

**Agenda for April 9, 2009 Markets Committee Stakeholder Workshop  
Seattle, Washington**

9:30 – 10:30 a.m. (all times Pacific)	WCI Overview Markets Committee Overview Introduction to Market Concepts
10:30 – 11:00 a.m.	Task 6 Principles and Discussion
11:00 – 11:30 a.m.	Task 3 Principles and Discussion
11:30 – Noon	Task 2 Principles and Discussion
Noon – 1:30 p.m.	Lunch
1:30 – 3:30 p.m.	Task 3 Principles and Questions and Discussion

## Markets Committee Draft Principles

The WCI Partner jurisdictions have formed the Markets Committee to coordinate the development of recommendations on issues and elements needed to guide the proper development and operation of a robust allowance and offset credit trading market. The WCI Partner jurisdictions and stakeholders want appropriate safeguards and oversight of the allowance and offset credit trading markets and want them to function efficiently. The Markets Committee is seeking stakeholder involvement to help achieve these goals.

To help guide the research, analysis, and deliberations of the Committee, the Committee is developing a set of principles that define the desired outcomes for three tasks described in the Committee work plan:

- Task 2: Compliance verification and enforcement;
- Task 3: Market oversight; and
- Task 6: Auction design.

Compliance verification and enforcement is part of the relationship between the Partner jurisdictions and the emitters and others who are required to surrender allowances or offset credits to satisfy a compliance obligation (“covered entities”). Market oversight is part of the Partner jurisdictions’ relationship with all market participants, which may include covered entities and others who choose to buy and sell allowances and offset credits or their derivatives.

As guidelines, the principles will help inform how to weigh the multiple objectives inherent in providing effective oversight while also enabling the market to function efficiently and effectively. The principles also acknowledge differences in the legal and regulatory environment in WCI Partner jurisdictions.

The following draft principles will be discussed at a workshop on April 9, 2009 in Seattle, Washington. You may register to participate in the workshop in person or via teleconference (<http://www.regonline.com/Checkin.asp?EventId=715231>). The Committee will also invite written comments on these draft principles through the WCI website between April 20 – May 1, 2009 ([www.westernclimateinitiative.org](http://www.westernclimateinitiative.org)). The Committee may revise the principles based on the workshop discussion and comments received, as well as other information and suggestions received throughout the process.

Thank you in advance for your comments on these materials and your participation in the April 9, 2009 workshop.

**Auction Design Draft Principles**  
**(March 31, 2009 Draft)**

These draft principles are proposed as guidelines for developing the auction design.

- **Fairness:** All market participants, especially covered entities, have fair and equal access to markets.
- **Efficiency:** The market is designed to operate efficiently so that greenhouse gas emission reductions can be achieved at the least cost. An efficient market means that allowance and offset credit prices reflect supply and demand, and accurately reveal the value of allowances and offset credits.
- **Effective Oversight:** The design and oversight of the allowance auction are effective in preventing or minimizing fraud, manipulation, and speculative excess. Auction participants have the capacity to execute the transactions when their bids win.
- **Transparency and the Reporting and Disclosure of Relevant Information:** Transparency in the design and the operation of the allowance auction builds and retains public confidence.
  - Reporting of relevant information to regulatory authorities and public disclosure of information has important benefits. It enables regulatory authorities to conduct effective oversight and ensure compliance. It also helps to ensure market efficiency, effective oversight, and compliance and enforcement. Coordinated and consistent release of market-relevant information allows all market participants have equal access to public information.
  - The reporting and disclosure requirements for compliance verification and enforcement balance these benefits against the need for entities to protect certain sensitive information. The potential to disclose certain information that could be used to manipulate the market is also considered. This balancing is consistent with applicable law relating to the disclosure of information.
- **Administrative Simplicity and Cost:** The auction is designed to be as simple as possible for participants and administrators. Administrative costs and transaction costs are minimized for all parties, consistent with the need to provide effective oversight.
- **Accountability:** All entities involved in the allowance and offset credit market, as regulators of the market or as participants in it, are accountable for their actions. The responsibility, authority, and capacity to conduct the necessary oversight and take appropriate action are fully defined for all agencies charged with compliance verification and enforcement.
- **Conflicts of Interest:** Conflicts of interest between market participants, monitors, and regulators are prevented.
- **Compatibility with Other Markets:** Entities that participate in allowance auctions may also be participants in other markets, such as the secondary market where allowances are traded or electricity wholesale markets. The auction design considers potential consequences of interactions between the operation of the auction and the operation of other markets and mitigates potential impacts.

**Market Oversight Draft Principles**  
**(March 31, 2009 Draft):**

These draft principles are proposed as guidelines for developing oversight of the allowance and offset credit and associated derivatives trading market.

- **Fairness:** All market participants, especially covered entities, have fair and equal access to the market.
- **Efficiency:** The market is designed to operate efficiently so that greenhouse gas emission reductions can be achieved at the least cost. An efficient market means that allowance and offset credit prices reflect supply and demand, and accurately reveal the value of allowances and offset credits.
- **Effective Oversight:** The design and oversight of the market is effective in preventing or minimizing fraud, manipulation, and speculative excess.
- **Transparency and the Reporting and Disclosure of Relevant Information:** Transparency in the design and the operation of the allowance and offset credit market builds and retains public confidence.
  - Reporting of relevant information to regulatory authorities and public disclosure of information has important benefits. It enables regulatory authorities to conduct effective oversight and ensure compliance. It also helps to ensure market efficiency, effective oversight, and compliance and enforcement. Coordinated and consistent release of market-relevant information allows all market participants have equal access to public information.
  - The reporting and disclosure requirements for compliance verification and enforcement balance these benefits against the need for entities to protect certain sensitive information. The potential to disclose certain information that could be used to manipulate the market is also considered. This balancing is consistent with applicable law relating to the disclosure of information.
- **Administrative Simplicity and Cost:** Proposed rules are designed to be understood and enable entities to have a clear compliance path. Administrative costs and transaction costs are minimized for all parties, consistent with the need to provide effective oversight.
- **Accountability:** All entities involved in the allowance and offset credit market, as regulators of the market or as participants in it, are accountable for their actions. The responsibility, authority, and capacity to conduct the necessary oversight and take appropriate action are fully defined for all agencies charged with compliance verification and enforcement.
- **Conflicts of Interest:** Conflicts of interest between market participants, monitors, and regulators are prevented.

