 7:30 until 8:00 am CET, ECC debits the settlement account(s) of the Clearing Member(s) of the successful Bidder(s).
- Between 8:00 and 8:30 am CET the auction revenues are transferred from ECC to the accounts of the Auctioneer(s).
- At 8:30 am CET, ECC delivers emission allowances into the internal registry accounts of the successful Bidder(s).
- The successful Bidder(s) can instruct ECC via a Registry Transfer Request (RTR) to transfer emission allowances to any other registry account in the Union Registry

- T+2: The successful Bidder(s) which has/have instructed the Registry Transfer Request(s) receive(s) the emission allowances in the respective registry account(s) until 12:00 pm CET.

## 1.7 What are the underlying rules and regulations?

The auctioning of allowances is governed by the EU Auctioning Regulation.

This covers the timing, administration and other aspects of auctioning.

In addition, for all EEX's emissions auctions, the respective rules and procedures of EEX and ECC apply.

## 1.8 Who is eligible to bid?

Participants must be eligible to bid according to EU rules (Article 18(1) and (2) Auctioning Regulation). Eligible under these rules are (see Eligibility Form):

- Compliance buyers, bidding on own account, including any parent companies, subsidiaries and affiliates.
- Investment firms and credit institutions, bidding on own account or on behalf of clients. These firms must be authorised under MiFID (Directive 2014/65/EU) or under the Banking Directive (Directive 2013/36/EU) respectively.
- Business groupings of compliance buyers, bidding on own account and acting as an agent on behalf of their members.
- Other intermediaries specifically authorized by the home Member State, bidding on own account or on behalf of clients.

This means that any ETS operator or aviation operator is eligible to apply for admission to bid in the auctions, and so are their parent, subsidiary or affiliate undertakings. In addition, investment firms and credit institutions, authorised and regulated under EU law, may apply for admission to bid. Prior to their admission, foreign companies have to appoint an authorised agent with a registered office within the Federal Republic of Germany, such as EEX's clearing house European Commodity Clearing (ECC).

Operators can also form business groupings to bid as an agent on their behalf. Additionally, according to §13 of EEX's Trading Conditions, any exchange participant can request another registered person to bid on his/her behalf. According to Art. 6 (3) of the Auctioning Regulation, a registered person is a natural person established in the European Union. With respect to § 33 (4) of EEX's Trading Conditions, the appointed intermediary is responsible for the customer's eligibility and which needs to be confirmed by completion of the Eligibility Form.

Furthermore, EU rules provide for an additional category (investment firm status), namely intermediaries that benefit from an exemption from the authorisation requirements in EU law and have been authorised under rules laid down in the Auctioning Regulation. For example, this is relevant for intermediaries such as fuel traders, so they could easily add allowances to the products they offer to ETS operators.

## 1.9 What are the admission requirements?

Admission requirements according to EU rules (Article 19(2) Auctioning Regulation):

- Establishment in the EU (except for compliance buyers)
- Nominated registry account
- Nominated bank account
- Appointment of at least one bidder's representative
- Compliance with respective exchange requirements

Details to relevant questions including a comparison of the options how to participate in the Emission Auctions can be found in the document "Participation in Emissions Auctions".

## 1.10 What "other intermediaries" can apply for bidding in the auctions aside from investment firms and credit institutions, and how can they obtain authorisation?

The scope of other intermediaries eligible to bid in the auctions covers persons that are not MiFID-licensed but benefit from the MiFID-exemption for "ancillary activity" [MiFID Art. 2 (1) (i)]. These persons would have to obtain special authorisation from their competent national authority (e.g. from FCA or BaFIN) in order to be eligible to bid. Once such an authorisation is granted, they can

participate in phase III auctions on all auction platforms, provided that they have been admitted to the respective exchange.

The relevant competent national authority can grant such authorisation only if respective national legislation has been enacted by the Member State in the first place.

**For example: In the UK**, HM Treasury has made "bidding for emissions auctions" a new regulated activity within the Financial Services & Markets Act 2000 (FSMA) as part of its implementation of the EU Auctioning Regulation. This enables the UK financial regulator (FCA) to authorise and supervise intermediaries exempt from MiFID under Article 2 (1) (i) for bidding in the auctions. Those intermediaries (when based in the UK) will have to apply for such authorisation by submitting a "Variation of Permission (VoP) application" form to the FSA. For more information on the applications process you can also refer to the FCA Handbook.

**For example: For Germany**, a similar provision is set out in the German Emissions Trading act ("Treibhausgasemissionshandelsgesetz", TEHG), namely in Article 8 (4) TEHG. Based on this piece of legislation, intermediaries exempt from MiFID under Art. 2 (1) (i) have to apply for authorisation by contacting the German financial regulator (BaFin).

### 1.11 What options do I have to participate in the auctions?

At the moment there are six options to participate in the auctions. Details can be found in the section [environmental-markets > emissions-auctions > access-to-the-auctions](#).

EEX has offered a webinar on the topic. You can find the recording under this [link](#). Furthermore, the presentation slides are available [here](#).

### 1.12 I am already an EEX member and admitted to the EUA spot market. Am I automatically eligible to bid in the auctions?

