

PRESS RELEASE

ESMA publishes its Final Report on the EU Carbon Market

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has today published its [Final Report](#) on the European Union Carbon Market (EU carbon market). The Report's analysis did not find any current major deficiencies in the functioning of the EU carbon market based on the data available. However, ESMA's analysis of the market has led it to put forward a number of policy recommendations to improve market transparency and monitoring.

Key Findings

The Final Report presents an in-depth analysis of the trading of emission allowances (EUA) and emission allowance derivatives based on data gathered from different sources, including EMIR reporting, MiFIR transaction reporting, MiFID II daily and weekly position reports, auction data and data obtained from the EU Registry. ESMA, in looking at trading in carbon markets and counterparties in this market, has identified the following:

- long positions in carbon derivatives are mainly held by non-financial entities for hedging purposes;
- short positions are mainly held by banks and investment firms providing liquidity and carbon financing;
- positions by investment funds remain limited, with positions principally held by third-country funds; and
- the share of high-frequency and algorithmic trading is significant in the carbon market, even if the relevant firms are only holding very small or no actual positions.

As far as recent developments are concerned, ESMA is aware that the war in the Ukraine has had a major impact on the carbon market, with EUA prices declining by 30% between 23 February and 4 March, which was the cut-off date for ESMA's analysis. ESMA notes that the carbon price by 22 March had recovered but appreciates that the situation remains volatile.

Policy recommendations

ESMA, based on its findings and observations, has formulated a number of policy

recommendations on the transparency and monitoring of the EU carbon market from the securities regulators' perspective, for instance:

- extend position management controls to EUA derivatives;
- amend EUA position reporting;
- track chain of transactions in MiFIR regulatory reports; and
- provide ESMA with access to primary market transactions.

The measures proposed would provide more information to market participants, regulators and the public and are intended to contribute to the continued smooth functioning of the market, which plays an important role for the EU's transition to a low-carbon economy.

Issues for consideration by the European Commission

ESMA has also identified two possible courses of actions, with arguments in favour and against, that the European Commission (EC) could consider regarding:

- the introduction of position limits on carbon derivatives – cited in public discussions as a potential addition to the legislative framework; and
- centralised market monitoring of the carbon market at EU level, in line with the ACER-style monitoring for gas and power.

Next steps

ESMA's Report provides a factual and comprehensive basis for the EC, the Council of the EU and the European Parliament to determine whether additional measures to regulate the carbon market are considered necessary. ESMA is ready to assist with the implementation measures and with additional data analysis or advice that could be useful in future deliberations on the EU carbon market.



Notes for editors

1. [ESMA70-445-38 Final Report on Emission allowances and associated derivatives](#)
2. [ESMA70-445-7 Preliminary Report on Emission Allowances and derivatives](#)
3. The report responds to the European Commission's request to ESMA in its [Communication](#) on energy prices for an analysis of the trading of emission allowances.
4. ESMA is the European Union's securities markets regulator. Its mission is to enhance investor protection and promote stable and orderly financial markets. It achieves these objectives through four activities:
 - a. assessing risks to investors, markets and financial stability;
 - b. completing a single rulebook for EU financial markets;
 - c. promoting supervisory convergence; and
 - d. directly supervising specific financial entities.
5. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

Further information:

Dan Nacu-Manole

Communications Officer

Tel: +33 (0) 1 58 36 52 06

Email: press@esma.europa.eu