

# **Attachment A: Detailed Sale by Mutual Agreement Requirements and Instructions**

## **Notice of Sale by Mutual Agreement of GHG Emissions Units**

### **Québec's Cap-and-Trade System for GHG Emission Units**

Québec's Environment Quality Act requires that the province of Québec reduce GHG emissions. The Government of Québec approved the 2013-2020 Climate Change Action Plan (2020 CCAP) as a measure to fight climate change in 2013 and beyond and adopted the Regulation respecting a cap-and-trade system for greenhouse gas emission allowances (Québec Regulation). The Québec Cap-and-Trade System is administered by Québec's ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques (MDDELCC). This document (Attachment A) includes the detailed requirements and instructions for participating in a sale by mutual agreement.

Sales by mutual agreement will be held a maximum of four (4) times per year pursuant to article 57 of the Québec Regulation. Sales by mutual agreement will be conducted through the electronic, internet-based Auction and Reserve Sale Platform (Auction Platform).<sup>1</sup> If there are no qualified applicants or qualified bidders for any sale by mutual agreement, that sale will not be held. The determination not to hold a sale can be made by the minister at three separate moments: (1) the close of the application period; (2) the due date for submittal of bid guarantees; or (3) the deadline for the minister's approval of participants which is scheduled to occur within two (2) days prior to each sale by mutual agreement. If a sale will not be held, MDDELCC will post a notification on its web site at <http://www.mddelcc.gouv.qc.ca/changements/carbone/index-en.htm> no later than two (2) days prior to the scheduled sale.

#### **1. Eligibility**

Only emitters registered in the CITSS system in accordance with the Québec regulation whose general account does not contain any emission units that can be used to cover GHG emissions for the current compliance period are eligible for a sale of emission units by mutual agreement.

#### **2. Administrative Requirements to Participate in a Sale by Mutual Agreement**

Outlined below are requirements that must be met before being able to access the Auction Platform to submit an entity's application for a sale by mutual agreement.

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<sup>1</sup> For simplicity, the Auction and Reserve Sale Platform is referred to as the Auction Platform in all notices regarding auctions and sales by mutual agreement.

## **2.1. Compliance Instrument Tracking System Service (CITSS) Account**

An entity must have an approved account in CITSS before applying to participate in a sale by mutual agreement. Additionally, individuals must be approved as either the Primary Account Representative (PAR) or an Alternate Account Representative (AAR) on the entity's account in order to submit an application for the entity and/or bid on its behalf. Only the approved PAR and AARs that were designated on the CITSS account at the close of the application period and are still a PAR or AAR at the time the sale by mutual agreement is held are allowed to submit bids on behalf of an entity during that sale.

An entity interested in participating in a sale by mutual agreement that has not already obtained approval of a CITSS account is strongly advised to complete the CITSS account application process immediately. To submit a CITSS account application, an entity must designate at least two (2) individuals as account representatives, a PAR and at least one AAR. All individuals designated as account representatives must be approved users in CITSS.

Accounts in CITSS must be approved by Québec's cap-and-trade system registrar, and the "Auction Participation" box discussed below must be selected no later than one (1) day prior to the end of a sale by mutual agreement application period, which would leave the entity one (1) day for representatives to activate Auction Platform accounts and complete a sale application in the Auction Platform. In order to assure access to an active account in the Auction Platform throughout the sale by mutual agreement including until emissions units won are recorded and the sale is completed, the "Auction Participation" box must remain selected.

CITSS can be accessed at <https://www.wci-auction.org/qc/en/> or from MDDELCC's and WCI, Inc.'s web sites.

### **2.1.1. Select the "Auction Participation" Box in CITSS**

A PAR or AAR from each entity must select the "Auction Participation" box in CITSS to indicate the entity's interest in participating in upcoming auctions or sales by mutual agreement. By selecting this box, an entity representative agrees to have the entity name, general holding account number, entity contact information, representative names, representative phone numbers, and representative email addresses transferred to the Auction and Sale by Mutual Agreement Administrator (Auction Administrator) and Financial Services Administrator for the purpose of facilitating participation in any upcoming sale.

The "Auction Participation" box must be selected no later than one (1) day prior to the end of the application period for a sale by mutual agreement an entity wishes to participate in and must remain selected throughout the sale until emissions units are transferred and the sale is closed. Once selected, the "Auction Participation" box will remain selected allowing participation in all subsequent auctions or sales by mutual agreement unless deselected by a PAR or AAR.

The PAR or an AAR may deselect the "Auction Participation" box if the entity wishes to stop sharing its information with the Auction Administrator and Financial Services Administrator and no longer wishes to participate in any future auctions or sales by mutual agreement. While an entity may change this setting at any time in CITSS, this

setting must be deselected prior to the start of an application period for an auction or sale by mutual agreement to avoid the transfer of the entity's information to the Auction Administrator and Financial Services Administrator.

During an application period, the entity and representative information is sent to the Auction Administrator and Financial Services Administrator daily to reflect any approved changes or updates.

If any additional information on selecting or deselecting the "Auction Participation" box is required, please refer to the CITSS User Guide, Volume 2, available from MDDELCC's web site.

### **2.1.2. CITSS Representative and Entity Account Information**

If, during the application period, an entity needs to add, remove, or change the current PAR or AARs, or update the entity information, and has not already selected the "Auction Participation" box in CITSS, the changes should be approved by Québec's cap-and-trade system registrar prior to selecting the "Auction Participation" box. This ensures that the entity account information transmitted to the Auction Administrator and Financial Services Administrator is current and accurate.

To update account representatives or entity information in CITSS, the following steps should be followed:

- Enter changes as needed in CITSS;
- Complete and submit the "Add Account Representative or Account Viewing Agent" form, available within CITSS and on MDDELCC's web site.

