

Montel Alpine Energy Days
21 March 2014 in Kitzbühel



European Federation of Energy Traders

Understanding REMIT. Challenges and Opportunities for Players



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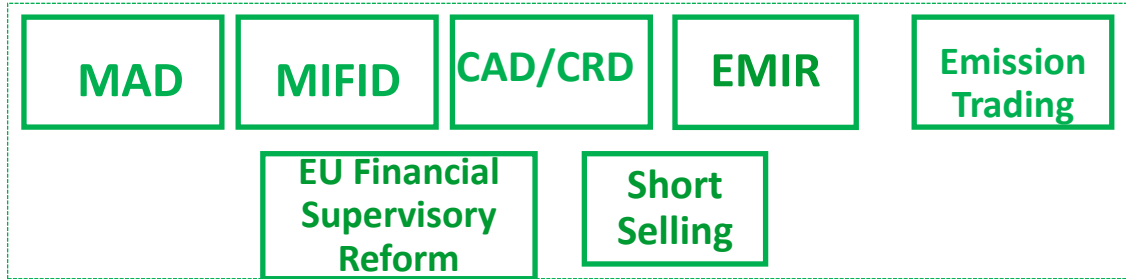
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Overview of future regulatory framework

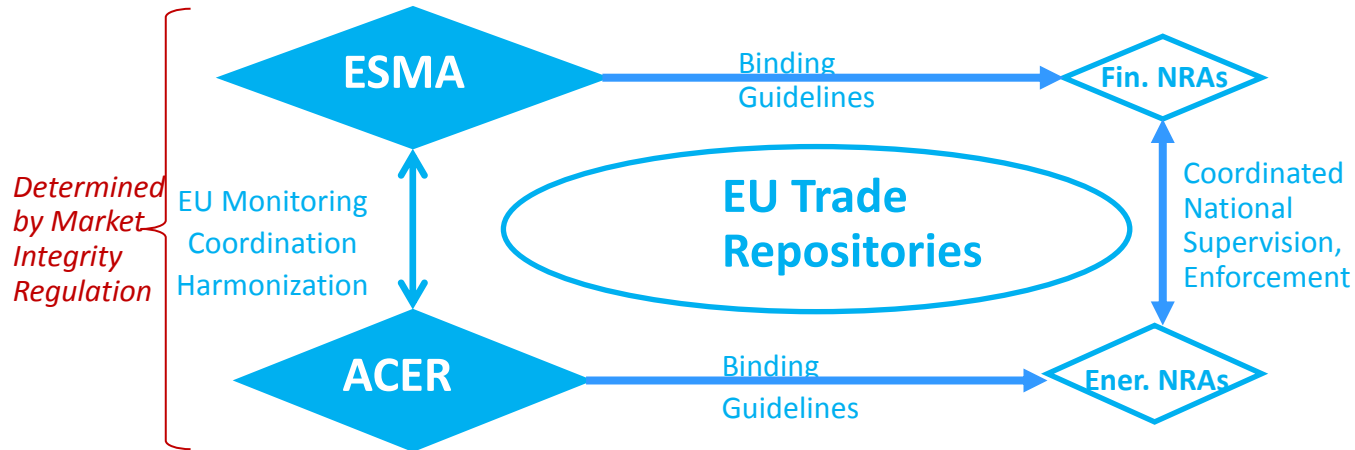


Directives

Implementing measures:
Regulations /
Directives



Energy trading relevant "financial" legislation for financial derivatives markets

