OVERVIEW PRESENTATION ON REGISTRY ADMINISTRATION & INSTITUTIONAL APPROACHES

WORKSHOP "BUILDING REGISTRIES TO SUPPORT THE NEXT GENERATION OF CARBON MARKETS"
PARTNERSHIP FOR MARKET READINESS

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Content

1. "Setting the Institutional Framework for Transaction Registry Administration": overview of the background note

2. Experience with European national registries

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Scale and scope of the registry

Three levels of registry administration

➢ **Level 1:** Few users and transactions; only the administrator can access the registry system.

➢ **Level 2:** Exchanges are limited; The execution of operations requires the involvement of the administrator.

➢ **Level 3:** Frequent and numerous transactions; users perform operations on-line, with no intervention by the registry administrator. A range of users exist including non-compliance participants.

Level 3 registries are more automated, and manage much more trading transactions than other registries / registers do.

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Defining registry administration

Responsibilities and risks in registry administration

- ➢ Clarify respective responsibilities of the regulator, the registry administrator, and account holders
    - ▪ Detail registry administrator's responsibilities

- ➢ Assess the main risks a registry administrator is exposed to and identify appropriate mitigation measures

- ➢ List all the documents required to perform « Know Your Customer » checks

Assessing risks and listing responsibilities, enables mandating an entity to administrate the registry

Mandating a registry administrator

Criteria to make a decisions

Key criteria for choosing a registry administrator are:

➢ Specific expertise; Level of service; Risks management; Costs and resources.

Examples:

Registry Administrator's responsibilities	UK	Austria (Formerly)	Spain	France
Arbitration			Regulator	
Staff Management	Regulator	Regulator	Public Company (Custodian / Securities)	Public Bank
Operations				
Hotline		Private Company		

Administering a registry

Operations, resources and costs

➢ Map all registry administration tasks grouped by processes, including:

- ▪ Management;

- ▪ Operations; and

- ▪ Support.

➢ List the skills required from the registry administration team;

➢ Plan the resources needed and associated costs

- ▪ The note provides a breakdown of the workload to administer a registry in the case of an ETS;

➢ Establish a fee schedule

- ▪ The note provides an overview of existing registry fees.

Charging fees to recover registry costs, induces additional workload to count, invoice, and potentially manage litigations

Administering a registry

Options to reduce registry administration costs

➢ **Formalize operational procedures**

  ▪ Equal treatment of all users (Quality, security, timeliness…)

➢ **Apply controls and monitoring that are proportional to the risks associated with the volumes traded by the account holder**

➢ **Computerize tasks**

  ▪ Exchange of documents and information with users

  ▪ Monitoring of accounts activity

➢ **Enhance connectivity with others IT systems** (including public databases)

➢ **Provide users with training material and support** to reduce the need for hotline support

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Experience with a UK National Register "level 1"

