

II. Key Considerations for Trading

A. Objective

1. Develop a viable credit trading system
2. Ensure the ability to monitor and evaluate the health of the market

B. Role of Market

An effective and well-functioning market for LCFS credit exchanges would support efficient deployment of capital to developing and deploying the most viable and least cost low-carbon fuel options. This would, in turn, lead to the lowest cost for LCFS compliance. A common characteristic of all efficient markets is the availability of reliable and timely market transaction information. In the case of the LCFS, public availability of appropriate credit transaction information will enable more informed and confident business and investor decision-making. It is necessary to respect confidentiality of strategic business information – such as the identity of parties to a transaction, or the amount of credits any party has in its accounts. On the other hand, market awareness of transaction details such as price, volume, and timing of credit trades will increase confidence among market participants in their understanding of market valuations.

C. Role of ARB

In order to establish a smoothly-functioning market for credit exchanges, the ARB will need to establish the structure and rules that ensure appropriate availability of information regarding credit transactions. There are a number of options for how credit transactions might be carried out:

- Option 1: ARB requires obligated and non-obligated parties to report to the ARB all credit buying and selling transactions. The ARB publishes only the appropriate transaction details..
- Option 2: ARB requires that all credit buying and selling transactions be conducted by authorized third-parties. The appropriate transaction details are published by either the ARB or the authorized third-parties.
- Option 3: ARB requires that all buying and selling transactions be conducted through the ARB. The ARB publishes appropriate transaction details.

D. Transparency

1. Information needed for the credit market to function

Establishing a system for assigning serial number to LCFS credits will enable multiple benefits including, guarding against fraudulent credit transactions, ensuring against the creation of fraudulent credits, and providing the government with data on the sources and types of fuel from which credits – and carbon intensity reductions – are derived.. The Federal RIN coding system may be a good example of how to assign and utilize credit serial numbers. Encoded in the serial number should be information on fuel type, feedstock type and potentially fuel country of origin. For a viable credit market to function, the following information is required for each buying and selling transaction:

- Date of transaction
- Credit serial numbers
- Number of credits
- Price per credit
- Identification of both companies involved in the transactions

As discussed above the availability of timely, reliable, and appropriate pricing data is crucial to enable efficient markets, and an efficient LCFS credit market will enable the LCFS to be implemented in the most cost-effective manner practicable. With technology currently available,

it should be feasible to have transactional information posted on a website promptly after any transaction. For example, both parties involved in the transaction could be required to enter transaction information on a controlled and secure server site. Dual entry of the data could reduce the risk of errors in reported transaction details. The data could be quickly checked for accuracy and appropriate transaction details could be automatically published on a public website within days or hours.

2. Information to be made available to the public

For each individual transaction, the following information should be made available to the public:

- Date of the transaction
- Number of credits exchanged
- Price per credit

3. Information that should remain confidential

The following information should remain confidential:

- Identification of the companies involved in each transaction, including their role as buyer or seller.
- Credit positions of companies throughout the year, i.e., would not provide information as to how many credits a company holds or whether a company is in a deficit position during the year

E. Monitoring

1. Ensuring credit trading is a competitive exchange
2. Protection from fraudulent use of the system

F. Ensure longevity and robustness in the credit trading market