



Cabinet Environment, Energy and Climate Committee

Minute of Decision

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New Zealand Emissions Trading Scheme: Market Governance: Next Steps

Portfolio **Climate Change**

On 2 May 2019, the Cabinet Environment, Energy and Climate Committee:

- 1 **noted** that the current market governance framework of the NZ ETS is not fit for purpose, as it neither ensures the integrity, efficiency and confidence in market trading in the New Zealand Emissions Trading Scheme (NZ ETS) nor addresses the risks of misconduct which could distort the NZ ETS price and reduce the confidence in the NZ ETS;
- 2 **noted** that on 10 December 2018, as part of the tranche one amendments to the Climate Change Response Act 2002 (CCRA), Cabinet agreed in-principle (subject to final decisions on the broader, coherent market governance framework) to:
 - 2.1 prohibit insider trading and market manipulation in the NZ ETS market;
 - 2.2 approach insider trading and market manipulation in the same manner as they are treated in the Financial Markets Conduct Act (FMCA);
 - 2.3 have penalties and offences for insider trading and market manipulation in the NZ ETS mirror the equivalent relevant penalties and offences in the FMCA;

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- 3 **noted** that a separate market governance work programme is required due to the importance of the market governance work, the complexity of the issues raised, the new issues that have emerged since tranche one and the potential impact of any proposals on NZ ETS stakeholders;
- 4 **noted** that:
 - 4.1 a comprehensive and coherent approach to market governance in the NZ ETS is required in order for New Zealand to be viewed as a credible linking partner by established emissions trading schemes with high integrity international units; and
 - 4.2 s 9(2)(j) [REDACTED]

- 5 **agreed** that the Ministry for the Environment (MfE) will work with the Ministries for Primary Industries and Business, Innovation and Employment to prepare a broad, coherent market governance package to address all identified market governance risks including:
- 5.1 false or misleading advice provided to participants;
 - 5.2 a potential lack of transparency, monitoring and oversight of trades in the secondary market;
 - 5.3 manipulation of the NZU price (referred to as market manipulation);
 - 5.4 insider trading;
 - 5.5 money laundering/financing of terrorism;
 - 5.6 credit and counterparty risks;
 - 5.7 conflicts of interest;
- 6 **invited** the Minister for Climate Change to report back to Cabinet by the end of November 2019 on a plan to progress the market governance work programme;
- 7 **directed** officials to, in the short-term, prioritise any non-regulatory options to address any of the problems identified as part of the market governance work programme, with a particular focus on advice provision.

Vivien Meek
Committee Secretary

Present:

Rt Hon Winston Peters
Hon Kelvin Davis
Hon Dr Megan Woods
Hon David Parker (Chair)
Hon Stuart Nash
Hon James Shaw
Hon Eugenie Sage

Officials present from:

Office of the Prime Minister
Officials Committee for ENV

Hard-copy distribution:

Minister for Climate Change