Approval by Québec's cap-and-trade registrar should occur within ten (10) business days of receiving all required documentation. Following approval of all changes, ensure that the "Auction Participation" box is selected in CITSS.

If a material change occurs to an entity's account information after the application period closes, it may limit the entity's ability to participate in the sale or for a PAR or AAR to represent an entity in the sale. Prior to each sale by mutual agreement, MDDELCC will verify the current account representatives associated with each entity that has been approved to participate in the sale. If there has been a change in account representatives, only those representatives that have completed the Auction Platform account activation process, were associated with the entity at the close of the application period, and are active representatives on the entity's CITSS account will be allowed to submit bids during the sale by mutual agreement or download reports specific to the sale. Any representatives that have been removed from a CITSS account will not be allowed to submit bids on behalf of the entity they no longer represent. Any representatives that were not approved as a PAR or AAR on a CITSS account prior to the end of a sale by mutual agreement application period will not be allowed to submit bids on behalf of the entity.

### **2.1.3. Participation by Related Entities or Entities with Direct Corporate Associations**

For purposes of this Attachment A, the term “direct corporate associates” refers to all entities with a direct corporate association as defined in Article 9 of the Québec Regulation.

Related entities are those that hold a common property. Entities registered in CITSS must disclose all direct and indirect corporate associations, as defined in article 9 of the Québec Regulation, including those direct and indirect corporate associations registered in a linked jurisdiction. As the Québec Cap-and-Trade System and the California Cap-and-Trade Program and officially linked on January 1, 2014, entities must disclose corporate associations with entities registered under both the Québec Cap-and-Trade System and the California Cap-and-Trade Program.

Direct corporate associates are entities that meet at least one of the indicia of control in Article 9 of the Québec Regulation, meaning generally those with ownership or voting power exceeding 50 percent of the other entity regardless of whether or not the related entity is registered in the Québec Cap-and-Trade System or the California Cap-and-Trade Program. Indirect corporate associates would include those related entities meeting the indicia of control in article 9 of the Québec Regulation, meaning generally those with a percent of ownership or control between 20 and 50 percent, but only applies to those entities which are also registered in either the Québec Cap-and-Trade System or the California Cap-and-Trade Program.

Entities that have direct corporate associations with other registered entities, including those registered in a linked jurisdiction, must share purchase and holding limits and declare all such associations. Providing incomplete or inaccurate information regarding corporate associations will cause an entity’s sale by mutual agreement application to be rejected.

Any change to an entity’s application information listed in articles 7 to 12 of the Québec Regulation must be communicated to the minister within thirty (30) calendar days from the effective date of the changes, or as otherwise specified in article 33 of the Québec Regulation. If a change to the corporate association affects reserve sale participation, that change, and any additional actions required by that change, must be approved prior to the end of a reserve sale application period; otherwise, the entity(ies) involved may not be able to participate in the sale by mutual agreement or may not receive the emissions units bid upon during the sale.

## **3. PAR/AAR Auction Platform Accounts**

All account representatives must have an active Auction Platform account. Only those representatives with an active Auction Platform account will be able to access the Auction Platform to submit an application for the entity they represent, confirm the entity’s intention to participate in the sale, submit bids on behalf of the entity during an open bidding window, or download reports specific to the sale.

### **3.1. Auction Platform Account Activation**

During the application period for each sale by mutual agreement, entity and representative information is transferred to the Auction Administrator for entities that

have selected the “Auction Participation” box in CITSS. If an individual has previously activated his or her Auction Platform account, that individual will be able to access the Auction Platform using the established credentials. Representatives that have not previously been indicated as a PAR or AAR on any CITSS account with the “Auction Participation” box selected are sent an email inviting them to activate an Auction Platform account. If a representative does not create an Auction Platform account before the new user activation link expires, the representative will need to contact the Auction Administrator and request that a new link be sent.

The username for an Auction Platform account is the email address the user has submitted in CITSS. If an individual previously activated an account in the Auction Platform but changes his or her email in CITSS, the change must be approved by Québec’s Cap-and-Trade Registrar and the prior Auction Platform access under the previous email will be disabled. The individual will need to activate a new account in the Auction Platform and will receive an account activation email after the Auction Administrator has received the updated information during the next open application period for an auction or sale by mutual agreement that the entity is eligible to participate in and for which the entity has selected the “Auction Participation” box in CITSS. If an individual is removed as an account representative from an entity, the representative’s Auction Platform access for that entity will be disabled and he or she will not be able to represent the entity or access entity reports in the Auction Platform.

Representatives added to a CITSS account after a sale by mutual agreement application period has closed will not be sent an activation email and will not be able to represent the entity in the Auction Platform during the sale.

Outlined below is the process to activate an Auction Platform account:

- During an open sale by mutual agreement application period, entity and representative information is transferred on a daily basis from CITSS to the Auction Administrator;
- Starting the day the application period opens for each sale by mutual agreement, individuals that represent entities eligible to participate in the sale and that have not previously been indicated as a PAR or AAR on any CITSS account with the “Auction Participation” box selected will receive an account activation email from the Auction Administrator;
  - The email will be sent to the email address submitted when the CITSS user registration process was completed. This email address will be the account representative’s username in the Auction Platform;
- The email provides an activation link to activate an account and establish an Auction Platform password and security questions;
- The email will in most cases be received by the end of the next business day after an account representative’s information is received by the Auction Administrator;
- The activation link can only be used once and expires twenty-four (24) hours after receipt of the Auction Platform account activation email.

