
DRAFT STATUTORY INSTRUMENTS

2021 No.

The Greenhouse Gas Emissions Trading
Scheme Auctioning Regulations 2021

PART 2

Auction Design

Auctioned products

4.—(1) Allowances may be offered for sale on an appointed auction platform by means of standardised electronic contracts, and for the purposes of these Regulations, “the auctioned product” means the standardised electronic contract for one or more allowances.

(2) Allowances sold on an auction platform may take the form of either two-day spot or five-day futures.

(3) Bidders at an auction of allowances must submit their bids during one bidding window without seeing bids submitted by other bidders.

(4) Each successful bidder must pay the same auction clearing price referred to in regulation 7 for each allowance regardless of the bid price.

Submission and withdrawal of bids

5.—(1) The minimum volume bid is one lot, and each lot auctioned must consist of 500 allowances.

(2) Each bid must state—

- (a) the identity of the bidder and whether the bidder is bidding on its own account or on behalf of a client;
- (b) where the bidder is bidding on behalf of a client, the identity of the client;
- (c) the volume bid as a number of allowances in integral multiples of lots of 500 allowances;
- (d) the price bid in pounds sterling for each allowance specified to two decimal points.

(3) Subject to paragraph (4), each bid may only be submitted, modified or withdrawn during the bidding window set by the auction platform.

(4) Bids submitted may be modified or withdrawn by a deadline before the close of the bidding window set by the appointed auction platform and published on that auction platform’s website at least five trading days before the day on which the bidding window opens.

(5) Only a natural person established in the United Kingdom appointed pursuant to regulation 17(2)(d) and authorised to bind a bidder for all purposes relating to the auctions including the submission of a bid (the ‘bidder’s representative’) is entitled to submit, modify or withdraw a bid on behalf of a bidder.

(6) Once submitted, each bid is binding, unless it is withdrawn or modified pursuant to paragraph (3) or (4), or withdrawn pursuant to paragraph (7).

(7) Where the appointed auction platform is satisfied that a genuine mistake has been made in the submission of a bid, it may, upon request of the bidder's representative, treat the mistakenly submitted bid as withdrawn after the close of the bidding window, but before the auction clearing price has been determined.

(8) The reception, transmission and submission of a bid by an investment firm or credit institution on any auction platform is to be treated as an investment service within the meaning of Article 2(1) (2) of the Markets in Financial Instruments Regulation.

Auction clearing price and resolution of tied bids

6.—(1) The auction clearing price must be determined upon closure of the bidding window.

(2) An auction platform must sort bids submitted to it in the order of the price bid.

(3) Where the price of several bids is the same, these bids must be sorted through a random selection according to an algorithm determined by the auction platform before the auction.

(4) No bid below the auction reserve price is to be accepted.

(5) The volumes bid must be added up, starting with the highest bid price, and ignoring any bid below the auction reserve price.

(6) All bids making up the sum of the volumes bid determined pursuant to paragraph (5) must be allocated at the auction clearing price determined in accordance with regulation 7.

(7) Where the total volume of successful bids determined pursuant to paragraph (5) exceeds the volume of auctioned allowances, the remaining volume of the auctioned allowances must be allocated to the bidder that has submitted the last bid making up the sum of the volumes bid.

(8) Where there are any unsold allowances—

(a) they are to be added to the next four auctions to be held by the appointed auction platform, evenly distributed, so that a quarter of the unsold allowances is added at each subsequent auction; or

(b) if doing so would increase the volume of any of the next four auction to more than 125% of the volume first proposed for that auction (the "125% volume"), any allowances in excess of the 125% volume at that auction must—

(i) be added to any other of the four auctions for which that would not be the case, or

(ii) if all the next four auctions would be increased to more than 125% of their first proposed volume, be added to the market stability mechanism account held by the UK ETS Authority under Part 3 of Schedule 5A to the Trading Scheme Order.

(9) For the purposes of these Regulations, the auction reserve price is to be £22 per tonne of carbon dioxide equivalent covered by the auctioned allowances, or such other sum as may be specified by the Treasury by direction.

(10) The Treasury must publish any direction given under paragraph (9) in such manner as they think fit.

Auction clearing price

7.—(1) The auction clearing price is—

(a) the price of the bid at which the sum of the volumes bid matches or exceeds the volume of allowances auctioned;

(b) if paragraph (2) applies, the price of the bid which matches or exceeds the secondary market price; or

(c) if paragraph (3) applies, the price of the lowest bid above the auction reserve price.

(2) This paragraph applies where the auction clearing price determined in accordance with paragraph (1)(a) would be significantly below the price on the secondary market prevailing during and immediately before the bidding window, taking into account the short term volatility of the price of allowances over a defined period preceding the auction.

(3) This paragraph applies where the total volumes bid determined according to regulation 6(5) is less than the volume of auctioned products.

(4) Before an auction is started, the appointed auction platform must decide on the methodology to determine whether paragraph (2) applies, and if so, what the prevailing secondary market price is, (“the paragraph (2) methodology”), after consulting the auctioneer, and notifying the FCA.

(5) In between two bidding windows, the appointed auction platform may modify the paragraph (2) methodology, after consulting the auctioneer, and notifying the FCA.

(6) If the appointed auction platform modifies the paragraph (2) methodology it must notify the FCA and the auctioneer without delay.