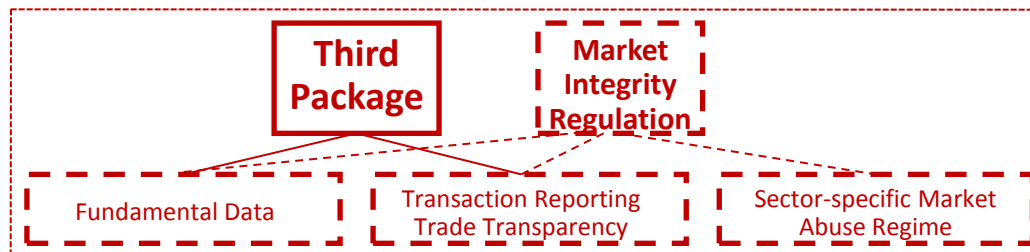


Determined by Market Integrity Regulation

Energy Wholesale Market Transparency & Integrity Regime

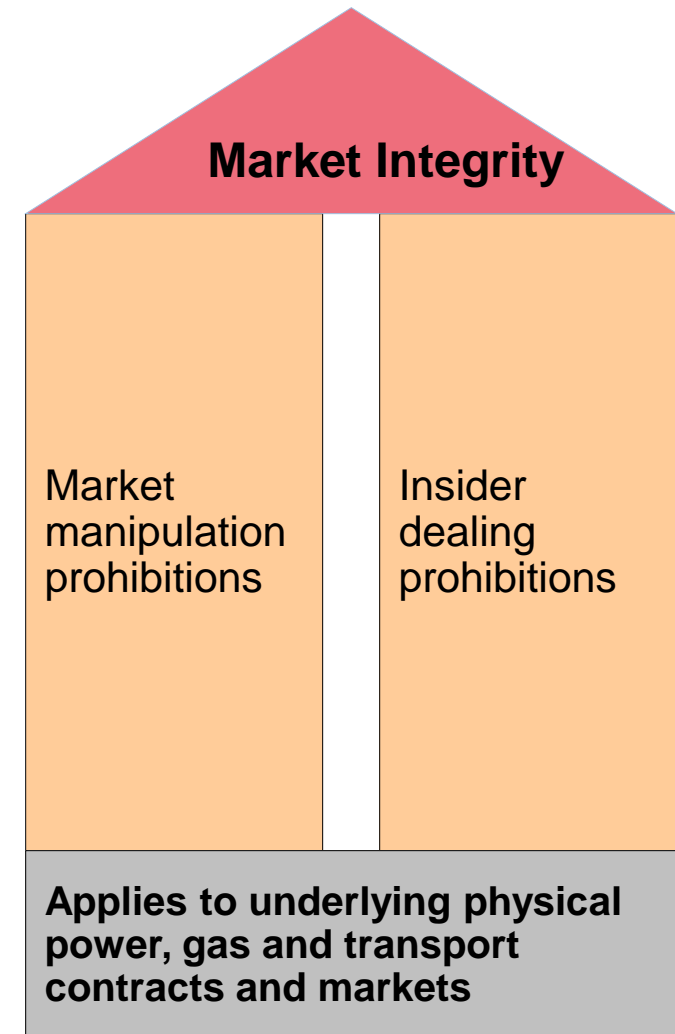
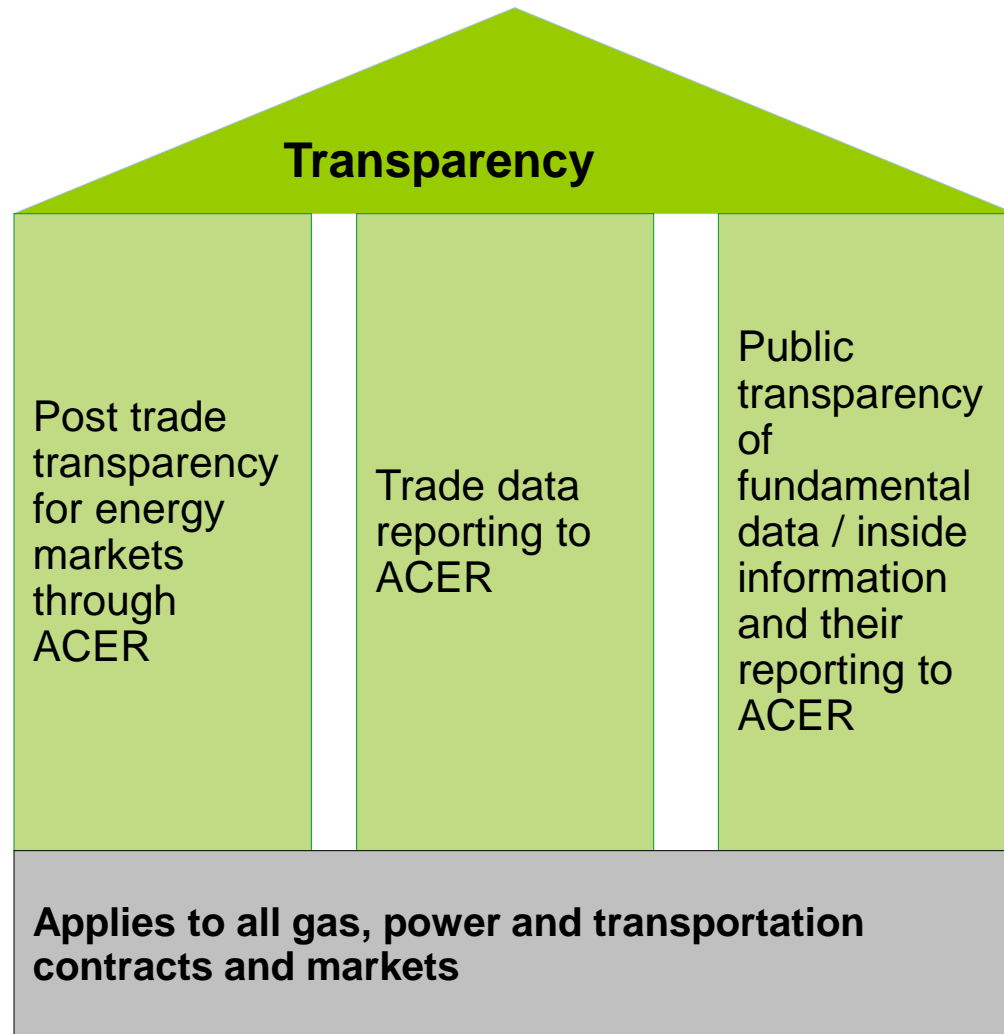
Directives/
Regulations