### **3.2. Account Representatives Associated with Multiple Entities**

Account representatives may represent more than one entity. Regardless of the number of entities for which an individual acts as the PAR or an AAR, that individual will only establish one Auction Platform account. All associations with entities for which an individual is an approved PAR or AAR will be reflected in the Auction Platform, if the entity(ies) have selected the “Auction Participation” box in CITSS.

When opening a session in the Auction Platform, an individual can only act on behalf of one entity at a time. If an individual is an account representative on multiple entity accounts, each time the individual logs in to the Auction Platform he or she will need to select which entity to represent in that session. To submit information for another (different) entity that he or she represents, the individual will log out of the Auction Platform and then log back in, selecting the other entity. The option to choose which entity will be represented will appear only if he or she has been designated as a representative for more than one entity.

### **4. Sale by Mutual Agreement Training Resources**

A Sale by Mutual Agreement Participant Training presentation is available on MDDELCC’s web site and includes information on administrative and regulatory requirements for sale by mutual agreement participation, the application process, bid guarantee submission, bid submission, bid fulfillment and purchase determinations, and financial settlement processes.

Training materials are also available from the Auction Platform and include a calendar of upcoming activities, Frequently Asked Questions (FAQs), the Participant Training presentation, and an Auction and Reserve Sale User Guide. This information is available in both French and English.

### **5. Sale by Mutual Agreement Participation Process**

The sale by mutual agreement participation process includes all actions taken to apply for participation, submit a bid guarantee, bid during the open bidding window, and settle amounts owed following the sale. The process consists of the following six (6) steps:

Step 1: Apply to participate in the sale by mutual agreement or confirm the intention to participate:

Step 1a: Confirm the event in which the entity intends to bid

Step 1b: Verify entity and account representative information

Step 1c: Provide information on the form of bid guarantee to be submitted and return instructions

Step 1d: Complete the Attestation response in the Auction Platform and submit the sale by mutual agreement application

Step 2: Submit a bid guarantee

Step 2a: Receive notice that a Financial Services Account has been established or verified

Step 2b: Download Financial Services Delivery Instructions

Step 2c: Submit a bid guarantee to the Financial Services Administrator

Step 3: Receive notice of entity's approval to participate in the sale by mutual agreement

Step 4: Participate in the sale by mutual agreement

Step 5: Access results and download all reports

Step 6: Complete financial settlement

**5.1. Step 1: Apply to Participate in the Sale by Mutual Agreement**

In the Auction Platform, one entity representative completes the entity's application to participate in the sale by mutual agreement, if that entity is participating in a sale for the first time, or confirms the entity's intention to participate if it has participated in a prior sale. For each sale by mutual agreement, the application period starts sixty (60) days prior to the sale with the release of the Sale by Mutual Agreement Notice (SBMA Notice) and ends thirty (30) days prior to the sale. The due date for submitting a sale by mutual agreement application in the Auction Platform is the date and time as listed in the Sale by Mutual Agreement Schedule (SBMA Schedule) provided in the SBMA Notice.

The application process is similar to that of confirming the intention to participate in the Auction Platform and is outlined below.

**5.1.1. Step 1a: Confirm the Event in Which the Entity Intends to Bid**

Either the PAR or an AAR must access the Auction Platform and identify the sale by mutual agreement in which the entity intends to bid.

**5.1.2. Step 1b: Verify Entity and Account Representative Information**

The entity representative completing the application will review and confirm the entity information in the Auction Platform, including the account representative details. Entity and representative information is transferred to the Auction Administrator from CITSS. Therefore, all changes to entity account information must be made and approved in CITSS to be properly reflected in the sale by mutual agreement application pages in the Auction Platform. Material changes such as a change in an entity's legal name will require review and approval by Québec's Cap-and-Trade Registrar. It may take up to ten (10) business days before entity detail changes made in CITSS are approved and reflected in the Auction Platform. Updates in CITSS should be made as early as possible to allow time for approval and subsequent submittal of the application in the Auction Platform.

### **5.1.3. Step 1c: Provide Information on Form of Bid Guarantee To Be Submitted and Return Instructions**

The entity representative must select the form of bid guarantee that the entity intends to submit for the sale by mutual agreement. Participants can identify one or a combination of the allowable forms of bid guarantee in the Auction Platform.

A bid guarantee must be in Canadian dollars and in one or a combination of the following forms:

- Cash in the form of wire transfer;
- An irrevocable letter of credit (LOC) issued by a bank constituted under the Bank Act or by a financial services cooperative constituted under the Act respecting financial services cooperatives;
- A letter of guarantee (LOG) issued by a bank constituted under the Bank Act or by a financial services cooperative constituted under the Act respecting financial services cooperatives.

Based on the form of bid guarantee selected, the representative will also complete instructions for the return of any unused bid guarantee amounts or physical bid guarantee instruments after the sale by mutual agreement is completed.

When a cash bid guarantee is provided, unused cash on deposit will be returned through a wire transfer. The return instructions typically require the following information:

- Beneficiary Account Name;
- Beneficiary Account Number;
- Beneficiary Bank Name;
- Beneficiary Bank Routing Number.

If an entity is using a non-U.S. or non-Canadian financial institution, additional information may be required and can be submitted in the “Comments” field of the Auction Platform.

Physical bid guarantee instruments will be returned through FedEx or DHL delivery and therefore must be returned to a physical address. The return instructions require the following information:

- Name of a contact individual;
- Complete street address for mailing:
  - Return Address (must be a physical address; no PO Box);
  - Return City;
  - Return Zip Code;
  - Return State/Province;
  - Return Country;
- Return Contact Phone Number.



All bid guarantees (cash, letters of credit or letters of guarantee) will be submitted directly to the Financial Services Administrator, as described in Step 2, the “Submit a Bid Guarantee” section of this Attachment A.