All EEX members, including admitted EUA Spot members, must in addition prove their eligibility in the Phase 3 Auctions via the Eligibility Form. Furthermore, EEX may request supporting documents such as verification of your Union Registry account, current versions of your company's annual report and extract from the commercial registry.

### 1.13 I am already an EEX member but not currently admitted to the EUA spot market. What do I have to do in order to participate in the auctions?

EEX members may contact their responsible Key Account Manager from the EEX Sales Team in Leipzig, London, Madrid, Milan, Oslo or Paris to be guided through the admission process. Alternatively EEX members may directly contact the single admission team of EEX and ECC for the EUA spot market. This will include the completion of some basic forms in order to identify two



persons responsible for registry transaction requests, ordering a technical connection and identifying an authorised trader for the spot market.

Once setup is complete, EEX Market Supervision will send the member their login details for EUA spot trading and for the auction platform. There is no extra cost for existing members to join the spot market.

### **1.14 I would like to become an EEX member in order to participate in the auctions. What do I have to do?**

The single admission team of EEX and ECC or the EEX Sales team will assist you in all aspects of the admission process (the order of the following points can vary):

1. Establishing a contact: EEX will assist you with any questions you may have concerning your admission, the admission process itself and the necessary admission forms.
2. Complete a training: The completion of the EEX exchange trader training or spot market emission rights training is required, except you choose an auction only membership without technical access.
3. Choosing a technical connection: EEX offers you various technical connection opportunities depending on your needs. Details to relevant questions including a comparison of the options how to participate in the Emission Auctions can be found in the document "Participation in Emissions Auctions".

A presentation especially for small and medium size operators is available in the document "Participation in Emissions Auctions –explained in 5 minutes".

EEX has offered a webinar on the topic. You can find the recording under this link. Furthermore, the presentation slides are available here.

### **1.15 I would like to participate in the auctions without becoming an EEX member. How can I do that?**

Companies which would like to participate indirectly in the auctions may contact a clearing member of European Commodity Clearing (ECC), or a trading member of EEX, and request to enter into an agreement. Once the agreement has been concluded, the clearing or trading member is advised about their client's bid preferences, and receives any necessary upfront payments in time for the auction.

More information on the indirect auction access as well as existing participants providing this access can be found in the section [environmental-markets > emissions-auctions > access-to-the-auctions](#).

During the auction, the member bids on their client's behalf and has to reveal their client's name per bid (as per the EU Auction Regulation). Settlement of successful bids is completed according to the

terms of the agreement. For a full list of ECC and EEX members, please consult either the ECC website or the EEX website.

EEX has offered a webinar on the topic. You can find the recording under this [link](#). Furthermore, the presentation slides are available [here](#).

### **1.16 Is there a difference in the admission process for EUA and EUAA auctions?**

No, there is no difference. Once you receive admission to EUA auctions, you can participate in EUAA auctions as well. Please be aware, that EUA and EUAA are auctioned in separate auctions with distinct dates. More information, e.g. the auction calendar, can be found in the section [Environmental Markets > Emissions Auctions](#)

### **1.17 Is there a training session in order to get familiarised with the systems?**

Yes, please note that a training session and a Trader Exam is part of the admission process if you choose to access auctions directly via the Auction System. However a training session and a Trader Exam is not necessary if you choose to access auctions only via calling or mailing to the helpdesk. Further information on the different options for access to the auctions can be found in the section [environmental-markets > emissions-auctions > access-to-the-auctions](#).

Please find more information on how to get your EEX exchange trader training or spot market emission rights training.

### **1.18 What is the difference between bidding on behalf and trading on behalf?**

Bidding on behalf as well as trading on behalf can be done via an intermediary as well as via EEX's Market Supervision Team. The difference is that bidding on behalf is the term used for the primary auctions where only buy-orders are possible and trading on behalf is the term used for the secondary market where buy- and sell-orders are possible.

### **1.19 Will Swiss allowances also be accepted for the fulfillment of delivery obligations?**

Linking of both schemes entered into force on 1 January 2020. This results in mutual recognition of EU and Swiss emission allowances on legislative and registry level, respectively. However, no changes to EUA/EUAA contract specifications are planned for the time being, i.e. only EUAs/EUAAs will be accepted or delivered under EEX's contracts.

## **1.20 How should Trading Venues and SIs report emission allowances (i.e., European Union Allowances (EUAs) and European Union Aviation Allowances (EUAs)) auctioned for the phase 4 of the EU Emission Trading System (ETS) (hereafter “phase 4 emission allowances” or derivatives thereof under MiFIR Article 27 and RTS 23?)**

The ISIN displayed on European Commission’s website to phase 4 emission allowances should be reported in FIRDS under RTS 23. Field 1 – Instrument identification code should be reported with ISIN EU000A2QMW50 for EU allowances and EU000A2QMW68 for EU aviation allowances. In case of derivatives having as underlying a phase 4 emission allowance, Field 26 – Underlying instrument code should be populated with EU000A2QMW50 for EU allowances and EU000A2QMW68 for EU aviation allowances. The table below clarifies the different reporting scenarios based on the type of emission allowance. The fields displayed in the tables are all RTS 23 fields that are applicable to emission allowances or derivatives thereof in the FIRDS CFI validation rules.

More detailed information, prepared by ESMA, can be found [here](#).