

WCI, Inc. Request for Proposal (RFP#: 2018-03)

Canadian Financial Services for Auctions and Reserve Sales

Responses to Proposers' Questions

1. **Is bidding and interpreting bids, and/or determining compliance for the bid process expected to also be communicated in French? Please describe any other operational requirements of the Canadian Financial Services Administrator (FSA) expected to be communicated in French.**

As specified the [Canadian FSA RFP](#), French support services from the FSA includes the following:

- Establishing and verifying bank accounts and related exchanges with each entity to complete associated know your customer (KYC) requirements;
- Review, assess, accept and draw upon any financial bid guarantees (letter of credit and letter of guarantee, and bond in case of a need for contingency services) and any associated follow-up if changes are required for acceptance or if someone wants to know the status of the review of his financial bid guarantees;
- Any follow-up required with a participant to ensure payment or draw on a financial bid guarantee, if needed, once an auction has been certified, and the FSA has been instructed to do so;
- Provide all material required by Participating Jurisdictions, including providing input (e.g. wire instructions and delivery & return instructions for letter of credit) or reviewing (i) auction public notices and (ii) Auction Training materials/presentations.

The Canadian FSA will not be responsible to interpret bids or determine compliance in the bid process in any form. The interpretation of bids and determination of compliance in the bid process is conducted as a component of “auction administration,” which is managed by a separate WCI, Inc. contractor. The Canadian FSA will be responsible to interpret and determine compliance of bid guarantees and financial settlement.

2. **Do you require legal documents to be in French? If so, is WCI, Inc. willing to pay for external legal counsel?**

Yes, legal documents in French will be required. All proposers should be prepared to hire their own legal counsel to review any legal documents or materials to be provided within the course of the FSA, including but not limited to financial bid guarantees (letter of credit and letter of guarantee, and bond in case of a need for contingency services).

3. As we face limitations in contracting with individuals, we understand we would be signing the contract with WCI, Inc., while participants to auctions may include individuals; can you better describe how this would work?

3.1. Presumably we would be receiving cash from them and returning it to them. Would this flow through WCI, Inc. to distribute to the individuals?

No. The successful offeror will be responsible for establishing bank accounts to accept bid guarantees and to return excess bid guarantees to individuals based on the direction provided by the Participating Jurisdictions.

4. Could you provide further clarity regarding the discretionary duties required of the Canadian FSA throughout the auction process? Would the Canadian FSA role include to administer the rules and regulations of the auction not on instruction but as Administrator?

No, the Canadian FSA will not be required to administer the rules and regulations of the auction. As indicated in the [Canadian FSA RFP](#) the “auction administration” is managed by a separate WCI, Inc. contractor.

Regarding its discretionary duties, the Canadian FSA should take the necessary steps to complete the required AML and KYC activities as required under law within Canada and the United States.

5. Would the Canadian FSA would be required to do the following:

5.1. Open a bank account in the name of an individual person?

Individuals are eligible to participate in the cap-and-trade program and the Canadian FSA should be prepared to open bank accounts for an individual person.

5.2. Receiving funds from an individual person?

Yes.

5.3. Return funds to an individual person?

Yes, unused cash bid guarantees (or funds received in excess of amounts due for allowance won) would need to be returned to any individual person participating in an auction.

5.4. Potentially receive calls from an individual person on issues related to the bank account, etc. and if so, would it be required that the Canadian FSA employee responsible to take these calls speak French?

Yes, the Canadian FSA should be prepared to receive calls from individuals in French.

6. Third Parties:

6.1. We understand that the governing contract will be between the Proposer and WCI, Inc. Through our analysis we believe that a formal agreement may be required between each entity in order to govern onboarding/Anti-money laundering (AML), know your customer (KYC) and privacy in accordance the Canadian jurisdiction. Please expand on the existing contractual relationship between each third party.