#### **5.1.4. Step 1d: Complete the Attestation Response in the Auction Platform and Submit the Reserve Sale Application**

The Auction Platform includes a step that is required to indicate updates or submittal of the Auction Attestation applicable to auction applications. The Attestation requirement does not apply to sales by mutual agreement, but an entity must provide a response in this step to continue the application process. Representatives of entities applying for a sale by mutual agreement should select “No” to respond to the Attestation step in the Auction Platform. After the Attestation response in the Auction Platform has been completed, the representative must agree to the Auction Platform Terms of Use and Privacy Policy and can then submit the application in the Auction Platform.

The Auction Administrator will confirm receipt of each application on the day it is submitted in the Auction Platform via an email sent to the account representatives.

### **5.2. Step 2: Submit a Bid Guarantee**

#### **5.2.1. Step 2a: Receive Notice that a Financial Services Account has been Established or Verified**

After the application is submitted, the Financial Services Administrator will complete the process to establish (first time participant) or verify (previous participant) the entity’s Financial Services Account in which the entity’s bid guarantee will be recorded.

The Financial Services Administrator acts as an agent for MDDELCC for the purpose of financial administration of auctions and sales by mutual agreement. The Financial Services Administrator must establish or verify a Financial Services Account for each entity that applies to participate in a sale by mutual agreement. First-time auction or sale by mutual agreement applicants or applicants with changes in corporate disclosures may need to provide additional information to the Financial Services Administrator to support the account being established or verified.

The PAR and all AARs will receive an email from the Auction Administrator notifying them when the Financial Services Account has been established or verified and directing them to download the Financial Services Delivery Instructions from the Auction Platform to obtain the information needed to submit the bid guarantee.

#### **5.2.2. Step 2b: Download Financial Services Delivery Instructions**

The email received when a Financial Services Account is established or verified will direct the PAR and AARs to download the entity’s Financial Services Delivery Instructions from the Auction Platform. These instructions will include the information needed to submit the bid guarantee, including the Financial Services Account Number, as well as wiring instructions for submitting cash by wire transfer and mailing instructions for submitting physical bid guarantee (LOC or LOG) instruments.

To download an entity’s Financial Services Delivery Instructions, a PAR or AAR will log in to the Auction Platform. Under the Reports Module, the representative will select

“Templates,” then from the dropdown menu will select “Financial Services Delivery Instructions.” An additional drop down menu will be displayed for the representative to select the current event. It is critical that the representative select the appropriate event, as one entity may have more than one Financial Services Account Number associated with different events.

### **5.2.3. Step 2c: Submit a Bid Guarantee to the Financial Services Administrator**

As previously described, sale by mutual agreement applicants select one or a combination of the acceptable bid guarantee forms that they intend to submit when completing the application in the Auction Platform.

After an application has been submitted and following notification by email that the Financial Services Account has been established, each entity that wishes to participate in a sale by mutual agreement must submit a bid guarantee, in Canadian dollars, directly to the Financial Services Administrator. The Financial Services Administrator acts as an agent for MDDELCC for the purpose of financial administration of auctions and sales by mutual agreement and will receive and maintain all bid guarantees submitted as financial security. All cash bid guarantees submitted will be held in a non-interest bearing trust account with the Financial Services Administrator.

Final bid guarantees must be received by the Financial Services Administrator no later than the date and time listed in the SBMA Schedule provided in the SMBA Notice.

Applicants will receive an email from the Auction Administrator confirming that the bid guarantee has been successfully processed by the Financial Services Administrator. If a bid guarantee is not received by the deadline date, the application will be rejected.

The amount of the bid guarantee provided to the Financial Services Administrator will be used to set bidding limitations in the sale by mutual agreement. The amount of the bid guarantee must be greater than or equal to the maximum value of the bids to be submitted. To determine the bid guarantee amount to provide, examples are provided in Attachment B to the SMBA Notice available from MDDELCC’s web site.

#### **5.2.3.1. Submitting a Cash Bid Guarantee (Wire Transfer)**

Cash wire transfers must be received by the Financial Services Administrator by the deadline date and time for receipt of bid guarantees as listed in the SBMA Schedule provided in the SMBA Notice, per the wiring instructions provided in the Financial Services Delivery Instructions and outlined below. See the SBMA Schedule provided in the SMBA Notice for the exact dates and time.

Entities must use the following Society for Worldwide Interbank Financial Telecommunication (SWIFT) wire transfer details:

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Intermediary Bank:	Royal Bank of Canada
Intermediary Bank SWIFT Identifier Code (BIC):	ROYC CA T2
Beneficiary Bank:	Deutsche Bank AG Francfort
Beneficiary Bank SWIFT Identifier Code (BIC):	DEUTDEFF
Beneficiary:	DBTCA as FSA for Quebec Minister of Sustainable Development
Beneficiary IBAN:	DE28500700100959163708
Beneficiary Bank Account number:	Provided in the Financial Services Delivery Instructions in the auction platform
Payment Details (including instructions on fees):	WCI Sale by Mutual Agreement
Port:	Deutsche Bank Account Number

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**The money is sent to Deutsche Bank in Germany. Therefore it is very important that you do not use the New York postal address when completing the wire transfer form.** The address is not necessary to process the disbursement, but if you must include a postal address for the Beneficiary Bank, please use:

- Beneficiary Bank: DEUTSCHE BANK A.G.
- Address: GR. GALLUSSTR. 10-14, D-60311 FRANCFORT 1, Allemagne
- City: FRANCFORT
- Country: ALLEMAGNE
- Bank Indicator: BANK
- SWIFT BIC: DEUTDEFF

Cash bid guarantee deposits may require an international funds transfer. There are fees associated with an international funds transfer imposed by both the sending and receiving financial institutions. These institutions generally publish fee instructions that allow the initiating party to indicate how the fees are apportioned. It is therefore important to use the SWIFT instruction <<OUR>> to indicate that the party making the transfer will pay the fees of both issuing and beneficiary financial institution.

