

Overview of Compliance Instrument Accounts

CITSS Accounts

- The CITSS tracks the status, ownership, and transfers of compliance instruments (allowances and offsets).
- Each entity in the CITSS is assigned accounts.
- The number and type of accounts depends on the type of entity or organization.
- ARB has several jurisdiction accounts for the creation, allocation, surrender, and retirement of compliance instruments.

CITSS Entity Accounts

- Accounts are assigned based on the type of entity.
- Four types of accounts that can be assigned to an entity in the CITSS:
 - General Account (referred to as a Holding Account in the Regulation)
 - Compliance Account
 - Limited Use Holding Account
 - Exchange Clearing Holding Account
- No entity needs or could receive all four account types.

CITSS Entity Accounts

Type of Entity Account	Covered Entities and Opt-In Entities	General Market Participants (Organizations and Individuals)
General	✓	✓
Compliance	✓ ¹	
Limited Use Holding	✓ ²	
Exchange Clearing Holding		✓ ³

¹ Publicly Owned Utilities (POUs) that receive an allocation of free allowances but have no compliance obligation apply for accounts in the CITSS as Covered Entities. The *Compliance Accounts* for these entities are disabled.

² Only entities that are electrical distribution utilities designated by the Regulation receive a *Limited Use Holding Account*.

³ There are specific requirements to register as an Exchange Clearing Service Provider. Exchange Clearing Service Providers receive only *Exchange Clearing Holding Accounts*.

CITSS Entity Accounts

- General Account
 - The most basic type of account.
 - Every entity in the CITSS, except for Exchange Clearing Service Providers, have a General Account for holding compliance instruments.
 - Routine transfers of compliance instruments between entities occur between General Accounts.

CITSS Entity Accounts

- Compliance Account
 - Assigned only to Covered Entities and Opt-In Entities.
 - In certain circumstances, allocations of free allowances are placed in compliance accounts.
 - Used to surrender compliance instruments to satisfy compliance obligations.
 - Once placed in a compliance account, instruments cannot be transferred out of the compliance account.

CITSS Entity Accounts

- Limited Use Holding Account
 - Only provided to entities that are electrical distribution utilities (EDUs) designated by the Regulation.
 - Allocations of free allowances are typically issued into an EDU's Limited Use Holding Account.
 - Allowances placed in a Limited Use Holding Account can only be consigned to the Auction Account.

CITSS Entity Accounts

- Exchange Clearing Holding Account
 - Issued to entities that are voluntary participants that provide exchange clearing services.
 - For the purpose of clearing transactions between two entities registered with the Cap-and-Trade Program.
 - Specific requirements in the regulation to qualify as an Exchange Clearing Service Providers

CITSS Jurisdiction Accounts

- ARB maintained accounts used to administer the CITSS.
- Entities would interact with some through allocations and transfers.
- The types entities may see include:
 - Allocation Account
 - Auction Account
 - Retirement Account

CITSS Jurisdiction Accounts

- Allocation Account
 - ARB distributes allowances from the Allocation Account to other jurisdiction accounts, Limited Use Holding Accounts, and in some cases, Compliance Accounts of participating entities.

CITSS Jurisdiction Accounts

- Auction Account
 - Allowances that are available for Auction are held in the Auction Account. Entities may only consign allowances to the Auction Account from their Limited Use Holding Account. Following an auction, entities with winning bids will receive allowances from the Auction Account.

CITSS Jurisdiction Accounts

- Retirement Account
 - The Retirement Account is used to voluntarily remove instruments from the market. Entities in the CITSS may voluntarily retire compliance instruments from their General Account to the Retirement Account. This action does not meet any compliance obligation of the entity surrendering instruments.

CITSS Account Status

- There are seven status conditions that can be assigned to accounts by the Jurisdiction Registrar.
- The status of an account determines the ability to transfer compliance instruments into or out of the account.
- In addition, account status determines if information from the CITSS will be sent to the Auction Administrator to support the auction application process.

CITSS Account Status

- The account status conditions are:
 - Active: Typical account state; is able to send/receive instruments in accordance with all rules and regulations.
 - Restricted - Can't Transfer: Account is prevented from transferring compliance instruments but can still accept transfers.
 - Restricted - Can't Receive: Account is prevented from receiving any compliance instruments but can still send transfers to other accounts and entities.
 - Restricted - Can't Transfer or Receive: Account is prevented from both transferring and receiving compliance instruments.

CITSS Account Status

- The account status conditions are:
 - Suspended: Account is prevented from both transferring and receiving instruments. Regulatory requirements and additional restrictions are in place for Suspended Accounts.
 - Inactive: Used primarily for General Market Participant accounts that have not transferred compliance instruments for three years or more. Inactive accounts are prevented from both transferring and receiving instruments.
 - Closed: Closed accounts are prevented from both transferring and receiving compliance instruments.

Overview of the CITSS Transfer Process

CITSS Transfer Process

- Transfer Process Naming Conventions
 - Transferring - used to describe the source of the compliance instruments - the entity or account from which funds are being transferred.
 - Receiving - used to describe the entity or account into which the transferred compliance instruments are being moved - the recipient of the transfer.
 - Transfer Request - tracks the progress of a transfer from proposal to completion. A representative of the transferring entity enters the information about a compliance instrument transaction into the CITSS to create a transfer request.

CITSS Transfer Process

- There are two general types of transfers:
 - Transfers between entities requiring action of the transferring and receiving entities.
 - Transfers requiring action of the transferring entity only, can be between one entity's internal accounts, an entity and an exchange clearing service provider, or an entity and jurisdiction accounts.

