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COVER NOTE

From:	Ms Verena ROSS, Chair of the European Securities and Markets Authority (ESMA)
date of receipt:	28 March 2022
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

Subject:	ESMA final report on the EU carbon market
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Delegations will find attached a letter from ESMA on the report mentioned above.

The full report can be downloaded from ESMA's website:

https://www.esma.europa.eu/sites/default/files/library/esma70-445-38_final_report_on_emission_allowances_and_associated_derivatives.pdf

Encl.

E-MAIL

IN 003081 2022
28.03.2022

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 final report on the EU carbon market

Dear Commissioner McGuinness, *dear Mairead,*

I am writing to you regarding the functioning of the EU carbon market, which the Commission asked ESMA to analyse in its "Communication on Energy Prices" of 13 October 2021. In accordance with the two-step approach envisaged in this Communication, and following the preliminary report submitted on 17 November 2021, I submit to you today a final report on the trading of emission allowances and derivatives thereof.

In this report, after a presentation of the EU primary and secondary carbon markets, ESMA has focussed on a description of the current carbon market surveillance framework, an analysis of the evolution of carbon prices and volatility up to 4 March 2022 and an analysis of the evolution of trading and counterparties in the EU carbon market based on transaction reports under MiFIR, weekly and daily position reports under MiFID II, trade repositories data from EMIR reporting, as well as auction and Union Registry data.

Overall, the data analysis performed has not unveiled any fundamental issues regarding the functioning of the carbon market. Based on the observations gathered when assembling this report, ESMA has identified some policy recommendations which would contribute to enhance transparency and market monitoring of the EU carbon market. ESMA also draws the Commission's attention to possible courses of action for position limits and a more centralised monitoring framework, setting out arguments in favour and against on both of these points.

I trust this final report will help the Commission in assessing the potential need for targeted actions in the carbon market. I am conscious that the war in the Ukraine also had an impact on the EU carbon market which we tried to reflect to the extent possible (given data collection cut-off dates) in the report but, of course, any future developments are difficult to predict. ESMA therefore stands ready to further look into the carbon market, as and when this may prove necessary. Moreover ESMA is happy to help implement any measures which the Commission,



Council and Parliament may decide on and to provide additional analysis or advice during the course of any future deliberations.

Should you or your staff want to discuss further this subject matter or require any additional information, please do not hesitate to contact me or Fabrizio Planta, Head of the Markets and Data Reporting Department.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Verena Ross'. The signature is written in a cursive, flowing style.

Verena Ross

cc.: Irene Tinagli MEP, Chair of the Committee on Economic and Monetary Affairs, European Parliament

Bruno Le Maire, President of the ECOFIN Council, Council of the European Union

Jeppe Tranholm-Mikkelsen, Secretary-General of the Council of the European Union

John Berrigan, Director-General, DG Financial Stability, Financial Services and Capital Markets Union, European Commission

Final Report

Emission allowances and associated derivatives

