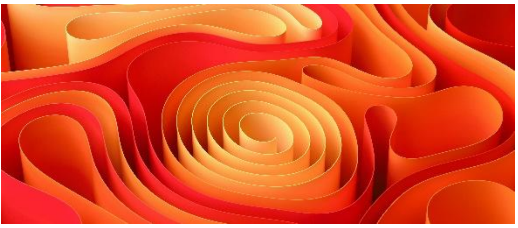
Pills

Regulatory/Supervisory Pills | N.163 November 2025



TOPICS:

Market risk

SOURCE

European Securities and Markets Authority

ESMA Finds EU Carbon Markets Functioning Smoothly

- The ESMA released its **second annual report on the EU carbon markets**, covering the 2024 reporting period. The report, mandated by Directive (EU) 2023/959, provides a comprehensive review of market developments, participant behavior, and structural dynamics within the EU Emissions Trading System (EU ETS), with particular focus on non-financial counterparties.
- **Market Developments:** EU Allowance (EUA) prices declined by 22% in 2024, averaging €65/tCO_2, driven by weaker demand due to power sector decarbonisation and increased auction volumes. Despite the price drop, EUA prices showed strong correlation with natural gas, especially during the first half of the year. Volatility remained low.
- **Primary Market – Auctions**: A total of 599 million EUAs were auctioned (+15% y/y), generating €39bn in revenue (-11% y/y). All auctions were oversubscribed, though with a lower average cover ratio (172%, down 30pps from 2023). Participation remained concentrated: 90% of EUAs were acquired by just ten firms, mainly domiciled in Germany, the UK, and Spain. Investment firms dominated purchases, often on behalf of compliance entities.
- **Secondary Market – Trading and Derivatives:** Total trading volumes rose 35% to 13.7bn tCO_2, driven largely by on-venue transactions. Futures remained the dominant instrument, comprising 77% of traded volumes. Over-the-counter (OTC) trading remained stable, comprising ~8% of total volumes. Investment firms and credit institutions were the main market actors, accounting for 63% of total trading.
- **Derivatives Positions:** There was a 16% rise in daily EUA derivative position holders (909 on average). Financial firms held 64% of gross positions, with increasing concentration in December contracts due to the shifted compliance deadline. Investment funds turned net long in late 2024, reflecting renewed bullish sentiment.
- **Monitoring and Policy Recommendations:** ESMA found no major integrity or transparency issues. However, it reiterated the need for greater adoption of Legal Entity Identifiers (LEIs) to enhance participant classification. Additionally, it highlighted ongoing efforts to harmonize transaction reporting across regulatory regimes to improve data quality and reduce complexity.