

JUNE 5, 2020



AMENDMENTS TO THE TERMS OF TWO CALIFORNIA CARBON ALLOWANCE AUCTION FUTURES CONTRACTS

Effective June 22, 2020, subject to completion of the regulatory review period, the Exchange is implementing amendments to Rules 18.D. 048 California Carbon Allowance Current Auction Clearing Price Contract ("ACP") and Rule 18.D.049 049 Carbon Allowance Advance Auction Clearing Price Contract ("ACA") (the "Auction Contracts"). At expiration, each Auction Contract is settled through physical delivery of an Exchange futures contract that is based on the same underlying carbon emission allowances as auctioned in the Joint Auction, at the auction clearing price published by the California Air Resources Board and the Quebec MELCC, the auction operators. The amendments provide clarity on how the Exchange will determine the last trading day and the price for final settlement in the event that the underlying reference auction is cancelled or significantly delayed.

Currently, the rules specify that the Exchange will determine the settlement price of the Auction Contracts if no auction price is published by the auction operators, but do not provide any guidance on how the Exchange will make that determination. The amendments provide that if no auction price is published due to cancellation or failure of the auction, or a delay beyond last trading day of the Exchange futures contract that is deliverable at final settlement (the applicable California Carbon Allowance Future ("CCA")), the price determined by the Exchange and used for final settlement of the Auction Contract will be the greater of the Reserve Price published by the auction operators as applicable for that calendar year, and the price of the relevant deliverable CCA futures contract on the last trading day of the Auction Contract. This change is being made to provide clarity to market participants and to recognize the Reserve Price as a floor while allowing a higher price to be recognized where the deliverable futures contract is trading above the floor.

The Exchange is also amending the last trading day provisions in both Auction Contracts to give the Exchange the flexibility to extend the last trading day for an expiring Auction Contract in the event that the auction, or publication of the auction clearing price, is temporarily delayed. The amendment allows the Exchange to extend trading in an expiring Auction Contract through the last trading day for the relevant CCA futures contract that is deliverable at expiration, but not beyond that date.

In addition, the amendment provides the methodology for determining the last trading day for the Auction Contracts if no auction price is published due to cancellation of the auction, or if the auction is delayed beyond the last trading day of the deliverable CCA futures contract month. That determination depends on the timing of the notice issued by the auction operators advising the market that the auction will not proceed on the date originally scheduled. If that notice is issued at any time through the 15th of a calendar month, the last trading day for the Auction Contract will be the last Business Day of that calendar month; if the auction notice is issued after the 15th day of a month, the last trading day for the Auction Contract will be the 10th Business Day of the next calendar month. This is intended to allow market participants adequate time to adjust their Exchange positions in light of the auction announcement.

The text of the amendments is shown below, with additions shown as underlined and deletions as bracketed and lined through.

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18.D.048 California Carbon Allowance Current Auction Clearing Price

Contract Description: The California Carbon Allowance Current Auction Clearing Price contract is a cleared market for California Carbon Allowance (CCA) futures contracts at a premium or discount to the Current Auction Settlement Price as published by the California Air Resources Board.

Contract Symbol: ACP

Settlement Method: 1 ACP contract expires into an eligible California Carbon Allowances futures contract

Contract Size: 1 California Carbon Allowances futures contract

Currency: USD

Minimum Price Fluctuation: The price quotation convention shall be One cent (\$0.01) per California Carbon Allowance; Price may be positive or negative; minimum price fluctuation may vary by trade type. Please see Table in Resolution 1 to this Chapter 18.

Listing Cycle: The Exchange may list contracts for trade on the standard listing cycle of February, May, August and November out two years. The Exchange may list any other calendar month contract sets off the standard-cycle listing schedule.

Last Trading Day: Trading shall cease at 3:00 p.m. (EPT) on the day on which the Joint Auction Summary Results Report ("Report") for the specified auction is scheduled to be released. Trading may be extended until 3:00 p.m. of the day that is the Last Trading Day for the eligible CCA futures contract (defined below) if the release of the Report is delayed for any reason. In the event that no [Joint Auction Summary Results] Report is [scheduled to be] released due to cancellation of the auction, or release of the Report is delayed beyond the extension of trading permitted by the preceding sentence of this paragraph, the Last Trading Day will be determined by the Exchange as follows: (a) if notice of the auction cancellation or delay is issued by the California Air Resources Board on or prior to the 15th day of a calendar month, then trading shall cease at 3:00 p.m. (EPT) on the last Business Day of such month and (b) if such notice is given by the California Air Resources Board after the 15th calendar day of a month, then trading shall cease at 3:00 p.m. (EPT) on the tenth (10th) Business Day of the next calendar month. determined by the Exchange in accordance with its Rules.