**Comparison between volumes traded and verified GHG emissions (National Emission Reduction Plan)**

2007 - 2015

■ Verified Emissions (Total)   ■ Volumes traded (all types)
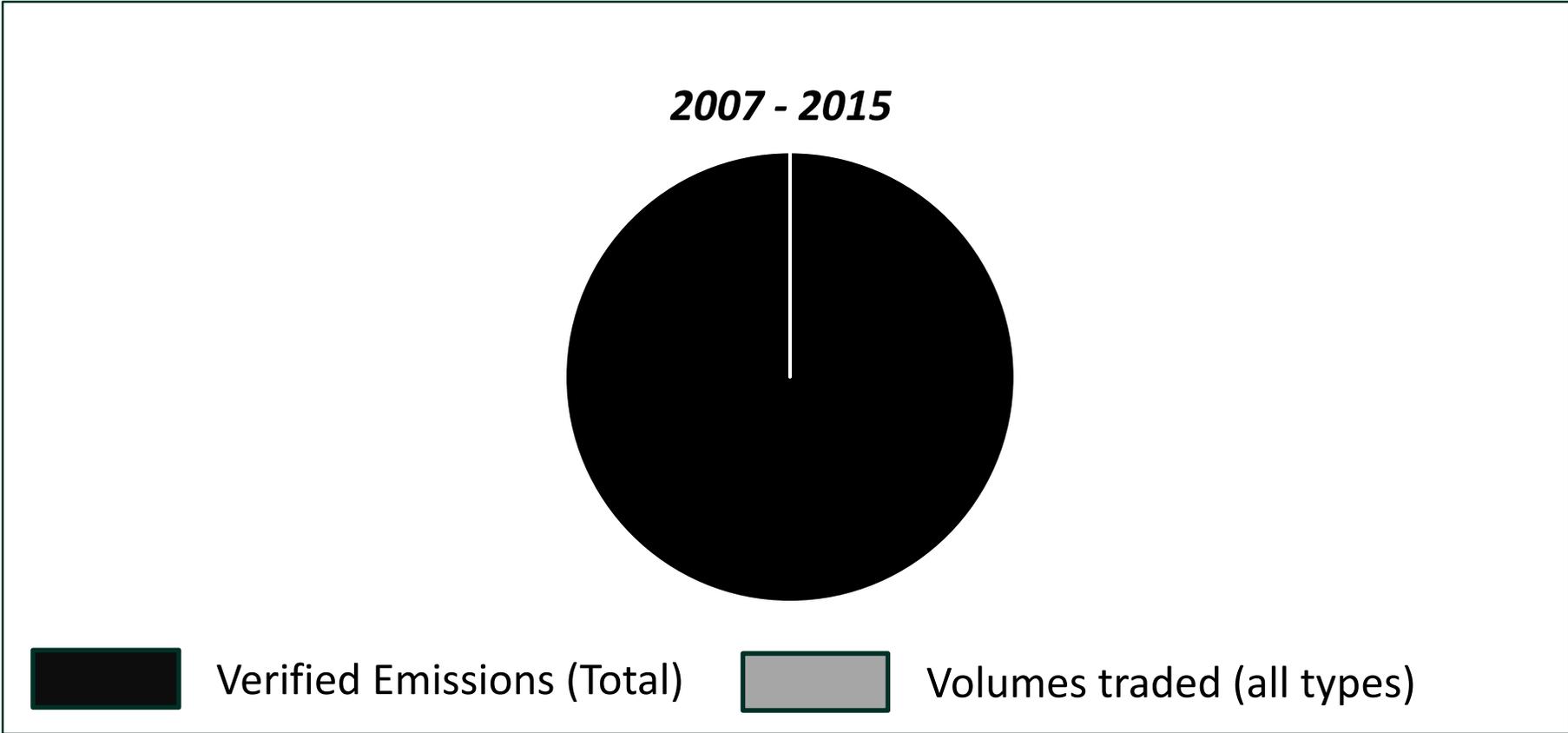
From 2007 to 2015, volumes traded in NERP were many hundreds of times lower than the amount of Verified Emissions.

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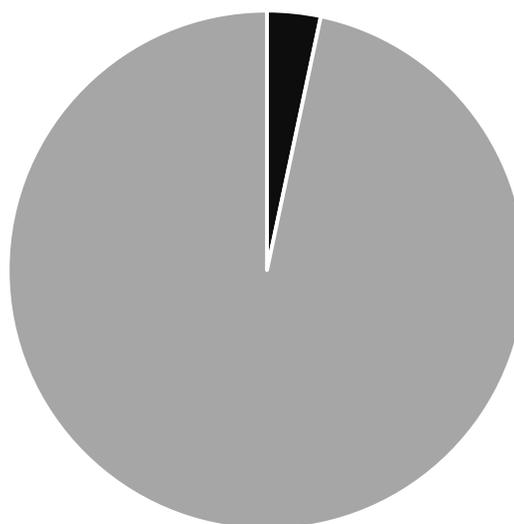
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Experience with the UK National Registry "level 3"

