

Carbon Markets: From Current Practices to Their Role in the New Climate Regime

March 12-13, 2015

London, United Kingdom

Carbon Finance Innovation in China's Emissions Trading Pilots

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March 12, 2015 London

1. Big Policy Context

1) Decision of the State Council on Straightening out and Rectifying Various Types of Trading Venues to Effectively Prevent Financial Risks (2011)

- Aims at exchanges for property rights, artworks, futures of bulk commodities, etc.
- T+5 requirement
- No centralized trading of standardized contracts through means of including, inter alia, centralized bidding, electronic matching, anonymous transactions, market maker

2) Implementation Opinions of the General Office of the State Council on Straightening out and Rectifying Various Types of Trading Venues (2012)

- carbon emissions

2. Carbon Financial Products

- 1) Futures or options not possible
- 2) Spot transactions the only choice
- 3) Limited transactions
 - ~100 million US\$
 - ~17 million allowances

2. Carbon Financial Products

4) Overview of products

Product	Hubei	Shenzhen	Shanghai
Emissions allowance pledge loan	√		
CCER pledge loans			√
Carbon bond	√ (not yet issued)	√ (CCER)	
Emissions allowance trusteeship	√	√	
Green structured deposit		√	
Carbon fund	√	√	

2. Carbon Financial Products

5) Emissions allowance/CCER pledge loan

- Owners of allowances/CCERs (pledge) vs. financial institutions (loan) vs. exchanges (deposit service)
- Two types of pledge combination
 - ✓ allowances/CCERs the sole pledge
 - ✓ allowances/CCERs in combination with fixed assets

6) Carbon (CCER vs. allowances) bonds

- interest rate = fixed interest rate (5.7%) and floating interest rate (0-0.15%)

2. Carbon Financial Products

7) Emissions allowance trusteeship

- Transfer of control of registry account vs. transfer of units to specified account
- Risk control measures by exchanges
- Different eligibility requirements for trustee by different exchanges
- Reward to trustee with high transaction volumes

8) Green structured deposit

- Return of deposit = financial revenues + allowances

3. Prospects in the National Market

- 1) Importance of futures well understood
- 2) Discussion with securities market regulator
- 3) Research on futures under China's PMR projects
- 4) Possible relevant provision in the national system rules

Thanks

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