



## The Green Exchange

Response to California Air Resources Board Office of Climate Change Market Tracking System  
Request for Information (May 24, 2010)

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The Green Exchange is proud to respond to the California Air Resources Board's Request for Information regarding the development of a tracking system. The Green Exchange is comprised of a diverse group of industry leaders that share a common goal and bring together deep expertise and vast experience in environmental markets. The owners of the venture's holding company, Green Exchange Holdings LLC, are: Constellation NewEnergy, Credit Suisse Energy, Evolution Markets, Goldman Sachs, ICAP Energy, J.P. Morgan Ventures Energy, Morgan Stanley Capital Group, RNK Capital, Spectron Energy, TFS Energy, Tudor Investment, Vitol and CME Group, the world's largest and most diverse derivatives marketplace.

In March 2008, NYMEX, now part of CME Group, expanded its existing suite of environmental futures and options contracts to meet the growing needs of the industry by listing a more comprehensive range of futures and options contracts to enable all market sectors to manage their risks and implement their investment strategies. These products are based on commonly traded instruments in the European and U.S. markets: Climate Action Reserve Climate Reserve Tonne™ (CRT), European Union carbon allowances (EUA), U.N.-certified carbon offsets (CER), U.S. Regional Greenhouse Gas Initiative carbon allowances (RGGI) and U.S. emissions allowances (SO<sub>2</sub>, NO<sub>x</sub>).

The Green Exchange has filed an application with the U.S. Commodity Futures Trading Commission to operate as a stand-alone futures exchange and to list for trading the contracts that are currently traded on NYMEX. Until Green Exchange LLC is a Designated Contract Market, and the listing of the contracts is transferred to the Green Exchange, these contracts will continue to be listed for trading on NYMEX. The Green Exchange anticipates that following regulatory approval of its application, the Green Exchange will launch additional products that focus on the needs of evolving regional, national and international markets, including the U.S. compliance market. Products will be listed for trading via the CME Globex platform and over-the-counter transactions can be cleared through CME ClearPort. All transactions benefit from the safeguards and standards provided by CME Group's respected and well-established clearinghouse.

## Qualifications

The Green Exchange and its partners have extensive experience operating auction and exchange services. Through its partners, the Green Exchange is able to provide the surety of the world's largest commodity clearing system.

The Green Exchange provides a global marketplace for futures and options contracts on environmental commodities. The Green Exchange deploys the world's leading commodity infrastructure.

- **Exchange Trading** – The underlying matching engine of the Green Exchange, CME Globex has more than 48 million contracts of open interest, ADV, and nearly 11.5 million contracts

traded per day

- **Over-the-Counter Transactions** – The Green Exchange supports OTC clearing services through CME ClearPort, which manages more than 500,000 commodity contracts daily with more than 10,000 registered users worldwide
- **Clearing** – The Green Exchange utilizes CME Clearing, one of the world’s largest and most secure clearinghouse’s with more than 70 clearing members comprised of the largest financial institutions in the world with an 8 billion dollar guarantee fund

## Recommendations to California Air Resources Board

The Green Exchange believes that several high-quality, existing tracking systems have already been developed within the US and international carbon markets. As proposed in the Request for Information, the Green Exchange does not intend to develop or provide tracking systems for carbon markets in California. The Green Exchange believes the California Air Resources Board should build on the experience and systems that have already been developed for the existing carbon markets.

The Green Exchange looks forward to an opportunity to deploy its resources and experience to help California develop the market infrastructure including auctions, clearing, and essential hedging tools such as futures and options. The Green Exchange also would appreciate the opportunity to provide the California Air Resources Board comments on the tracking systems based on its experience in the major environmental markets across the world.

There are key principles that the Green Exchange highly recommends the California Air Resources Board consider when developing an RFP and selecting a vendor, including:

1. **Independence.** The tracking system provider should be completely independent of the exchange function. Independence insures integrity and competitive options for customers to minimize the cost of compliance.
2. **Build on Experience.** All parties will benefit from the state selecting to improve upon existing platforms rather than developing completely new systems. More than 5 years of real market experience exists for operating systems and the opportunity for introducing new errors and complications are greatly mitigated by utilizing one of these tested systems.
3. **Select Only One Tracking Vendor.** Many of the market anomalies that have occurred in Europe were exacerbated by the existence of multiple registries.
4. **Electronic Reporting.** All systems should be able to communicate with standard interfaces (e.g., FIX). There should be no requirement for market participants or other vendors in the California Greenhouse Gas market ecosystem to be required to interface via phone, email, or the internet. These limitations are inefficient and, more importantly, create an opportunity for error.



5. **Strong Contractual Relationships.** All activity within the tracking systems should be governed by the state's regulatory regime and not be subject to operating rules of the tracking system provider. Operating rules should be developed to promote capital investment in California's resource needs by providing regulatory certainty.

The Green Exchange appreciates the opportunity to provide these comments and looks forward to an opportunity to work with the California Air Resources Board to help develop many of the key infrastructural requirements of a well functioning greenhouse gas market. The Green Exchange would be pleased to provide additional information to the California Air Resources Board.