Deliverable Instruments: All parties with open positions at expiry will establish equivalent long or short futures positions in the eligible CCA futures contract on the Final Settlement Day. The eligible CCA futures contract is the futures contract with a vintage equal to the current calendar year and an expiry month following the month the auction is held.

Open positions in the eligible CCA futures contract shall be priced at the respective Current Auction Settlement Price as published by the California Air Resources Board in the [Joint Auction Summary Results] Report. In the [instance] event that an auction is cancelled, or the release of the Report is delayed beyond the extension of trading permitted by this Rule, or no Current Auction Settlement Price is published in the Report, an alternative settlement price that is equal to the higher of the applicable Auction Reserve Price published by the California Air Resources Board, and the settlement price of the eligible CCA futures contract on the Final Settlement Day, shall be determined by the Exchange.

Final Settlement Day: Final Settlement Day ~~will be equal to~~ is the day which is the Last Trading Day.

18.D.049 California Carbon Allowance Advance Auction Clearing Price

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Contract Description: The California Carbon Allowance Advance Auction Clearing Price contract is a cleared market for California Carbon Allowance (CCA) futures contracts at a premium or discount to the Advance Auction Settlement Price as published by the California Air Resources Board.

Contract Symbol: ACA

Settlement Method: 1 ACA contract expires into an eligible California Carbon Allowances futures contract

Contract Size: 1 California Carbon Allowances futures contract

Currency: USD

Minimum Price Fluctuation: The price quotation convention shall be One cent (\$0.01) per California Carbon Allowance; Price may be positive or negative; minimum price fluctuation may vary by trade type. Please see Table in Resolution 1 to this Chapter 18.

Listing Cycle: The Exchange may list contracts for trade on the standard listing cycle of February, May, August and November out two years. The Exchange may list any other calendar month contract sets off the standard-cycle listing schedule.

Last Trading Day: Trading shall cease at 3:00 p.m. (EPT) on the day on which the Joint Auction Summary Results Report (“Report”) for the specified auction is scheduled to be released. Trading may be extended until 3:00 p.m. of the day that is the Last Trading Day for the eligible CCA futures contract (defined below) if the release of the Report is delayed for any reason. In the event that no [Joint Auction Summary Results] Report is [scheduled to be] released due to cancellation of the auction, or release of the Report is delayed beyond the extension of trading permitted by the preceding sentence of this paragraph, the Last Trading Day will be determined by the Exchange as follows: (a) if notice of the auction cancellation or delay is issued by the California Air Resources Board on or prior to the 15th day of a calendar month, then trading shall cease at 3:00 p.m. (EPT) on the last Business Day of such month and (b) if such notice is given by the California Air Resources Board after the 15th calendar day of a month, then trading shall cease at 3:00 p.m. (EPT) on the tenth (10th) Business Day of the next calendar month. determined by the Exchange in accordance with its Rules.

Deliverable Instruments: All parties with open positions at expiry will establish equivalent long or short futures positions in the eligible CCA futures contract on the Final Settlement Day. The eligible CCA futures contract is the futures contract with a vintage three years advanced from the current calendar year and an expiry month following the month the auction is held.

Open positions in the eligible CCA futures contract shall be priced at the respective Current Auction Settlement Price as published by the California Air Resources Board in the ~~[Joint Auction Summary Results]~~ Report. In the ~~[instance]~~ event that an auction is cancelled, or the release of the Report is delayed beyond the extension of trading permitted by this Rule, or no Current Auction Settlement Price is published in the Report, an alternative settlement price that is equal to the higher of the applicable Auction Reserve Price published by the California Air Resources Board, and the settlement price of the eligible CCA futures contract on the Final Settlement Day, shall be determined by the Exchange.

Final Settlement Day: Final Settlement Day ~~will be equal to~~ is the day which is the Last Trading Day.

FOR MORE INFORMATION

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