The Canadian FSA should take the necessary steps to complete the required AML and KYC activities as required under law within Canada and the United States. A formal agreement would be required between the Canadian FSA and each entity only if required under law within Canada and the United States, in case of a need for contingency services.

6.2. CITSS – We would ideally like to work with CITSS to fulfill some or all of our onboarding requirements, KYC/AML/ ID collection.

6.2.1. Please define CITSS’s role in detail, including current onboarding procedures with the existing FSA.

The KYC/AML/ID collection process is completed outside of CITSS by each Participating Jurisdiction. Entity registration information is collected in CITSS and made available to the FSA in an Event Application Report.

Entities participating in the cap-and-trade market must have a CITSS account. Auction applications are submitted in CITSS. The FSA has access to reports with information on each entity that has applied to an upcoming auction.

As stated in the Statement of work for Task 3:

“The application process currently begins in CITSS. As described under Financial Services Administration Integration with other WCI, Inc. Services, the Contractor will have access to potential applicant and applicant data from CITSS that is required to perform the Financial Services. Additional data on corporate structure of entities can be provided by the staff of the Participating Jurisdictions if required for the Contractor’s account establishment process.

Additional registration data including data specific to corporate structure is reported to jurisdictions in hardcopy form and may be made available to the Contractor as needed for procedures to establish accounts. The data collected is outlined on the [“Corporate Associations and Structure Form”](#) available from Participating Jurisdiction web pages. The primary data made available includes: Name and Addresses of Your Entity's Directors and Officers, Names and Address of Persons with Voting Rights, and Parent and Subsidiary Companies.”

6.2.2. Does CITSS provide the wire instructions for entities receiving distributions? And do receiving entities currently go through the full onboarding procedure, including opening an account?

Only Participating Jurisdictions and consigning entities offer allowances for sale and receive proceeds from allowances sold.

Participating Jurisdiction wiring instructions are not provided through CITSS. The Canadian FSA must establish procedures to securely receive these wiring instructions from Participating Jurisdictions.

Most consigning entity wiring instructions are provided through CITSS to the FSA. Although uncommon, in cases where wiring instructions for entities consigning allowances cannot be provided through CITSS, the Canadian FSA must establish procedures to securely receive these wiring instructions.

A consigning entity that does not participate in an auction (i.e. only consigns allowances for sale) is not required to open a bank account with the FSA since there is no need to deposit a bid guarantee with the FSA. Currently, consigning entities only apply to California, but Nova Scotia also plans to have consigning entities for its auctions starting in 2020.

6.2.3. Please provide a sample of the documentation that CITSS currently collect.

As described under Financial Services Administration Integration with other WCI, Inc. Services, reports are available through CITSS. Entity information currently collected in CITSS is downloaded by the FSA in the Auction Application Report. This report is available in a comma separate value (CSV) format and includes, but is not limited to, 1) Entity Application Data and 2) Entity Financial Services Account Data. These data categories are detailed on pages 25-27 of the [Canadian FSA RFP](#).

Additionally, information is collected by Participating Jurisdictions outside of CITSS. Below is a list of public documents from the [Québec Carbon Market Website](#) and the [Nova Scotia cap-and-trade Regulations Page](#), regarding participant's registration to the cap-and-trade program:

Forms and Sample letter templates (Québec)

- [Application form to opt-in](#) (French)
- [Attestation of verification of identity and designation](#)
- [Financial institution confirmation letter](#) (sample)
- [Cross-jurisdiction user](#)
- [Structure and Business Relationships Disclosure Form](#)

CITSS User Manual (Québec)¹

- [Volume 1: User registration](#)
- [Volume 2: User profile management](#)
- [Volume 3: Account opening](#)
- [Volume 4: Account management](#)

Forms and Sample letter templates (Nova Scotia)

- [Identity verification and attestation form](#)
- [Letter from a financial institution template](#)
- [Letter of authorization template](#)
- [Cross jurisdiction user](#)
- [Business relationship disclosure form](#)

CITSS Guidance documents (Nova Scotia)¹

- [Guidance document 1: User registration in CITSS](#)
- [Guidance document 2: Account application in CITSS](#)

In case of a need for contingency services, public documents used to collect information from participants for registration under the California Cap-and-Trade Program can be found on the [CITSS Information web page](#).