All the fees associated with a SWIFT wire transfer must be paid in advance or they will be deducted from the amount of the bid guarantee wire transfer.

- The SWIFT instruction <<OUR>> indicates that the party making the transfer has paid the fees in advance.
- Communicate with your financial institution to verify how to proceed.

Cash wire transfers that are returned by the Financial Services Administrator to an entity due to an error or incomplete wire transfer details may result in a returned wire fee, which would be reflected in the wire amount returned to the entity. A returned wire fee is a common banking transaction fee not related to the Québec Cap-and-Trade System or the sale by mutual agreement.

#### **5.2.3.2. Submitting a Physical Bid Guarantee Instrument (Letters of Credit [LOC] and Letters of Guarantee [LOG])**

Physical bid guarantee instruments must be received by the Financial Services Administrator in final form by the deadline date and time for receipt of bid guarantees as listed in the SBMA Schedule provided in the SBMA Notice, per the delivery instructions provided in the Financial Services Delivery Instructions and outlined below. See the SBMA Schedule provided in the SMBA Notice for the exact dates and time.

**NOTE: Deutsche Bank Trust Company Americas** is the institution name required for receipt of funds via cash wire transfer and for delivery of physical bid guarantees, while **Deutsche Bank National Trust Company** is used as the beneficiary bank name provided for a physical bid guarantee. Entities submitting physical bid guarantees should be careful that both the beneficiary bank name and the institution name included in the mailing address are correct, since the names are not the same. Refer to the Financial Services Delivery Instructions provided in the Auction Platform for complete information. Complete and proper addressing is critical to ensure receipt of all physical bid guarantee instruments by the deadline date and time.

Auction and Reserve Sale Financial Services Administrator  
c/o Deutsche Bank Trust Company Americas  
60, Wall Street, 16<sup>e</sup> étage  
Mailstop: NYC60-1630  
New York, NY 10005-2836  
Téléphone: (212) 250-6645  
Courriel: [db.wcisupport@db.com](mailto:db.wcisupport@db.com)

Please include your CITSS Entity Legal Name and Financial Services Account Number when mailing the bid guarantee form(s) to ensure the bid guarantee is properly associated to the entity's account.

When an entity submits a physical bid guarantee instrument, the Financial Services Administrator will evaluate the instrument and identify any amendments that are necessary to meet the requirements. If a physical bid guarantee instrument must be amended, the amendment must be completed and received in physical form by the Financial Services Administrator by the deadline for receipt of bid guarantees. Amendments to physical bid guarantee instruments will not be accepted after the deadline date and time as listed in the SBMA Schedule provided in the SBMA Notice.

MDDELCC encourages entities to do the following:

- Submit a sample LOC or LOG to the Financial Services Administrator for review;
- Submit final documents early enough to provide time for amendment, if needed;
- Provide contact information for the issuing bank in the event that a draw on the physical bid guarantee is required to complete financial settlement for emissions units awarded;
- Confirm receipt of bid guarantees with the Financial Services Administrator.

If a bid guarantee is not received by the Financial Services Administrator in final form by the deadline date and time as listed in the SBMA Schedule provided in the SBMA Notice, the reserve sale application will be rejected.

Physical bid guarantees can be submitted in either French or English. If the bid guarantee instrument is submitted in French, an English translation may be requested to ensure timely review of the document. WCI, Inc., MDDELCC, and the issuing institution may be able to provide help if needed.

#### **5.2.3.2.1. Submitting a Letter of Credit (LOC)**

A LOC submitted as a bid guarantee must be issued by a bank or financial services cooperative with a Canadian banking license. All bid guarantees in the form of a LOC require the following non-negotiable terms:

- The LOC must refer to the CITSS Entity Legal Name or CITSS Entity Operating Name as provided in the participant's application;
- **Deutsche Bank National Trust Company** must be listed as the beneficiary;
- The LOC must be irrevocable;
- The amount of the LOC must be included;
- The expiration or maturity date must be at least twenty-six (26) days after the scheduled sale by mutual agreement;
- There must be instructions included indicating where to submit the LOC for payment;
- The LOC must allow for presentment by facsimile (Fax) (delivery in person or by courier cannot be required);
- There must be a payment certificate/form of draw included as an exhibit or annex to the LOC;
- The LOC must be payable within three (3) business days;
- There must be a draw cut off time of no earlier than 12:00 p.m. (noon) Eastern Time (ET) for same-day draw.

If any of these terms are not met by the date and time listed in the SBMA Schedule provided in the SBMA Notice for receipt of all bid guarantees by the Financial Service Administrator, the submitted LOC will be rejected. If the submitted LOC

requires revisions, all revisions must be completed and received in physical form by the deadline for receipt of bid guarantees or the LOC will not be accepted.

#### **5.2.3.2.2. Submit a Letter of Guarantee (LOG)**

All bid guarantees in the form of a letter of guarantee require the following non-negotiable terms:

- The LOG must refer to the CITSS Entity Legal Name or CITSS Entity Operating Name as provided in the participant's application;
- **Deutsche Bank National Trust Company** must be listed as the beneficiary/obligee;
- The party named as "Principal" in the LOG must be identical to that named in the participant's application;
- The expiration date must be at least twenty-six (26) days after the scheduled auction;
- The amount of the LOG must be included;
- There must be instructions included indicating where to submit the LOG for payment;
- There must be a payment certificate/form of draw included as an exhibit or annex to the LOG;
- The LOG must allow for presentment by Fax (delivery in person or by courier cannot be required);
- The LOG must be payable within three (3) business days;
- There must be a draw cut off time of no earlier than 12:00 p.m. (noon) Eastern Time (ET) for same-day draw.