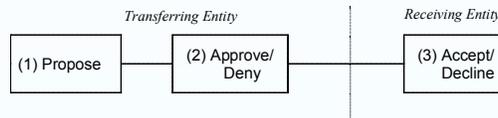
CITSS Transfer Process

- **Transfers between entities requiring action of the transferring and receiving entities**
 - Requires three steps (Propose, Approve, and Accept).
 - Both the transferring and receiving entities must participate in the transfer process.
 - Transferring entity Proposes and Approves the transfer.
 - Receiving entity Accepts the transfer.
 - Instruments are transferred, and the transfer status changes to Complete when the transfer request is Accepted by the receiving entity.

CITSS Transfer Process

- **Transfers requiring action of the transferring entity only**
 - Require 2 steps (Propose and Approve).
 - Transferring entity Proposes and Approves.
 - The receiving account does not have to Accept.
 - Instruments are transferred, and the transfer status changes to Complete when the transfer request is Approved.

CITSS Transfer Process



Timing Requirements for Transfers

- Reporting a transfer in the CITSS is subject to three timing requirements:
 1. A transfer between entities must be reported within three days of the settlement date,
 2. A transfer request must be Approved within two days of being proposed, and
 3. A transfer request must be Accepted and Completed within three days of being proposed.
- All scheduling within the CITSS is based on prevailing Eastern Time (ET), i.e., Eastern Time with seasonal adjustments for daylight savings.
- A “day” begins at midnight (12:00 a.m.) and lasts until 11:59 p.m. the next evening.

Timing Requirements for Transfers

Timing Requirement to Report a Transfer Following the Settlement Date

Friday	Saturday	Sunday	Monday
12 a.m. ET	12 a.m. ET	12 a.m. ET	12 a.m. ET
Settlement Date	Day 1	Day 2	Day 3
The three-day period to report a transfer begins at midnight (12 a.m. ET) of the day following the Settlement Date.			A transfer request must be Accepted within three days, i.e., not later than 11:59 p.m. on Day 3. If the transfer request is not Accepted by the end of Day 3, the transfer violates the regulatory requirement to report in the CITSS.

Timing Requirements for Transfers

Timing Requirements of the Transfer Process

Friday	Saturday	Sunday	Monday
12 a.m. ET	12 a.m. ET	12 a.m. ET	12 a.m. ET
Transfer Request Proposed	Day 1	Day 2	Day 3
A representative of the transferring entity Proposes a transfer request. The three-day period begins at midnight (12 a.m.) ET of the day following Proposal of the transfer request.	A second representative of the transferring entity must Approve the Proposed transfer request no later than <u>two days</u> after it is proposed, i.e., by 11:59 p.m. of Day 2.	If the transfer request is not Approved by the end of Day 2, the CITSS automatically expires the transfer request.	When applicable, a representative of the receiving entity must Accept the transfer request within three days, i.e., not later than 11:59 p.m. on Day 3. If the transfer request is not Accepted by the end of Day 3, the CITSS automatically expires the transfer request.
The transfer status is PROPOSED	The transfer status changes to APPROVED		The transfer status changes to COMPLETE

Status of Transfer Requests

- Proposed status: The transfer request has been Proposed by a PAR or AAR and is awaiting approval from another account representative of the transferring entity.
- Approved status: The transfer request has been Approved by a second account representative (PAR or AAR) of the transferring entity. An account representative of the receiving entity must now either Accept or Decline the transfer request.
- Accepted status: The transfer request has been Accepted by an account representative of the receiving entity.
- Complete status: The transfer request is complete, and the compliance instruments have been transferred to the receiving entity's account.

Status of Transfer Requests

- Cancelled status: A transfer request was Cancelled by the account representative of the transferring entity that initially proposed the transfer. Only the representative that entered the initial Proposal can Cancel the proposed transfer.
- Denied status: The transfer request was Denied by an account representative of the transferring entity (following Proposal).
- Declined status: The transfer request was Declined by an account representative of the receiving entity.
- Expired status: Either the transfer request was not Approved before midnight of the second calendar day following proposal or the transfer request or was not Accepted before midnight of the third calendar day following Proposal of the transfer request. The transfer request has timed-out.

Preparing to Transfer Compliance Instruments

- The following information is required to prepare and propose a request to transfer allowances from a General Account to another General Account.
 - Account Number of Receiving Account (obtained from representative of receiving entity)
 - Entity Reference Code of Receiving Entity (obtained from representative of receiving entity)
 - Type, vintage, and quantity of Compliance Instruments to be transferred
 - Transfer to Corporate Associate (yes/no)
 - Price (average price per ton)
 - Currency involved (USD, CAD)
 - Trading Venue (Exchange, OTC)
 - Type of Contract (Forward, Future, Spot, Other)
 - Settlement Date
 - Agreement Date

Transfer Process Examples

Transfer Examples

- This following section will present these step-by-step examples:
 - Example 1: Complete a transfer from a *General Account* to the *General Account* of another entity
 - Example 2: Complete a Transfer From a *General Account* to a *Compliance Account*
 - Example 3: Complete a Transfer From a *Limited Use Holding Account* to the *Auction Account*
 - Example 4: Complete a Transfer From a *General Account* of an Individual General Market Participant to an Exchange Clearing Service Provider

Transfer Examples

- Example 1: Complete a transfer from a *General Account* to the *General Account* of another entity requires the following steps:
 - Representative 1 of Entity A - Proposes the Transfer Request
 - Representative 2 of Entity A - Approves the Transfer Request
 - Representative 1 of Entity B - Accepts the Transfer Request