6.2.4. Does CITSS have the flexibility to collect documents in line with each Financial Institution's specific requirements?

CITSS cannot collect documents in any form.

6.2.5. Does the program require specific AML/KYC/Clients contracts, or can the Financial Institution acting administrator utilize their existing collateral?

The Canadian FSA should take the necessary steps to complete the required AML and KYC activities as required under law within Canada and the United States. A client contract would be required between the Canadian FSA and each entity only if required under law within Canada and the United States, in case of a need for contingency services.

6.2.6. If yes, we assume that bank standard onboarding documents will be non-negotiable by the participants, please confirm?

Yes.

¹ The screenshots provided in these documents gives a good idea of the data collected by CITSS.

6.3. We would like to request a sample of the auction results data file that the Canadian FSA contractor would obtain from the auction administrator (IHS Markit) or download/upload from CITSS.

Auction Results data are generated by the Auction Administrator and downloaded by the FSA to obtain results of an auction for each entity and to begin the financial settlement process. This report in XLS format includes essentially the following data categories for which specific data are also detailed on pages 25-27 of the [Canadian FSA RFP](#):

- Summary Data
- Entity Data
- Entity Financial Services Account Data
- Entity Financial Settlement Data

Samples of existing reporting may be provided upon request to proposers after they submit an initial response.

6.4. As it pertains reporting, it is my understanding the financial administrator is to upload a reconciliation file to CITSS and the jurisdictions involved. We would like to understand the file types (E.g. BAI, EDI 821), communication methods and encryption (e.g. FTP/PGP) that CITSS and the jurisdictions support.

As indicated under the Reporting Requirements section starting on page 31 of the [Canadian FSA RFP](#) the reconciliation files are not uploaded to CITSS but are transferred by secure FTP:

- Upon completion of all the required payments, the Contractor must provide a final reconciliation report by secure FTP to Participating Jurisdiction(s) conducting the auction/reserve sale.
- For each event supported by the Contractor, a Financial Services Operations Report will be submitted by secure FTP, including a narrative description and event-specific information.

As discussed on page 9 of the [Canadian FSA RFP](#), pre-auction and reserve sale reconciliation reports provide Financial Services information for auction and reserve sale applicants to Participating Jurisdictions, including, but not limited to, 1) Entity Application Data and 2) Entity Financial Services Account Data. These data categories are detailed on pages 25-27 of the Canadian FSA RFP. These data include data provided by the FSA including Entity Financial Services Account information and cash holdings, as well as Entity Physical Bid Guarantee holdings, which are uploaded into CITSS by the FSA. Currently, reconciliation reports are provided in an XLS format. Files uploaded into CITSS are in a CSV format.

Additional information on file types, secure means of communication and encryption supported by CITSS and the Participating Jurisdictions may be further discussed during the upcoming individual proposers' presentation and conference.

6.5. Page 27 of the Canadian FSA RFP provides AES-256 as an example, which other types of encryption are supported?

No additional information on encryption can be disclosed publicly in order to protect program and application security.

7. Other jurisdictions:

7.1. Please provide a list of prospective jurisdictions within North and South America.

WCI, Inc. is unable at this time to disclose a list of all of the jurisdictions that may be evaluating whether to utilize the services offered through WCI, Inc.

8. Auction:

8.1. Do all participants open accounts with the current Financial institution?

Yes, all auction participants need to establish a financial services account with the FSA in order to deposit a bid guarantee for each auction.

8.2. Which party provides the decision on whether a participant qualifies to enter the auction, and which party informs the financial administrator of qualification?