If any of these terms are not met by the date and time listed in the SBMA Schedule provided in the Sale by Mutual Agreement Notice for all bid guarantees due to the Financial Service Administrator, the submitted LOG will be rejected. If the submitted LOG requires revisions, all revisions must be completed and received in physical form by the deadline for receipt of bid guarantees or the LOG will not be accepted.

#### **5.2.3.3. Bid Guarantee Revision Process**

If a bid guarantee in the form of a LOC or LOG requires revision, all revisions must be completed and received in physical form by the deadline date and time for receipt of bid guarantees as listed in the SBMA Schedule provided in the SBMA Notice or the bid guarantee will not be accepted.

If a bid guarantee in the form of a LOC or LOG provided to the Financial Services Administrator needs to be revised:

- The applicant will be notified by the Financial Services Administrator of the need for revision;

- The applicant would contact the financial institution that issued the bid guarantee instrument and request an amendment;
- The revised bid guarantee must be received in physical form by the deadline for receipt of bid guarantees or it will be rejected. Emailed, scanned, and PDF versions of a bid guarantee or bid guarantee amendment will not be accepted.

Deutsche Bank can be contacted directly at the following:

Phone: (714) 247-6054; (212) 250-2885  
 Email: [db.wcisupport@db.com](mailto:db.wcisupport@db.com)

### **Bid Guarantee Submittal Summary**

- An entity submitting a cash bid guarantee by wire transfer must provide all required wire transfer information listed in this document and in the Financial Services Delivery Instructions to ensure the bid guarantee is accepted and associated with the proper account.
- Cash wire transfers must be received by the Financial Services Administrator by the deadline date and time for receipt of bid guarantees as listed in the SBMA Schedule provided in the SBMA Notice.
- An entity is responsible to ensure proper addressing when mailing a physical bid guarantee instrument.
- An entity is responsible to ensure a physical bid guarantee instrument (LOC or LOG) is received in final form, including all required non-negotiable terms by the Financial Services Administrator, by the deadline date and time for receipt of bid guarantees as listed in the SBMA Schedule provided in the SBMA Notice.
- A bid guarantee or bid guarantee amendment received after the deadline date and time for receipt of bid guarantees as listed in the SBMA Schedule provided in the SBMA Notice will not be accepted.
- Emailed, scanned, and PDF versions of a bid guarantee or a bid guarantee amendment will not be accepted.
- If a bid guarantee is not received by the deadline date and time for receipt of bid guarantees as listed in the SBMA Schedule provided in the SBMA Notice, the reserve sale application will be rejected.

### **5.3. Step 3: Receive Notice of Entity’s Approval to Participate**

MDDELCC staff will review each applicant’s information, CITSS account status, and bid guarantee and make a determination to approve or deny each entity’s participation in the sale by mutual agreement. The PAR and all AARs for the entity will receive an email confirming approval or denial to participate in the sale within two (2) business days of the sale date. Each entity that has completed an application and been approved to participate in the sale is referred to as a “qualified bidder.”

The reasons for possible denial of an entity’s participation in a sale by mutual agreement include, but are not limited to, the following:

- The entity does not have an active CITSS account;
- An entity's general holding account has been revoked or is currently suspended;
- The entity is not represented by an active PAR or AAR with an Auction Platform account;
- The entity has not provided complete information on corporate associations;
- The entity has not submitted a bid guarantee to the Financial Services Administrator by the deadline date and time as listed in the SBMA Schedule provided in the SBMA Notice.

#### **5.4. Step 4: Participate in the Sale by Mutual Agreement**

Each sale by mutual agreement will be conducted using an electronic, internet-based Auction Platform in a single bidding window, using secret bids. Pursuant to the Québec Regulation, emissions units are divided into three equal-sized categories (A, B, and C).

Sales of emissions units for the September 2015 Sale by Mutual Agreement shall be conducted at the following prices:

<b>Category</b>	<b>Price</b>
A	44,96 \$
B	50,58 \$
C	56,20 \$

##### **5.4.1. Bidding in the Sale by Mutual Agreement**

Participants will be able to submit bids manually and upload bid schedules in a pre-defined Excel template in the Auction Platform during the scheduled bidding window.

To bid in the sale by mutual agreement:

- Participants will submit a bid which includes a number of bid lots (1 lot = 1 000 emissions units) and the category (A, B, or C);
- Participants are allowed to submit as many bids as they wish during the bidding window. An uploaded Excel spreadsheet may contain a maximum of 1 000 bids. Multiple spreadsheets may be uploaded;
- Participants will be able to edit or withdraw confirmed bids during the bidding window;
- Once the bidding window has been closed, no further bids may be entered and no changes to bids can be made.

##### **5.4.2. Sale by Mutual Agreement Bidding Limitations**

The Québec Regulation includes bidding limitations for sales by mutual agreement related to the bid guarantee submitted and the current vintage holding limit. These bidding limits are described below. Attachment B to the SBMA Notice provides additional information and examples of how to determine a bid guarantee amount and how the current vintage holding limit is applied.



#### **5.4.2.1. Bid Guarantee Bid Limitation**

The bid guarantee submitted for a sale by mutual agreement must be greater than or equal to the maximum value of the bids submitted. Submitted bids that contain bid quantities with a value in excess of the bid guarantee will be rejected, in bundles of 1 000 emissions units, until the limit is met. Only that portion of the bid quantity that exceeds the limit will be rejected, not the entire bid quantity.

#### **5.4.2.2. Purchase Limit Bid Limitation**

There is no purchase limit applied to the purchase emissions units offered at sales by mutual agreement.