Binding
Guidelines



"Energy" tailor-made regime for underlying physical markets

EU Regulation on Energy Market Integrity and Transparency (EU REMIT)



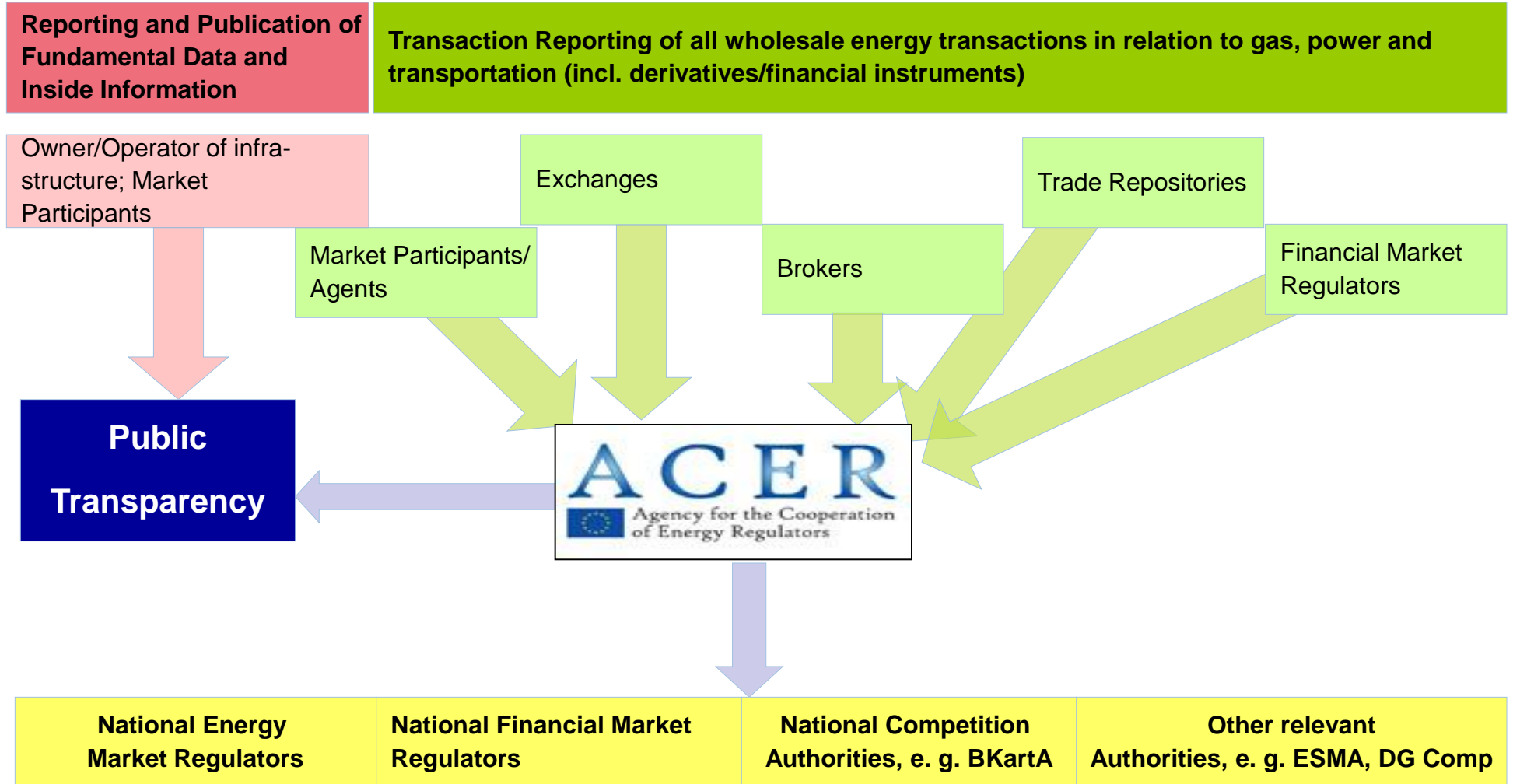
Market Integrity Regime: scope and content