The respective Participating Jurisdiction where auction applicants are registered (e.g. Québec, California, and eventually Nova Scotia) is responsible for final approval of auction applicants. The FSA is notified of all participants approved to participate in an auction through the Auction Application Report available from CITSS, once a determination is made. Additionally, the financial settlement report available through the Auction Administrator includes only entities approved to participate in an auction.

8.3. After the auction, does the Canadian FSA make payment directly to Californian participants/state or make one bulk payment to Deutsche Bank?

The Canadian FSA could make payment directly to Participating Jurisdictions or to the U.S. -based financial services administrator for the payment of proceeds to Participating Jurisdictions. This would need to be further discussed with both the Canadian and U.S. -based financial services administrators and Participating Jurisdictions, as auction processes and procedures will need to be developed to manage coordination between the two FSAs. The Canadian FSA would not make payment directly to California consigning entities, unless required in case of contingency services.

8.4. Please outline the province of Quebec's role in the auction.

As a Participating Jurisdiction, Québec (like California for now and Nova Scotia starting in 2020) is responsible for the following activities during the typical auction process:

- Publish the Auction Notice (60 days ahead of the auction event);
- Monitor event applications and bid guarantees submitted (Daily exchange of information with the FSA);
- Approve Auction Applicants (2 days ahead of an auction event);
- Determine Auction Exchange Rate (1 day ahead of an auction event);
- Monitor bidding activity (in real time during an auction event);
- Confirm to run the auction settlement (once the bidding window is closed);
- Confirm the Auction Results;
- Certify the Auction Results, Publish Auction Results and Submit Currency Exchange Request to FSA (7 days after an auction event);
- Review result of currency exchange and determine proceeds to be paid to Participating Jurisdictions and consigning entities; Review daily reconciliation reports of financial settlement & financial bid guarantee returns (information received from the FSA); and provide direction to FSA to pay proceeds to Participating Jurisdictions and consigning entities (14 days after an auction event);
- Ensure all proceeds are received and allowances are transferred to successful bidders in CITSS and close the auction in the auction platform (26 days after an auction event);

Additional information regarding the Auction process and the “General Auction Schedule”, is available on page 5 of the [California-Québec Joint Auction Participant Training Presentation](#); you can also refer to the **Appendix 1. Typical Auction Schedule and FSA Actions** available at the end of the current document.

9. Consignment Services:

9.1. Please define consignment services and explain the process or provide a process flow-chart.

Consignment services used by California are described in “Contingency Services” on page 34 of the [Canadian FSA RFP](#).

The [California Cap-and-Trade Regulation](#) provides that allowances are allocated annually to electrical distribution utilities and natural gas suppliers. Each calendar year, these entities must offer for sale at auction all allowances that have been placed in its Limited Use Holding Account (LUHA). The vast majority of consigning entities are California electrical distribution utilities and natural gas suppliers with access to a LUHA account. These entities provide wiring instructions through CITSS.

Potentially other parties as described in the [California Cap-and-Trade Regulation](#) may consign allowances, but do not have a LUHA account. If an entity consigning allowances does not have a LUHA account, then the entity cannot provide wiring instructions through CITSS. If contingency services are needed, the Canadian FSA must

establish procedures to securely receive wiring instructions from entities consigning allowances.

As Nova Scotia plans to hold auctions two (2) to four (4) times per calendar year, starting in 2020, it will also use consignment services. The Canadian FSA must establish procedures to support Nova Scotia consignment services starting in 2020. All participants registered in Nova Scotia's cap-and-trade program will have LUHAs.

9.2. What jurisdictions use consignment services? Do Quebec participants require this option?

Quebec does not allow consigned allowances, so this task currently applies only to California.

As Nova Scotia plans to hold auctions two (2) to four (4) times per calendar year, starting in 2020, it will also use consignment services (to know more refer to [Nova Scotia Cap-and-Trade Program Regulations](#)). Nova Scotia will have approximately 20-22 entities participating in its program and they will all have a LUHA account.