#### **5.4.2.3. Holding Limit Bid Limitation**

The holding limit is the maximum number of GHG emissions units that may be held by an entity or jointly held by a group of entities with a direct corporate association. Emissions units purchased in a sale by mutual agreement are subject to the current vintage holding limit detailed in articles 32 and 33 of the Québec Regulation. The current vintage holding limit applies to emission units from the current calendar year, previous calendar years, and emission units purchased during a sale by mutual agreement. Further detail on how the holding limit applies to a sale by mutual agreement is provided in Attachment B to the SBMA Notice.

Related entities that are part of a direct corporate association that have separate CITSS accounts must allocate shares of the holding limit amongst themselves. This holding limit allocation results in each entity having a specified percentage share of the group's holding limit. The sum of the percentages allocated among the entities must sum to one.

Prior to the sale by mutual agreement, MDDELCC will transmit a file to the Auction Administrator that contains the holding limit cap for each participant. These caps will indicate how many emissions units a participant may acquire before exceeding its holding limit. The holding limit cap will be based on CITSS account balances and limited exemption data available in CITSS at approximately 12:00 p.m. (noon) ET the day prior to the reserve sale. The holding limit cap transmitted to the Auction Administrator is used solely for the purpose of administration of the holding limit bid limitation in the sale by mutual agreement and will only reflect the account balances in CITSS the day before the sale. Any changes to CITSS account balances after the determination of the holding limit cap due to transfers of allowances will not be reflected in the Auction Platform.

#### **5.4.3. Auction Administrator Application of the Bidding Limitations**

Submitted bids that contain bid quantities in excess of the holding limit or have a maximum value in excess of the bid guarantee will be rejected, in bundles of 1 000 emissions units, until all bid limitations are met. Only that portion of the bid quantity that exceeds one or more limit will be rejected, not the entire bid quantity. "Qualified bids" are the bids that remain after the submitted bids have been evaluated and reduced to meet all limits. Only qualified bids are used in the settlement process. Determination of qualified bids occurs after the bid window has been closed.

#### **5.4.4. Bid Fulfillment**

Sales from each category are conducted in succession beginning with the lowest price category and proceeding to the highest priced category, until either all available emissions units are sold or all qualified bids are filled.

Examples of how sales by mutual agreement are settled are provided in Attachment B to the SBMA Notice.

#### **5.4.5. Reserve Sale Conduct During a Sale by Mutual Agreement**

##### **5.4.5.1. Non-Disclosure of Bidding Information**

Pursuant to article 51 of the Québec Regulation, an entity approved for sale by mutual agreement participation shall not release any confidential information related to its participation, including:

- Intent to participate, or not participate, and approval status;
- Bidding strategy;
- Bid quantity or category information;
- Information on the bid guarantee provided to the Financial Services Administrator.

The Québec Regulation requires that any entity participating in a sale by mutual agreement that has retained the services of a consultant or advisor regarding bidding strategy must ensure the following:

- The entity must ensure against the consultant or advisor transferring information to other participants or coordinating the bidding strategy among participants;
- The entity will inform the consultant or advisor of the prohibition of sharing information to other participants and ensure the consultant or advisor has read and acknowledged the prohibition under penalty of perjury;
- If an entity is registered in the cap-and-trade system and has retained the services of a consultant or advisor, the entity must inform MDDELCC of such. The information provided must include the name, address, telephone number and the name of the consultant's employer.

An entity must provide this information in writing to MDDELCC within ten (10) business days preceding the sale by mutual agreement for which the consultant's or advisor's services will be employed. The entity must also inform MDDELCC if a new consultant is hired or if a consultant is discharged and not replaced.

#### **5.4.6. Market Monitoring**

WCI, Inc. has contracted with an independent market monitor, Monitoring Analytics, LLC., for the Québec Cap-and-Trade System. The purpose of the Market Monitor is to monitor, detect, and report issues relating to the operation of the GHG emissions units auctions, sales by mutual agreement, and secondary markets.

The Market Monitor will monitor the GHG emissions units auctions and sales by mutual agreement<sup>2</sup>, and provide ongoing monitoring of GHG emissions units holdings and market activity. The Market Monitor will monitor the secondary market to identify any indications of anti-competitive behavior, as well as to understand market activity and trades. Its findings will be provided to MDDELCC staff to review and take action, as needed. MDDELCC staff will also monitor the auctions and reserve sales during the bidding window and review submitted bids to determine if there are any indications of anti-competitive behavior.

Any fraudulent, manipulative, collusive, or noncompetitive behavior in an auction or reserve sale may be investigated and prosecuted in accordance with all applicable laws and regulations.

## **5.5. Step 5: Access Sale by Mutual Agreement Results and Download All Reports**

Following a sale by mutual agreement, MDDELCC and the Market Monitor will review the results. If the conclusions of the Minister and the Market Monitor are positive, the results will be certified.

### **5.5.1. Public Notification of Results**

Results will be accessible to the public through a Sale by Mutual Agreement Summary Results Report, which will be posted on MDDELCC's web site. This posting is anticipated to occur at approximately the date and time listed in the SBMA Schedule provided in the SBMA Notice. In the event of a delay in posting the summary results report, a message will be posted on MDDELCC's web site providing the new date for the release.

The reserve sale results will include the following:

- The names of the qualified bidders;
- The prices per category and emissions units available in each category;
- The total number of emissions units sold from each category.<sup>3</sup>

### **5.5.2. Notification of Entity Sale by Mutual Agreement Results**

Following the posting of the Sale by Mutual Agreement Summary Results Report, the Minister will certify the sale in the Auction Platform. Representatives of qualified bidders will be able to view and download the entity's results in its Organization Results Report available through the Auction Platform. Additionally, a financial statement is available to serve as the financial settlement invoice for the sale and will include the number and total cost of emissions units the entity has purchased, if any.

