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COVER NOTE

From:	Ms Verena ROSS, Chair of the European Securities and Markets Authority (ESMA)
date of receipt:	1 March 2023
To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union

Subject:	ESMA Effects assessment of the introduction of the market correction mechanism (MCM)
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Delegations will find attached a letter regarding the document mentioned above.

The full report can be downloaded from ESMA's website at the following url:

https://www.esma.europa.eu/sites/default/files/library/ESMA70-446-794_MCM_Effects_Assessment_Report.pdf

Encl.



IN 002756 2023
01.03.2023

The Chair
1 March 2023
ESMA70-446-805

Mairead McGuinness
Commissioner in charge of Financial
Stability, Financial Services and
Capital Markets Union
European Commission
Rue de la Loi 200
1049 Brussels
Belgium

Ref: ESMA Effects assessment of the introduction of the market correction mechanism

Dear Commissioner McGuinness, *dear Mairead,*

I am writing to you regarding the market correction mechanism (MCM) that ESMA is required to report on under Article 8 of Council Regulation (EU) 2022/2578 of 22 December 2022 (the Regulation). Following the preliminary data report submitted on 23 January 2023, I submit to you today an effects assessment concerning the introduction of the MCM.

I would like to emphasise that ESMA and ACER have been cooperating again closely when developing their respective effects assessment to ensure that all relevant developments in financial and energy markets were assessed and to limit overlaps.

The ESMA effects assessment expands on the market indicators considered in the preliminary data report, using more granular data sources over longer time series since the adoption and application of the Regulation. The assessment discusses recent developments in gas derivative markets, noting the initiatives taken by EU and non-EU venues to continue offering trading in TTF derivatives outside the scope of the Regulation. Additionally, in light of the possible extension of the MCM to derivatives based on other Virtual Trading Points, the assessment provides an overview of those derivatives and their liquidity and expresses reservations about such extension.

The report also focusses on clearing and analyses the impact of the MCM on the CCPs' capacity to conduct their risk management activities and on the level of margins charged to clearing members and clients.

The final section of the report provides some considerations on the need to review the definition of a market correction event and the dynamic bidding limit without taking any specific position.

Overall, no noticeable effects of the MCM on trading behaviours and risk management were identified in the assessment performed. However, as highlighted in the report, the absence of



a significant impact of the MCM at this stage does not mean that the MCM will have no consequences on gas derivative markets. Some of the potential effects and risks may only unfold when the activation of the MCM would be anticipated by market participants, which is not the case in the current market environment. As the observation period ended in the first half of February, the report also does not include any assessment of the effects that the start of application of the MCM itself from 15 February 2023 may have caused.

Should you want to discuss the subject matter further or require any additional information, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Verena Ross'.

Verena Ross

cc.: Irene Tinagli, MEP, Chair of the Committee on Economic and Monetary Affairs, European Parliament
Elisabeth Svantesson, President of the ECOFIN Council, Council of the European Union
Thérèse Blanchet, Secretary-General of the Council of the European Union
John Berrigan, Director-General, DG Financial Stability, Financial Services and Capital Markets Union, European Commission

Effects Assessment

of the impact of the market correction mechanism on financial markets