As new Canadian provinces may join in the future, they may also use consignment services.

9.3. Are participants who utilize consignment currently required to open accounts with the FSA?

No, if they only consign allowances for sale, they do not need an FSA account. An FSA account is required if they also participate in an auction to purchase allowances.

10. Daily reconciliations (Page 7, Paragraph 2):

10.1. Please provide additional process details (or samples reconciliations) on "Daily reconciliations status reports" and "Complete full reconciliation of accounts"

Samples of process details regarding daily reconciliation may be provided upon request to proposers after they submit an initial response.

Pre-auction and reserve sale reconciliation reports are required to provide Financial Services information for auction and reserve sale applicants to Participating Jurisdictions. These reports summarize entity application information provided to the FSA in CITSS and information provided by the FSA, including, but not limited to, 1) Entity Application Data and 2) Entity Financial Services Account Data. These data categories are detailed on pages 25-27 of the [Canadian FSA RFP](#). The FSA uploads data into CITSS including Entity Financial Services Account information, cash holdings, and Entity Physical Bid Guarantee holdings.

Post-auction and reserve sale reconciliation reports provide financial settlement information to Participating Jurisdictions concerning auction and reserve sale applicants and qualified bidders, including, but not limited to: 1) Entity Application Data, 2) Entity Financial Services Account Data, 3) Entity Financial Settlement Data, 4) Summary Financial Settlement Data, 5) Currency Exchange Data, and 6) Proceeds Distribution Data. These data categories are detailed on pages 25-27 of the Canadian FSA RFP.

11. On-boarding Support

11.1. Is it reasonable to assume that Deutsche Bank will provide materials and assistance to the successful proposer under the current arrangement?

It is WCI, Inc.'s expectation that both contractors will work collaboratively to ensure that financial services are delivered in a manner that meets the objective of each jurisdiction being served.

12. Program documentation

12.1. Please provide an itemized list of documentation that needs to be created by the proposer if successful.

The complete list is presented and detailed below each task in Attachment A: Scope of work of the [Canadian FSA RFP](#). Here is a summary of the required documentation:

- Task 1 (refer to p. 20):
 - Draft Work Plan: Thirty (30) days after contract initiation
 - Final Work Plan: Two (2) weeks after receipt of comments on draft

- Task 2 (refer to p. 27):
 - Draft Process and Procedures
 - Pre-auction
 - Post-auction
 - Financial services support processes
 - Financial services training and outreach materials (materials are expected to be minimal and will be designed to complement or be integrated into materials provided by the Contractor providing Auction Services and the jurisdictions, total pages of materials to be developed are anticipated to be no more than 10 total pages)
 - For contingency services or scope expansion only, consignment services

 - Final Process and Procedures
 - Pre-auction
 - Post-auction
 - Consigning Entity (applicable only if permitted by the jurisdiction)
 - Financial services support processes and training and outreach materials Revised Processes/Procedures Documents, if necessary
 - Draft System Configuration/Specialized Reports
 - Final System Configuration/Specialized Reports

- Task 3 (refer to p. 33)
 - Draft Post Auction/Reserve Sale Reconciliation Report
 - Summary Financial Settlement Data
 - Entity Financial Settlement Data
 - Bid Guarantee Return Data

- Entity Consignment Data, if applicable
 - Final Post Auction/Reserve Sale Reconciliation Report
 - Final Financial Services Operation Report
- Task 4 (refer to p. 34)
 - Draft Plan to Add New Jurisdiction
 - Final Plan to Add New Jurisdiction - The schedule for completing the deliverables shall be defined when a new jurisdiction is added.
- Task 6 (refer to p. 35):
 - Draft Transition Plan
 - Final Transition Plan
 - Copies of All Materials
 - Data Necessary to Support the Transition

12.2. Please confirm that all documentation is required in both English and French, or only participant facing documentation?

