



New Zealand Climate Change (Emissions Trading and Renewable Preference) Bill

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Prepared Remarks for the Finance and Expenditure Committee:

ASX commends the Climate Change Bill (the 'Bill') and design of the New Zealand (NZ) Emissions Trading Scheme (ETS), including its open approach to Kyoto trading mechanisms. ASX would further advocate a direct linkage with Australia's ETS at the earliest opportunity. Such linkages will benefit market efficiency and in turn the ability for emissions trading to reduce emissions at least cost.

Our feedback on the Bill is minor and relates only to wording that would clarify the ability to create beneficial interests over emission units. We do not believe there is anything in the Bill or broader legislation underpinning NZ's financial markets that will prohibit the development of a robust market to support the NZ ETS.

As per the global experience with new environmental product markets, it is likely that trading will commence bi-laterally between counterparties in the over-the-counter (OTC) market. ASX's own conclusion from market consultation is that from its commencement the NZ ETS will be very well serviced by investment banks, trading banks and specialist brokers.

ASX considers it appropriate that the Bill does not prescribe how the market should evolve – be it on or off-market – or through the mandatory reporting of spot or forward trades. Successful exchanged based spot and futures markets with their own rules will emerge when there is a critical mass of support for their value proposition.

Background on ASX

ASX operates the largest futures exchange (by value of trade) in the Asia Pacific. ASX has operated a futures market servicing NZ's financial markets since its SFE subsidiary company acquired the New Zealand Futures and Options Exchange (NZFOE) in 1992. ASX has been working on climate change and emissions trading since it first proposed to operate a market servicing Australia and NZ in 1999.

ASX intends to support the NZ ETS through the provision of OTC clearing, futures contracts and settlement services as and when they are required by market participants.