**Compliance Verification and Enforcement Draft Principles**  
**(March 31, 2009 Draft)**

These draft principles are proposed as guidelines for developing compliance verification and enforcement requirements.

- **Harmonization Among Partner Jurisdictions:** To the extent permissible by law and in order to maintain the integrity of the program, compliance verification and enforcement are implemented by the Partner jurisdictions to achieve consistent regulation across jurisdictions. Enforcement and consistent regulation help to maintain a level playing field for entities. Harmonization includes:
  - Consequences for noncompliance: The consequences for non-compliance in one Partner jurisdiction are substantially the same as they would be if the non-compliance occurred in any other Partner jurisdiction.
  - Data submission by covered parties: Requirements for data submissions are consistent and timing is coordinated across Partner jurisdictions.
  - Compliance Verification: Compliance verification is consistent and timely across Partner jurisdictions.
  
- **Compliance:** Partner jurisdictions' policies lead to maximum compliance with regulatory requirements.
  
- **Transparency and the Reporting and Disclosure of Relevant Information:** Transparency in compliance verification and enforcement builds and retains public confidence.
  - Reporting of relevant information to regulatory authorities and public disclosure of information has important benefits. It enables regulatory authorities to conduct effective oversight and ensure compliance. It also helps to ensure market efficiency, effective oversight, and compliance and enforcement. Coordinated and consistent release of market-relevant information allows all market participants have equal access to public information.
  - The reporting and disclosure requirements for compliance verification and enforcement balance these benefits against the need for entities to protect certain sensitive information. The potential to disclose certain information that could be used to manipulate the market is also considered. This balancing is consistent with applicable law relating to the disclosure of information.
  
- **Administrative Simplicity and Cost:** Proposed rules are designed to be understood and enable entities to have a clear compliance path. Administrative costs and transaction costs are minimized for all parties, consistent with the need to provide effective compliance verification and enforcement.
  
- **Accountability:** All entities involved in the allowance and offset credit market, as regulators of the market or as participants in it, are accountable for their actions. The responsibility, authority, and capacity to conduct the necessary oversight and take appropriate action are fully defined for all agencies charged with compliance verification and enforcement.

### **Markets Committee Questions for Stakeholder Input**

The WCI has formed the Markets Committee to coordinate the development of recommendations on issues and elements needed to guide the proper development and operation of a robust allowance and offset credit trading market. The WCI Partner jurisdictions and stakeholders want an allowance and offset trading market that has appropriate safeguards and oversight and that will function efficiently. The Markets Committee is seeking stakeholder involvement to help achieve these goals.

To help guide the research, analysis, and deliberations of the Market Oversight task of the Committee, the Committee is soliciting input on the attached questions. The Committee will be using these questions to motivate a discussion of market oversight issues at a workshop on April 9, 2009 in Seattle, Washington, and solicits input from stakeholders in response to them. The Committee will also be inviting written comments through the WCI website at [www.westernclimateinitiative.org](http://www.westernclimateinitiative.org) between April 20 – May 1, 2009.

Thank you in advance for your comments on these materials and your participation in the April 9, 2009 workshop.

**Market Oversight Questions for the April 9, 2009 Workshop**

- 1) Who should have the opportunity to purchase, own, and sell WCI Partner jurisdiction allowances and offset credits and under what conditions, if any, in the
  - a) primary market?
  - b) secondary markets?
- 2) What is your primary concern about how this market can be manipulated and by whom? Is there something peculiar to a market for greenhouse gases that could lead to excessive speculation?
- 3) What is the role you see for speculators in this market? Is it different than the role played in other markets?
- 4) How should WCI Partner jurisdictions monitor the WCI cap-and-trade markets? What tools and capacity should the WCI Partner jurisdictions develop?
- 5) What information should be collected by regulatory authorities for use in the oversight of WCI cap-and-trade primary, secondary, and derivatives markets? Of the information collected by regulatory authorities on the WCI cap-and-trade market, what information should be made public, in what form (e.g., aggregate form only), and at what frequency (e.g., daily, weekly)?
- 6) What financial instruments (e.g., derivative products) would you find important to manage risk and why?
- 7) What form should WCI Partner jurisdictions' interaction take with each other, with a WCI regional administrative organization, US and Canadian government institutions, and other external bodies (such as exchanges) to provide oversight of the primary, secondary, and derivatives markets, such as Memoranda of Agreement? What information should they exchange with these institutions?
- 8) What specific potential do you see for interaction between the markets for WCI Partner jurisdiction allowances and offset credits, markets for their derivatives, and other markets, e.g., renewable energy credits, that might create opportunities for, or exacerbate the effects of, fraud, manipulation, or speculative excess?
- 9) What trading rules would you like to see for WCI cap-and-trade market participants to ensure accountability, transparency, prevention of fraud, manipulation and excessive speculation?
- 10) What other market oversight issues, not covered in these questions, should the WCI Partner jurisdictions be looking at?