All participant facing documentation must be provide in both English and French. Internal documentation (e.g. regarding internal processes and procedures) may be provided only in English.

13. Reporting

13.1. Please provide samples of all existing reporting.

Specific timing and FSA reporting requirements for Pre-Auction and Reserve Sale, Post-Auction and Reserve Sale, and Interim and Final Reconciliation Report, including general data categories and specific data to be included in each report, are detailed on pages 23-27 and 30-32 of the [Canadian FSA RFP](#).

Samples of existing reporting may be provided upon request to proposers after they submit an initial response.

14. AML/KYC

14.1. If an applicant does not meet the Administrator's AML/KYC/Onboarding requirements, is there an existing process in place that can be leveraged?

The Canadian FSA should take the necessary steps to complete the required AML and KYC activities as required under law within Canada and the United States. If the Canadian FSA cannot complete the process to establish an account for an entity in time to submit a bid guarantee by the 12 days due date before an auction event, then the entity cannot meet the requirement to submit a bid guarantee. Any inability to establish an entity account must be reported to the respective Participating Jurisdiction.

15. Is there or has there been any taxable events associated with the program?

WCI, Inc. is unable at to provide any information related to potential taxable events specific to Participating Jurisdictions, auction participants, or consigning entities as WCI, Inc. does not have information available.

16. Please provide examples of potential conflicts of interest that the program is concerned with.

As indicated on page 13 of the [Canadian FSA RFP](#):

The contractor and its agents, representatives, and subcontractors must mitigate conflicts of interest between the Financial Services required under this Agreement and services provided by the Contractor to other clients or the Contractor's other business operations.

Each Proposer must also disclose any potential real or perceived conflicts of interest (e.g., between the Proposer or an affiliated company that is a covered entity, a General Market Participant in the Auctions, or by providing services to a covered entity or General Market Participant) and outline how such conflicts will be mitigated. The Proposer must also describe any formal policies or procedures that will identify and mitigate potential future conflicts of interest, and ensure that the Proposer's organization, management, and employees avoid financial interests and activities that create potential and actual conflicts of interest.

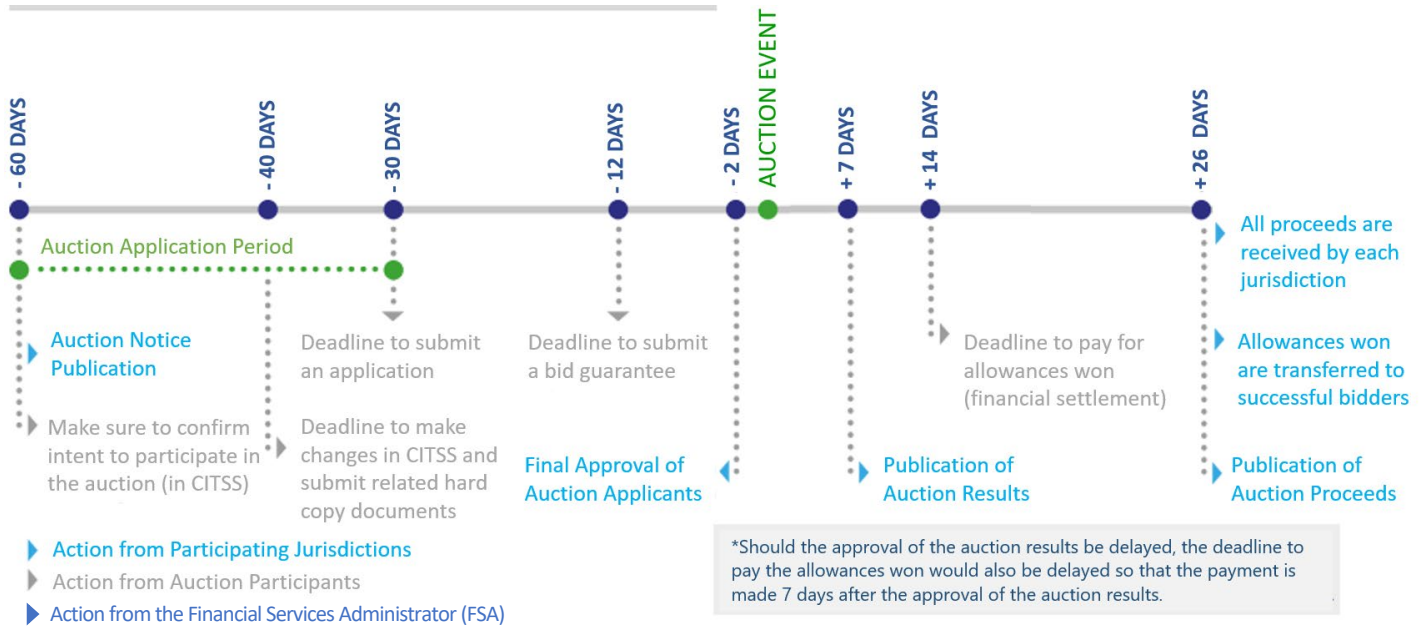
Proposers selected for presentations should be prepared to discuss their policies and procedures utilized to identify and mitigate conflicts of interest, and how Proposer ensures that its organization, management, and employees avoid and mitigate conflicts of interest.