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<sup>2</sup> « Sale by mutual agreement » is a general term referring to sales by mutual agreement in Québec and reserve sales in California.

<sup>3</sup> The total number of emissions units will be provided only if the total represents purchases from a minimum of three (3) qualified bidders.

### **5.5.3. Download All Reports**

Immediately following certification of a sale by mutual agreement and availability of the entity's results in the Auction Platform, an entity's PAR or an AAR should download and save all Auction Platform reports that are available to an entity that has participated in a sale. The reports include: the Organization Results Report, the Financial Statement, and the Client Bid Audit Report. As these reports are confidential, they are not available to any parties other than the PAR and AARs that were associated with an entity for each auction and sale by mutual agreement. CITSS account representatives may change over time, and access to historical reports cannot be provided to new representatives. To maintain a complete record of an entity's auction and sale by mutual agreement participation, it is recommended that all reports be downloaded and maintained by auction and sale by mutual agreement participants as soon as each event is certified and all reports become available in the Auction Platform.

### **5.6. Step 6: Complete Financial Settlement**

Entities will complete the financial settlement process with the Financial Services Administrator for all emissions units purchased in a sale by mutual agreement once the sale is certified. Financial settlement must be completed in cash. The availability of the Organization Results Report represents the beginning of the seven (7) day period in which a participant is required to complete payment of the amount due for emissions units purchased to the Financial Services Administrator.

The entity's Organization Results Report will include the following:

- Reserve sale information:
  - Prices per category;
  - Number of successful bids by category and successful bid emissions units;
  - Total bid cost (by category and combined total);
- Account information:
  - Entity information;
  - Bid guarantee submitted by type (cash, LOC, or LOG);
  - Amount due to Financial Services Administrator (if any);
  - Amount due by date (if an amount is due);
- Wiring instructions for submitting payment;
- Bid information.

The entity's Financial Statement will include all of the above except bid information.

As part of the financial settlement process, the Financial Services Administrator will:

- For those entities that submitted cash bid guarantees, use the cash submitted to settle for any amounts owed and return any unused portion in accordance with the instructions provided when the entity applied to participate in the sale by mutual agreement;

- For entities that submitted a physical bid guarantee instrument(s) (LOC or LOG), collect cash payment for any amounts owed from winning bidders within seven (7) days of the availability of the results;
- Draw on the physical bid guarantee instrument(s) for any entities that fail to submit payment for amounts owed within seven (7) days of availability of the results;
- Distribute sale by mutual agreement proceeds from the sale of emissions units.

Once all payments have been received, proceeds will be paid, and subsequently MDDELCC will transfer the number of emissions units purchased into each winning bidder's CITSS Compliance Account.

### **5.6.1. Cash Settlement**

All final financial settlements must be completed in cash by sale by mutual agreement participants within seven (7) days of the availability of the entity's results in the Auction Platform. The wiring instructions for cash settlement will be included in the Organization Results Report, which is downloaded from the Auction Platform. If cash in the form of a wire transfer was submitted for the bid guarantee, the cash funds on account will be used to settle any amount owed and any unused portion will be returned to the entity.

Cash in the form of a wire transfer may require an international funds transfer. There are fees associated with an international funds transfer. All the fees associated with a cash wire transfer must be paid in advance or they will be deducted from the amount submitted for financial settlement.

- The SWIFT instruction <<OUR>> indicates that the party making the transfer has paid the fees in advance;
- Communicate with your financial institution to verify how to proceed.

The Financial Services Administrator will not accept payment in the form of a certified bank check or cashier's check for emissions units purchased in a sale by mutual agreement. If a check is received for cash settlement, the check will be returned.

If an entity fails to make cash payment within seven (7) days after the availability of the entity's results, physical bid guarantee instruments (LOC or LOG) held on account by the Financial Services Administrator will be used to cover payment for emissions units purchased in the sale.

### **5.6.2. Return of Bid Guarantee**

The Financial Services Administrator will return any unused bid guarantees based on the return instructions provided when the sale by mutual agreement application was submitted in the Auction Platform. Cash will be returned through wire transfer<sup>4</sup>, and

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<sup>4</sup> If a wire transfer is returned to the Financial Services Administrator by the entity's financial institution because of an error or incomplete information provided by the financial institution and fees are charged to the Financial Services Administrator, these fees will be deducted from the

physical bid guarantee instruments in the form of a LOC or LOG will be returned directly to participants through FedEx or DHL delivery by the Financial Services Administrator. The Financial Services Administrator will send an email to the representatives of participants in advance of sending back the unused bid guarantee so they can prepare for receipt of funds or physical bid guarantee instruments.

All bid guarantees submitted by unsuccessful bidders, regardless of type, will be returned within approximately three (3) business days after the sale by mutual agreement is certified.

For winning bidders that provided a cash bid guarantee, the funds will be applied against the final settlement amount owed. If there is cash remaining after the amount owed for emissions units purchased has been deducted, the unused cash will be returned to the participant through wire transfer based on the return instructions provided during the application process in the Auction Platform.

For winning bidders that provided bid guarantees in the form of a LOC or LOG, following receipt of all amounts owed, the Financial Services Administrator will return physical bid guarantee instruments directly to the participants through FedEx or DHL delivery, based on the return instructions provided during the application process in the Auction Platform.

## **6. Transfer of Emissions Units into CITSS Accounts**

Emissions units are recorded in winning bidders' compliance accounts following completion of financial settlement.

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value of the bid guarantee that is returned. A returned wire fee is a common banking transaction fee not related to the Québec Cap-and-Trade System or the sale by mutual agreement.