

ICE EMISSIONS AUCTIONS

1. WHAT ARE THE AUCTIONS?

Phase III of the European Union Emission Trading Scheme (ETS) operates from 2013 until 2020. Approximately half of the European Union Allowances (EUAs) (1 billion out of a cap of 2.04 billion) are issued by way of a regular series of auctions in accordance with [Commission Regulation \(EU\) No 1031/2010](#) (“The Auctioning Regulation”).

EU Aviation Allowances (EUAAAs) which were introduced in January 2012 are also auctioned in a similar way.

ICE Futures Europe has been selected by the Department of Energy and Climate Change (DECC) to conduct the UK auctions of EUAs and EUAAAs. ICE Futures Europe is a Recognised Investment Exchange (RIE) and Recognised Auction Platform (RAP), regulated by the UK’s Financial Conduct Authority (FCA).

2. WHEN DID THE AUCTIONS BEGIN?

The first EUA auction on behalf of the U.K. Government took place in November 2012 and the first EUAA auction in September 2014.

3. HOW OFTEN DO THE AUCTIONS TAKE PLACE AND FOR WHAT QUANTITIES?

Auctions of EUAs take place every other Wednesday throughout the year, between 08.00am and 10.00am UK Time (9.00am and 11.00am Central European Time) and auctions of EUAAAs take place twice a year.

The auction dates and total auction quantities are subject to yearly approval by the European Commission. The full schedule of dates and quantities can be found in the [Auction Calendar](#).

4. HOW DO THE AUCTIONS OPERATE?

A full description of how the auctions operate can be found [here](#).

The auctions take place on WebICE, ICE’s front end trading platform. Bidders are able to bid directly by submitting the price and number of lots during a two hour bidding window. (A full description of how to use WebICE can be found [here](#)).

Bidders in the auction bid for a number of lots. The minimum bid size is one lot and each lot represents 500 allowances. The EUA UK Auction contract specifications can be found [here](#) and the contract specifications for the EUAA UK Auction can be found [here](#).

During the bidding window bidders may enter, withdraw and amend bids and cannot view the bids of other participants. Successful bidders receive the same auction clearing price regardless of the price they bid. At the close of the bidding window, ICE determines the auction clearing price by ranking the total quantity of bids received in descending order of the bid price. The bids are then matched against the quantity offered for sale. The price at which the total quantity matches or exceeds the offered quantity will be the auction clearing price for the auction. All bids above the auction clearing price will be matched. Tied bids at the matched price- the auction clearing price- are selected randomly.

Within 15 minutes of the close of the bidding window, a notification is sent to successful bidders confirming the auction clearing price and the matched quantity.

Successful bidders are required to pay ICE Clear Europe in full by 09.00am on the day following the auction. Upon receipt of payment ICE Clear Europe will commence the transfer of allowances from its registry account to the registry accounts of the successful bidders held by the Clearing Members.

5. WHO IS ELIGIBLE TO BID IN THE AUCTION?

Article 18 “Persons eligible to apply for admission to bid” of the Auctioning Regulation sets out in full the eligibility criteria.

Eligible persons include operators including parent companies, subsidiaries and affiliates bidding on their own account; investment firms authorised under Directive 2004/39/EC (Markets in Financial Instruments Directive – MiFID) bidding on their own account or on behalf of clients; credit institutions authorised under Directive 2006/48/EC (Banking Consolidation Directive – BCD) bidding on their own account or on behalf of clients and business groupings of operators bidding on their own account and acting as agent on behalf of their members.

Intermediaries are required to ensure that their clients are eligible to bid. Participants should refer to the Auctioning Regulation for the complete list of criteria.

6. WHAT ARE THE REQUIREMENTS FOR ADMISSION TO BID?

Participants are required to fulfil certain admission criteria which are set out in full in Article 19 “Requirements for admission to bid” of the Auctioning Regulation. This includes the requirements for participants to show that they hold a nominated registry account; hold a nominated bank account; satisfy due diligence in relation to the ownership, integrity and nature of their business; and satisfy financial standing requirements. Participants should refer to the Auctioning Regulation for the complete list of criteria.

7. DO I HAVE TO BE REGULATED BY THE FINANCIAL CONDUCT AUTHORITY IN ORDER TO BID IN THE AUCTION?

The bidding for emissions allowances in the UK under Phase III of the EU ETS is regulated by the FCA. The FCA policy is set out in their policy statement issued on 19 July 2012 ‘Regulating bidding for emission allowances under Phase Three of the EU Emissions Trading Scheme: Feedback to CP12/6’. This can be found [here](#). The policy statement sets out:

- Categories of entities which may need to apply to the FCA for permission to undertake bidding activity;
- Details on how authorised firms can vary its permission to undertake bidding activity (if required);
- Passporting arrangements and notifications for UK and EEA firms providing auction bidding; and
- Entities which do not require permission.

8. HOW DO I APPLY TO BID IN THE AUCTIONS?

All participants must satisfy the eligibility and admissions criteria set out in Articles 18 and 19 of the Auctioning Regulations and have the necessary regulatory permissions or exemptions.

All participants must have an arrangement in place with an ICE Clear Europe Clearing Member and an Exchange Member or an Auction-only Access Provider.

The practical arrangements vary according to whether you are an Exchange Member, an existing non-member participant in ICE Emissions markets or a new participant. Details of these arrangements can be found in the Rules and Procedures [here](#). ICE will provide access to WebICE or your FIX API.

9. ARE THERE RULES AND PROCEDURES?

Yes. These can be found on the ICE website [here](#).

10. HOW IS VAT TREATED FOR ALLOWANCES BOUGHT AT AUCTION?

UK's HM Revenue and Customs has confirmed that the trading of Emissions Allowance Contracts on the ICE Futures Europe Exchange between Members and subsequently cleared by ICE Clear Europe has been approved for VAT zero rating under the terms of the Terminal Markets Order.

Where neither the Buyer nor the Seller are members of ICE Futures Europe then the Emissions allowances would be subject to the VAT reverse charge in the EU. This means that VAT is not charged at the time of purchase by the Seller, and that it is the responsibility of the Buyer to account for the reverse charge on the purchase of the allowances. The Buyer will receive an invoice for the purchase of the Emissions allowances from the Seller and VAT will not be charged. There will be an annotation on the invoice that the supply is a "reverse charge supply and the customer should account for the VAT". The Buyer should account for the "deemed" VAT at the prevailing VAT rate in his country on his periodic VAT return e.g. in the UK it would be 20%. The amount of the reverse charge is reported as both input VAT and Output VAT on the VAT return.

11. IS THERE A MINIMUM BID PRICE?

As an RIE, ICE Futures Europe operates an orderly market at all times and as such has the right to reject bids which it considers unrepresentative of market value in either direction. In this regard, the Exchange will apply reasonability levels to bids entered in the auctions.

12. IS THERE A RESERVE PRICE, AND IF SO HOW IS IT SET?

The Auctioning Regulations stipulate that where the Auction Clearing Price is significantly under the price prevailing in the secondary market, the auction shall be cancelled.

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