Comparison between volumes traded and verified GHG emissions (EU ETS)
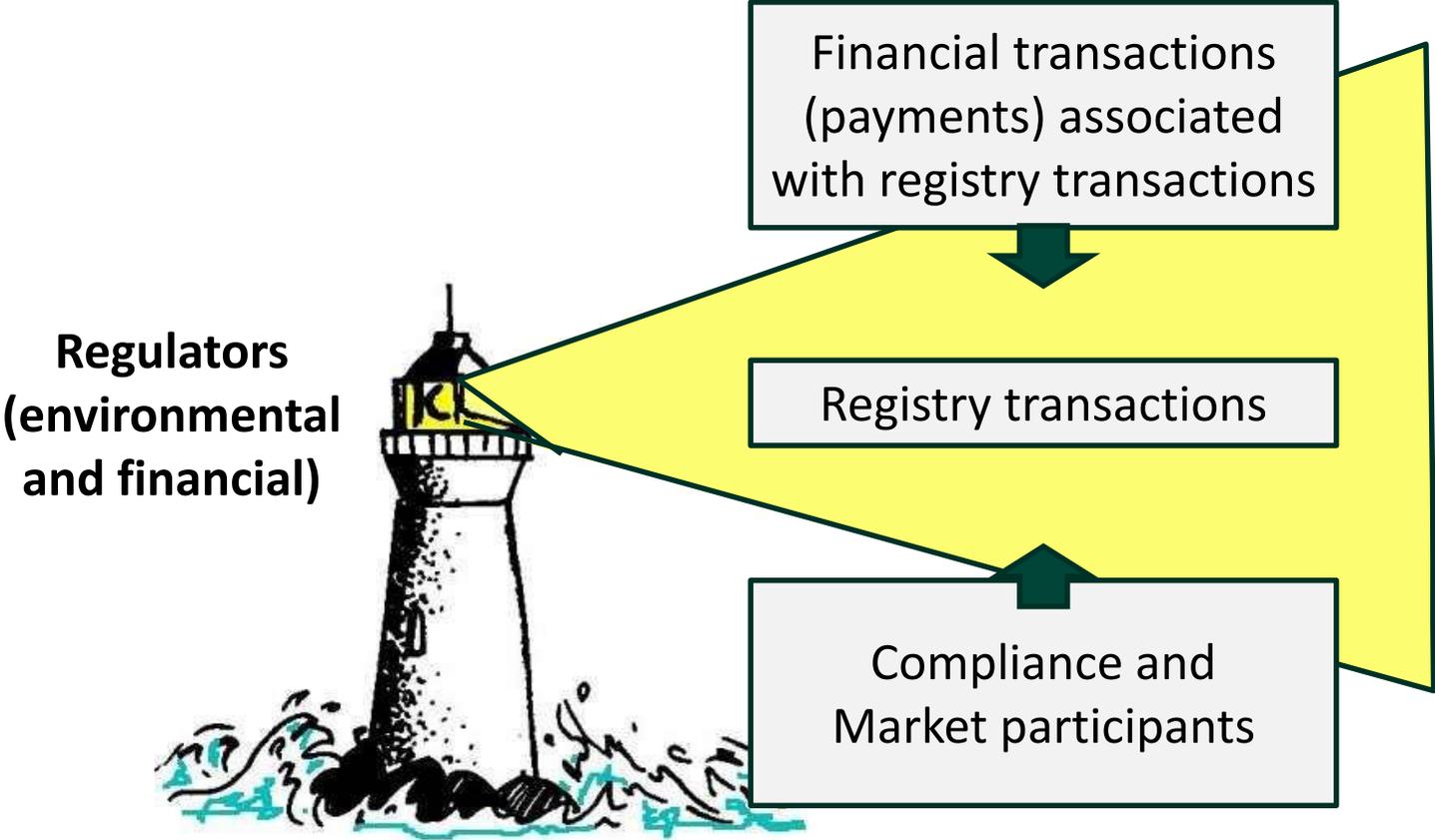
2005 - 2007
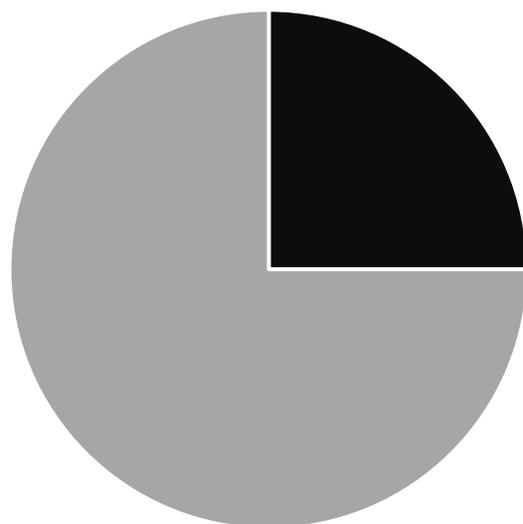
2008 - 2012