Applies to all market participants of the wholesale energy markets (gas, power and transportation)

<p>Does not apply to:</p> <ul style="list-style-type: none">> Financial Instruments covered by Market Abuse Directive> Gas, power, transportation derivatives traded on exchanges> Supply contracts with end consumers> TSOs: Purchase of reserve and balancing energy> CO₂	<p>Applies to:</p> <ul style="list-style-type: none">> Physically settled spot and wholesale OTC transactions (forward) in gas and power> Transportation contracts	<p>Prohibition to manipulate market:</p> <ul style="list-style-type: none">> manipulative trading: false/misleading signals on supply, demand or price> manipulative information: false/misleading information e. g. withholding of generation or transmission capacity
		<p>Prohibition of insider trading:</p> <ul style="list-style-type: none">> trading on insider information, e. g. covering short positions in case of power plant outages> disclosing insider information to third parties before its publication, possibly between generation and trading branch of a company> Investment recommendation

Data Reporting/Sharing & Data Transparency



Who must disclose?

- “Market Participants” who possess inside information
 - *Those who deal or give orders*
- Can be delegated to producers/plant or field operators

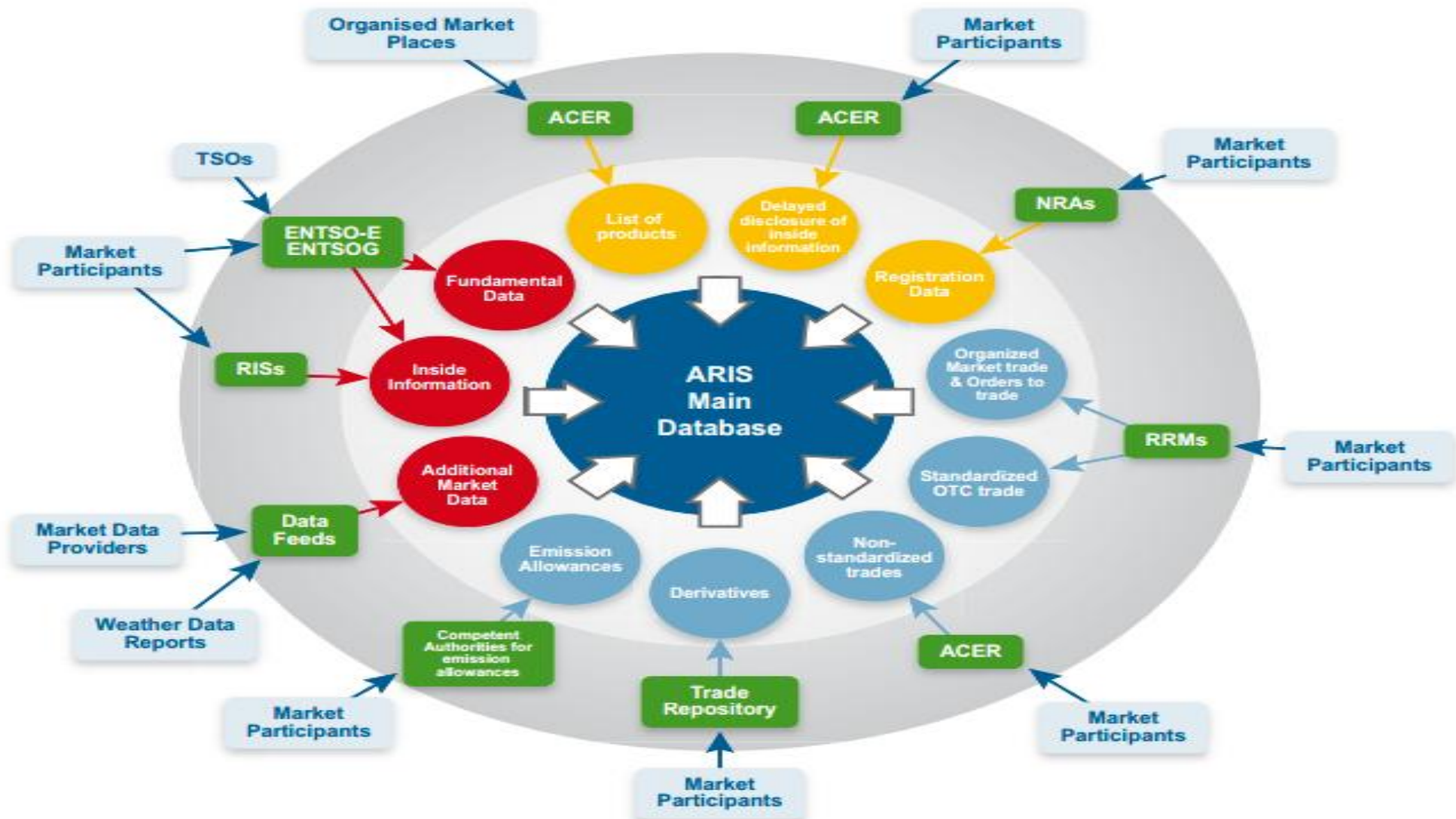
What must be disclosed?

- Inside Information about Group Facilities
- Follow ERGEG transparency guidelines
- Plant units with an output >100 MW, in all EU markets, capacity, actual output ex-post, planned/unplanned unavailability, expected duration.

