

# **Issue Analysis<sup>1</sup>: Public Information Sharing in California's Greenhouse Gas Emissions Cap-and-Trade Market**

**by**

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The Emissions Market Assessment Committee (EMAC) was formed to provide independent analysis and advice to the California Air Resources Board (CARB) and staff on implementation of California's greenhouse gas (GHG) cap-and-trade (C&T) market. One outstanding concern with the start of this market is identifying the information related to GHG allowances that will be made publicly available.

We believe a wide range of allowance data should be made available to the public with the release of such data made to the public as it is made available to CARB, or in as short a time frame from its receipt as practical. The types of allowance information to consider being made publicly available include:

- Ownership information for each individual market participant account including information provided to CARB such as parent company name, mailing address, and responsible party;
- Annual allocations of allowances by account name or number for each market participant receiving an annual allocation;
- A record of each allowance movement into and out of each account including serial number, vintage, transaction date, buyer name, and seller name for all types of transactions including CARB quarterly auctions, transfers into or out of compliance accounts, transfers into or out of holding accounts, transactions between related entities, and transactions between arms-length private parties;
- A real-time register available on the web giving the number of allowances, by vintage, held in each holding account and each compliance account; and
- At the close of each quarterly CARB auction,
  - The number of allowances made available for sale in the auction;
  - The auction clearing price and total number of allowances sold;
  - The maximum bid, the minimum bid, the weighted average mean bid, and the median bid; and
  - The names of each winning bidder including the number of allowances won.

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<sup>1</sup> Issue analyses reflect the views of the EMAC at the time they are released. They are written in order to inform stakeholders of the EMAC's views in a timely manner and to invite feedback from interested parties. The EMAC will update its views as new information arises and circumstances change.

Making information on allowance transactions publicly available in a timely fashion has a number of benefits to the citizens of California. Most importantly, information provision limits the possibility that market participants will be able to manipulate the market. Market manipulation strategies typically rely on an attempt to “surprise” the market by revealing information previously unknown to a subset of market participants. The failure to make information available to the public enhances the ability of market participants to engage in strategies in an attempt to deceive other market participants or to acquire information that can be used to introduce undue volatility into the market. Providing the information described above to the public will not reveal information on market participants’ competitively sensitive business strategies because, in addition to physical allowance transactions, market participants also will engage in purely financial allowance transactions, such as swaps and options. As a result, market participants will not be able to identify whether any individual market participant is “long” or “short” allowances, because these forward market positions and other purely financial relationships between market participants are unknown.

Providing information as soon as possible minimizes the transactions costs associated with trading emissions allowances, because all market participants know which entity owns each allowance (as well as how to contact them) at any moment and how that allowance was acquired and the price paid if it was purchased through the quarterly auction. It is important to emphasize that making this information available does not allow any market participant to know whether an entity is short or long relative to its expected GHG emissions obligations. Market participants are free to take confidential positions in the forward market for allowances to hedge any short or long publicly-disclosed position. For example, if a firm has an expected GHG emissions obligation for the year of 100 million tons of CO<sub>2</sub>-equivalents, and currently has only 50 million tons of allowances in its compliance account, and 25 million tons in its holding account, this market participant could hedge this short position through a confidential bilateral forward market purchase of 25 million tons or more of allowances for delivery sometime during the current compliance year. Because of the availability of these confidential forward market transactions, no market participants would be revealing its net position in the emissions allowance market if the information described above was released.

We believe that making as much of the information available to CARB regarding allowance transactions publicly available as promptly as possible will enhance the efficiency of the C&T market and limit the ability to engage in market manipulation strategies. We also believe that it is critical for CARB to make a clear statement prior to the first allowance auction about what information and data regarding GHG allowances in the California C&T program will be made publicly available.