

29 September 2023

Department of Climate Change, Energy, the Environment and Water



Submitted via Consultation Hub

Dear Review Team

ACCU Review – Discussion Paper

The Australian Financial Markets Association (AFMA) is responding to the Department of Climate Change, Energy, the Environment and Water's (DCCEEW) discussion paper on the Implementation of the recommendations of the Independent Review of Australian Carbon Credit Units (ACCUs).

AFMA is the leading industry association promoting efficiency, integrity, and professionalism in Australia's financial markets, including the capital, credit, derivatives, foreign exchange, energy, carbon, and other specialist markets. Our role is to provide a forum for industry leadership and to advance the interests of the markets and their respective participants. Our membership is comprised of over 125 of Australia's leading financial market participants, including many active in the carbon market.

Key Points

- **AFMA supports increasing transparency in the ACCU market**
- **The rebuild of ANREU should facilitate disclosure of relevant information to the market**
- **Government purchases and sales of ACCUs should be conducted in a way that minimises disruption to the market**

AFMA considers ACCUs will play a crucial role in meeting Australia's emissions reduction targets and climate change goals. For ACCUs to function as intended, the market requires confidence in the validity and integrity of the underlying methodologies used to generate units and of the actual performance of projects. AFMA strongly supported the Independent Review of ACCUs and welcomes DCCEEW's work to implement their recommendations.

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1. ACCU scheme principles

Key Points

- **The principles should acknowledge that ACCUs are tradeable financial products and complement existing law**
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AFMA supports the decision to develop principles to guide decision making under the ACCU scheme and we think the proposed principles are appropriate. We particularly consider that the principles regarding; integrity, transparency and practicality are important to facilitate the development of a robust market for ACCUs.

AFMA recommends that the principles should be refined to acknowledge that ACCUs are financial products. We therefore suggest the principles should complement existing financial product regulation administered by the Australian Securities & Investments Commission (ASIC) and not duplicate existing law.

AFMA Recommendations

- i. The principles should complement existing financial product regulation administered by ASIC and not duplicate existing law.

2. Transparency

Confidence in the quality of ACCUs is critical to ensuring they contribute to emissions reductions and for the success of the ACCU market. At its simplest, purchasers of ACCUs need to be confident that the underlying emissions reduction projects achieve the emissions reductions that they claim and a lack of confidence in the crediting system could undermine the ACCU market. AFMA's view is that transparency is the best way to ensure confidence in ACCUs.

Key Points

- **As much information as possible about ACCU projects and assurance activity should be published**
 - **The rebuild of ANREU should facilitate the publication of relevant information to the market**
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2.1. Improving data provision

AFMA supports DCCEEW's proposals to increase transparency around ACCUs and considers these changes will make an important contribution to the development of the ACCU market. We consider that increasing the amount of information that is published about projects and carbon estimation areas will be positive for the market as it will make it easier for buyers of ACCUs to understand the

products they are buying and allow people to participate in the market with confidence about the ACCUs they are buying.

Additionally, providing clear data about the state of the overall ACCU market will be important for the development of the market. AFMA considers that to improve market transparency, ANREU should provide clearer data on the volume of units, including; information about traded volumes, volumes of ACCUs that have been surrendered and information about the total numbers of certificates in existence.

2.2. Individual holding information

AFMA supports the provision of high-quality information about the ACCU market, but we are unsure if publishing information about individual holdings is the best way to do this, particularly given the role financial institutions play in the ACCU market.

Financial institutions perform a number of functions in the ACCU market. Relevantly, they may offer:

- a) financing where the institution takes custody of a client's units and returns them to their client on the repayment of the debt
- b) forward products to clients which the institution will then offset by purchasing spot units which will be delivered to the client at the maturity of the forward contract.

Both types of transactions result in financial institutions holding a large number of units in their ANREU accounts. But this can misrepresent their ability to freely transact the units as they are committed to delivering the units to their clients on repayment or maturity. As a result, this data may give an inaccurate picture of holdings in the market as it could give the impression that the financial institutions have an excess of units while their clients, with surrender obligations, are under supplied. In reality, both have square positions.

We therefore think it will be more valuable to the market to publish high quality aggregated information, possibly similar to the Californian approach discussed in your paper, rather than publishing individual holdings.

2.3. ANREU

The ANREU registry should be at the centre of providing transparency in the ACCU market by allowing participants to easily identify all relevant information for an ACCU. Our members have raised a number of concerns about the suitability of ANREU for the market. They consider that it is difficult to use and that it does not provide useful information about activity in the market. They would like it to provide clearer data on the volume of units broken down by methodology and co-benefit as well as information about the traded volumes and number of certificates in existence.