GHG Volumes traded in the UK grew from 3 to 30 times greater than the amount of Verified Emissions (EU ETS).

■ Verified Emissions (Total)

■ Volumes traded (all types)

Volumes transacted within a Market Mechanism may reach a significantly greater scale than the volumes required for compliance purposes.

Experience with European national registries

Scope of existing applicable regulations

Financial transactions (payments) associated with registry transactions

Regulators (environmental and financial)

Registry transactions

Compliance and Market participants

Solutions have to be found in order to let all participants, and payments associated with registry transactions, benefit from the protection of existing applicable regulations

Experience with European national registries

Effectiveness of KYC checks

- ➤ Registry administrator to have discretion and **decision making powers**?
  - ▪ Counter-power: regulatory restrictions, appeal procedures, connected registries…
- ➤ To whom and how to report suspicious activity?
- ➤ Other applicable regulations may restrict ability to store or share data with other registry administrators;
- ➤ Do not underestimate the potential for abuse, the expertise of fraudsters
  - ▪ And issues involved helping administrative staff to deal with difficult situations

KYC checks in practice, face various kinds of limits to their efficiency.
An on-going vigilance is required.

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Experience with European national registries

Subcontracting registry IT

➢ **From 2005 to 2012**

- IT provision in UK (in the form of development, software provision and hosting) was subcontracted to a number of different organisations

- Germany has experienced 3 different registry solutions (off-the-shelf, adapted from an open source solution, and now CSEUR)

➢ **Since 2012** IT provision has been centralised across the EU ETS and associated Kyoto Registries

A "one stop shop" where all aspects of the IT were with the same subcontractor show many advantages (cost, complexity, equity of treatment), however, Centralising can also lead to IT security compromises, and lower responsiveness to change: drawing lessons from experience and preserving adaptiveness is key.

Experience with European national registries

Establishing a fee schedule

- ➢ Most of EU registries are required to operate in a revenue neutral (non profit) manner
  - ▪ This can cause unintended consequences: a rigid budget can prevent or postpone required security improvements
- ➢ Registry costs in UK are not covered by the budget nor by auction revenues
  - ▪ start up registry costs were covered by government
  - ▪ cost are added to issuing operator permits and fees on market participants.
- ➢ Counting to invoice can lead to lengthy tasks and controversial outcomes
  - ▪ E.g. counting for each user's phone calls duration and email requests sent to the hotline

Charging for registry services generates a specific workload (invoicing, monitoring payments…). In practice, a period of several years may precede payments for services charged.

Conclusions

Common recommendations and guidance on the development of an institutional frameworks for registry administration

1. **Assess risks** facing registry administration and potential mitigation measures
2. Aim at **benefitting from the protection of existing applicable regulations** (e.g. financial probity for non-compliant participants, and payments related to transactions)
3. **Facilitate cooperation** between the registry administrator and relevant **authorities** and with other registry administrators
4. **List responsibilities and tasks** and operations to be performed by the registry administrator
5. **Mandate** an appropriate entity to administer the registry
6. **Empower** the registry administrator to arbitrate (e.g. refuse to open an account)
7. **Estimate the resources and costs** associated with registry administration – and identify relevant measures and options to reduce them if needed
8. Consider options for ensuring the **financial viability** of registry administration
9. Set-up robust **monitoring and oversight of registry activities**

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Thank You for Your Attention

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