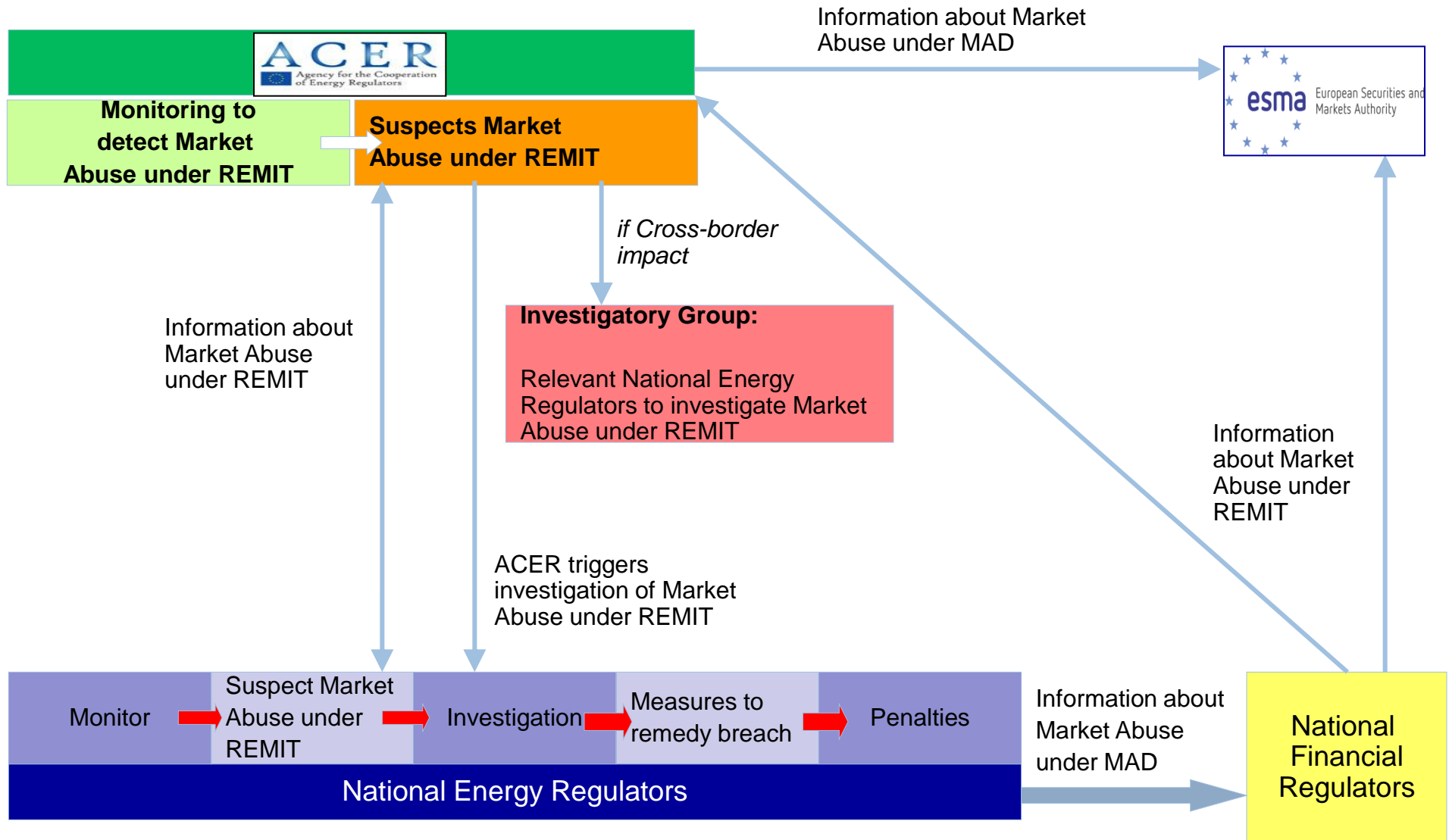
When is disclosure required?

- “In an effective & timely manner.”

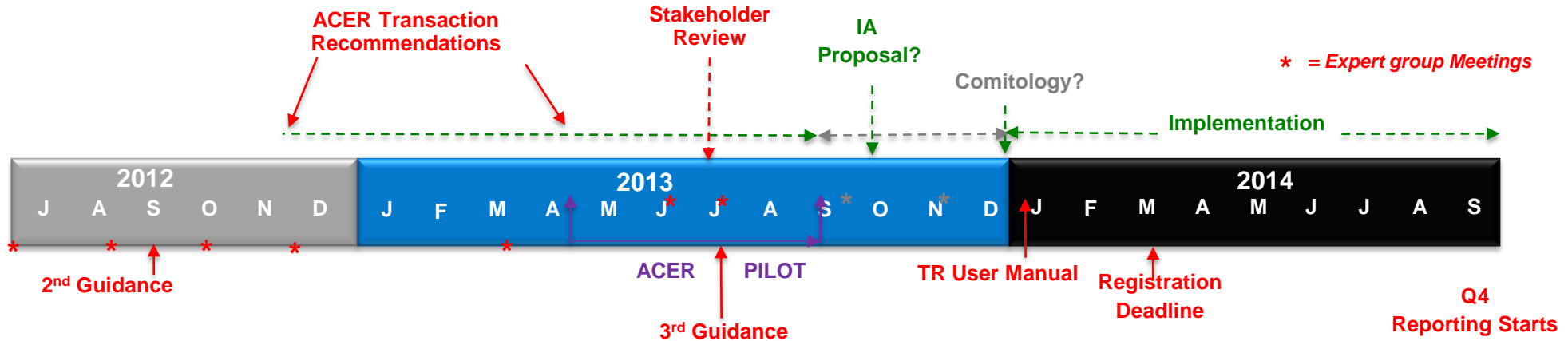
Data Reporting



Market Oversight & Cooperation



Chapter 2: REMIT Timeline



- Draft Implementing Acts (IA) undergoing comitology process:
 - ❑ Commission presented draft rules to Committee → December 2013
 - ❑ Entry into force → ~ Q2 '14
 - ❑ Start of data reporting → ~ Q4 '14
- Registration as a Market Participant driven by content of Implementing acts. (Article 9(1))
- Market surveillance: REMIT transaction reporting and provision of fundamental data by market participants to ACER (Art. 8)