Additional details or examples of potential conflicts of interest that the program is concerned with can be found in the Attachment D (page 15) and Attachment D1 (page 17) of [WCI, Inc. Standard Contract Form](#).

Examples of potential conflicts of interest would include:

- The entity submitting a proposal is registered under a Cap-and-Trade Program and eligible to participate in an auction.
- The entity submitting a proposal has a business relationship with an entity that is registered under a Cap-and-Trade Program and eligible to participate in an auction.

Appendix 1. Typical Auction Timeline and FSA Actions



- Daily downloads of **Events Application Report** from CITSS.
- Establishes/verifies **FSA accounts for applicants** to record bid guarantees.
- Receives **cash bid guarantees** & review **physical bid guarantees** to ensure they meet the requirements.
- Daily reports of **cash and holding files** for validation and reporting of bid guarantee status for all event applicants
- Uploads **cash & holding data** into CITSS.
(For "Contingency Services" or "Scope Expansion" only: Obtain and/or verify **wiring instructions** for consigning entities)
- Holds **bid guarantees** in FSA accounts on behalf of entities (i.e. Corporate trust in Canada).
Note: There is no action from the FSA during the Auction Day.
- Downloads **Financial Settlement Report** & begins **financial settlement process** (including providing **information for currency exchange** to Jurisdictions).
- Transfers funds** from entity financial services accounts to Jurisdictions Settlement Accounts.
- Returns **excess cash bid guarantee** amounts & unused **physical bid guarantees**.
- Daily provides **financial settlement reconciliation report** to Jurisdictions.
- As directed by Jurisdictions, completes **currency exchange & transfers proceeds*** to Jurisdictions and consigning entities (In CAD for Québec and other Canadian Jurisdictions, and in USD for California).
Note: *At this point, the FSA has only cash (in USD and CAD) and all LOC/LOG/bond have been returned or used, unless an entity fails to pay in cash. An additional three (3) business days may be required if FSA required to **draw on a LOC/LOG/bond**.
- Submits **interim Financial Reconciliation Report** to Jurisdictions (indicating all funds received, bid guarantees returned and currency exchange completed).
- Submits **Final Financial Reconciliation Report** to Jurisdictions indicating all funds received, bid guarantees returned, currency exchange completed, and proceeds paid.

Source: Adapted by WCI, Inc. from the [Typical Auction Timeline](#) (French) available on the Québec Carbon Market website.