They also note that its functionality is not suitable for the market, and particularly would like it to include:

- read only functionality to support functional separation within their businesses
- improved functionality to record who an ACCU has been surrendered on behalf of
- allow transactions to be completed via API

AFMA has been engaging actively with the Clean Energy Regulator's (CER) work to rebuild the registry but remains concerned that their procurement process has not facilitated the incorporation of user feedback.

Noting that the Discussion Paper is also considering making a number of technical changes to ACCU legislation unrelated to the Independent Review, we want to raise a related issue our members have, concerning the amount of time required to set up new user accounts. We understand that it typically takes around three months to set up a new user for an existing account. This timeframe is unacceptable to ANREU users as it makes it very difficult to manage staff changes and in worst case scenarios can leave firms without access to their accounts for a significant period of time when staff leave.

The CER has advised that a significant contributor to these timeframes are the requirements around account creation in Part 2 Division 3 of the *Australian National Registry of Emissions Units Act 2011* (ANREU Act). In the CER's view these provisions essentially oblige the CER to make a decision on each user's access and to treat each user as an existing account holder in essentially the same way as a request to establish a new account. In our view this is an inefficient approach. We suggest that the ANREU Act should be amended to retain the current rigorous process to establish a new registry account but to delegate to the account holding firm the power to determine who within their firm may have access and their level of access. We think this an appropriate approach as the CER retains its role of determining which organisations are entitled to hold an account but gives account holders freedom to administer their accounts.

AFMA Recommendations

- ii. We support disclosure of high-quality information to support the ACCU market but do not think disclosing individual holdings is the most effective way to do this
- iii. The rebuild of ANREU should ensure it is fit for purpose and can support improving market transparency
- iv. The ANREU Act should be amended to remove unnecessary restrictions on the setup of users

3. Policy interventions in the market

Key Points

- **There should be maximum transparency about government purchases and sales in the market and clarity about the ongoing operation of the structured exit arrangements**
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To date, the Commonwealth Government has been the largest participant in the ACCU market through the Emissions Reduction Fund. As a result, the Government's actions can have a significant impact on the market, and this will potentially be increased as a result of the introduction of the cost containment measure. The scale of the Government's ability to influence the ACCU market was seen in the dislocation of ACCU prices following the announcement of the fixed delivery exit arrangements in March 2022. This action shook confidence in the ACCU market and Government should look to avoid similar dislocations in future if it wishes to preserve confidence in the market.

AFMA therefore supports the Government’s proposals to provide as much transparency as possible about how it will behave in the market and how the structured exit arrangements will operate. While AFMA does not have a view on if Government should only look to purchase least cost ACCUs or if the structured exit arrangements should continue, we encourage Government to set out clearly how the arrangements will work to allow the market to incorporate this behaviour into its decision making.

AFMA Recommendations

- v. Government should provide clarity to the market about how it will purchase and sell ACCU and about how the structured exit arrangements will operate.
- vi. Changes to the scheme should be communicated clearly in advance to minimise market disruption.

4. Methodology development

Key Points

- **AFMA is concerned that the proposed proponent-led method development framework may prove to be impractical**
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AFMA supports Government’s intention of allowing proponents to drive the development of methodologies for generating ACCUs as we think a market led approach is likely to lead to the development of high-quality methodologies that can be implemented at scale. But we are concerned that the proposed framework is likely to be slow and costly which may make it unappealing to proponents.

AFMA has observed in other environmental product markets that a poorly designed approach to approving methodologies can pose a critical threat to the success of a scheme. We particularly want to note the Victorian Energy Upgrades energy efficiency scheme where a government decision to retire a dominant high-volume methodology combined with delays in approving replacement scalable methodologies has left the market uncertain about the future supply of units and prices approximately double those in the equivalent NSW scheme. We therefore think it is very important to ensure that the methodology development process is appropriately designed.

Involving proponents in the development of new methodologies is critical to ensure that the commercially relevant methodologies that can be delivered at scale are adopted; but we are concerned that the proposed approach is likely to be costly and time consuming, which may deter proponents from proposing methodologies. We encourage DCCEEW to consider simplifying the framework to make it more attractive to proponents and ensuring that existing methodologies are robust enough to support the market in the event that proponents either do not propose new methodologies or there are substantial delays approving them.

AFMA Recommendations

- vii. Consider if the proposed proponent-led method development framework is appropriately adapted to achieve the schemes objectives

AFMA would welcome the opportunity to discuss the ACCU review. Please contact me on 02 9776 7994 or by email at lgamble@afma.com.au.

Yours sincerely

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