

ESMA publishes its Preliminary Report on the EU carbon market



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The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has today published its Preliminary Report on the EU carbon market. The report responds to the request made by the European Commission (EC) to ESMA in its Communication on energy prices for a preliminary analysis of European emission allowances (EUAs) and derivatives on EUAs.

The Report presents an overview of the financial regulatory environment for the carbon market under MAR, MiFID II and EMIR and the tools available to securities supervisors to fulfil their responsibilities. The Report, based on commercial data, also provides an analysis of price evolution and volatility in EUAs and derivatives on EUAs. Weekly position reports in respect of derivatives on EUAs were used for the initial assessment of active counterparties.

ESMA, in its preliminary analysis, has identified the following:

The number of counterparties holding a position on EUA futures has tended to increase since 2018 in all categories of counterparties, in relatively homogeneous proportions in line with the observed expansion of the EU Emissions Trading System market;

Open positions are to a large extent, and almost evenly, held by investment firms and credit institutions on the one hand and by non-financial counterparties on the other hand, while the remaining percentage of open positions, held by investment funds and other financial counterparties, remains relatively low; and

The breakdown of open positions between the various

categories of counterparties does not appear to have significantly changed since 2018 and is broadly in line with the expected functioning of the market, where non-financial entities buy EUA futures to hedge their carbon price exposure, while financial counterparties act as intermediaries to facilitate trading and provide liquidity to the market.

Next steps

ESMA will conduct an in-depth analysis of the EU carbon market based on data sources available to securities regulators under European legislation. ESMA will deliver its final report to the EC in early 2022. The EC, taking into account ESMA's Final Report, will assess whether there is a need for targeted actions in the EU carbon market.

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