General	<ul style="list-style-type: none">• Reporting standards (content, format, frequency) should not be duplicated at a national level – regulators should access transaction data directly from the trade repository and not impose additional requirements on firms• Technical standards should maximally re-use existing technology and standards where these have demonstrated to work in an efficient and robust way
Practical steps	<ul style="list-style-type: none">• Establish a stakeholder working group for REMIT implementation issues – particularly on reporting obligations• Break down work more effectively into IT, operative and legal/regulatory/compliance issues with separate communication and guidance
Regulatory suggestions	<ul style="list-style-type: none">• Given the purpose of REMIT to prevent market abuse, it is not appropriate to subject intra-groups transactions and internal orders to reporting requirements as well.• Intra-group transactions are not wholesale energy products executed in a ‘market place’ (consistent with EMIR) and therefore should not be reportable under REMIT• Intra-group transactions are frequently dealt with quite differently in internal systems, reporting them would impose considerable additional implementation cost
Other use cases	<p>Firms should have access to data reported to ACER in order to facilitate in-house analysis</p> <ul style="list-style-type: none">• on an anonymous basis for transaction data• as long as no commercially confidential information is published <p>This may require some high level aggregation of data where appropriate.</p>

Expected Implementation

	2013				2014				2015					
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Transaction Reporting & Record Keeping	PHASE 2	PHASE 3	U.S. DFA											
		PHASE 1	PHASE 2	PHASE 3	REMIT									
		PHASE 1	PHASE 2	PHASE 3	EMIR									
		PHASE 1	PHASE 2	PHASE 3	MTA									
						PHASE 1	PHASE 2	PHASE 3	MiFID II					
Clearing Obligations	PHASE 2 & 3	U.S. DFA												
		PHASE 1	PHASE 2	PHASE 3	EMIR	Phase-in of central clearing								
Risk Mitigation	PHASE 2 & 3	U.S. DFA												
		PHASE 1 & 2	PHASE 3	EMIR										
Insider Dealing and Transparency		REMIT Applicable since 2011												
		PHASE 1	PHASE 2	PHASE 3	MTA									
							PHASE 1	PHASE 2	PHASE 3	MAR				
Financial activities and services	PHASE 2 & 3	U.S. DFA												
			CRD IV	Commodities exemption expires end 2014										
			Impact Assessment	PHASE 1	PHASE 2	PHASE 3	MiFIR							
			Impact Assessment	PHASE 1	PHASE 2	PHASE 3	MiFID II							

- Energy-Manager X finds out that a company related power plant (450 MW) will unplanned down for 5 hours. Therefore X wants to buy low-priced energy at stock exchange before the information is published.

- Result: Information is not published, precisely and affects the price.
 - Insider trading

- Energy-Manager X finds out that a company related power plant (25 MW) will be down at the next day for a few hours. The default has not been published and X is willing to buy energy at the stock exchange.

- Result: Information is not published, precisely but does not affect the price due to the low power plant capacity with 25 MW (>100 MW).
 - No insider trading or market manipulation

- Electricity trader X is worried about the future sales of electricity from the company related nuclear power plants and wants to accomplish higher profits. So it works out for him supposedly favorable that he is friends with a business journalists Y from a mayor news agency, who does not take ethical standards seriously.
 - X persuaded Y to spread a message for a fee, that also France will at short notice shut down nuclear power plants and hence needs to import electricity from Germany.
 - Y is aware that the distribution of this information is designed to signalize other market participants an increasing demand of electricity and this will be reflected by increasing prices in spot and forward markets.
- Result: market manipulation
 - Pretending of incorrect facts
 - Distribution of misleading or false information

- Trader X Dealer B trading options on gas. On Twitter and in relevant online forums as well as with a related journalist he spreads a rumor about disputes of transit fees between Russia and Ukraine, and mentions a possible stop in supplies.

- Result: market manipulation
 - Pretending of incorrect facts
 - Distribution of misleading or false information