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EU Places 190 Million Emission Allowances into Market Stability Reserve to Strengthen Carbon Market

Key policies: *EU Emissions Trading System (EU ETS), Market Stability Reserve (MSR), European Green Deal, EU Climate Law, Fit for 55 Package, Carbon Market Reform*

The European Commission has adopted its annual **Communication on the Total Number of Allowances in Circulation (TNAC)**, confirming that **190.5 million EU ETS allowances** will be transferred into the **Market Stability Reserve (MSR)** between **1 September 2026 and 31 August 2027**.

The annual TNAC calculation is a key mechanism for maintaining the balance of the European carbon market. By adjusting the supply of emission allowances available for auction, the Market Stability Reserve helps improve market stability, strengthen the carbon price signal and provide greater predictability for businesses investing in decarbonisation.

Total number of allowances in circulation remains above threshold

The Commission reported that the **Total Number of Allowances in Circulation (TNAC)** stood at **1,023,494,202 allowances** in 2025.

The TNAC measures the surplus of emission allowances available within the EU Emissions Trading System and serves as the principal indicator determining whether allowances should be transferred into or released from the Market Stability Reserve.

Because the surplus remains above the threshold established under the **MSR Decision**, the reserve will continue to absorb excess allowances from the market during the next allocation period.

190 million allowances transferred to the Market Stability Reserve

In accordance with **Decision (EU) 2015/1814**, the Commission confirmed that **190,494,202 allowances** will be placed into the Market Stability Reserve over the twelve-month period from **1 September 2026 to 31 August 2027**.

As a result, fewer allowances will be offered through the EU ETS auction system.

The corresponding reduction in auction volumes will be reflected in the updated auction calendars expected to be published around **July 2026**.

Market Stability Reserve supports a stable carbon market

The Market Stability Reserve was introduced to improve the functioning of the EU carbon market by automatically adjusting the supply of emission allowances in response to changing market conditions.

The mechanism operates by:

- Removing allowances from the market when there is a significant surplus

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- Returning allowances to the market if supply becomes constrained
- Reducing excessive price volatility
- Supporting long-term market confidence
- Preserving the effectiveness of the EU ETS

By balancing supply and demand, the MSR helps maintain a robust carbon pricing signal that encourages investment in low-carbon technologies and industrial decarbonisation.

Current reserve rules remain in force

As of **1 January 2026**, the Market Stability Reserve contained **400 million allowances**.

Under the current legislation, allowances held in the reserve above this level are automatically invalidated and permanently removed from the system.

However, in **April 2026**, the European Commission proposed an amendment to the **Market Stability Reserve Decision** that would discontinue this automatic invalidation mechanism.

The proposal aims to retain surplus allowances within the reserve as a strategic buffer capable of supporting market stability during future periods of tighter allowance supply.

Until the proposed amendment is formally adopted and enters into force, the existing rules under Article 1(5) of the MSR Decision continue to apply.

Annual monitoring ensures market stability

The publication of the TNAC is a mandatory annual requirement under the Market Stability Reserve Decision and must be completed by **1 June** each year.

The indicator plays a central role in the automatic operation of the Market Stability Reserve, ensuring that adjustments to allowance supply are based on transparent, objective and predictable market conditions.

The next TNAC Communication is scheduled to be published by **1 June 2027**.

Background

The **Market Stability Reserve (MSR)** has been operational since **2019** as the European Union's principal mechanism for maintaining the stability of the **EU Emissions Trading System (EU ETS)**.

Created to address the structural surplus of emission allowances that accumulated following the 2008 financial crisis, the reserve automatically adjusts auction volumes according to the total number of allowances in circulation. The system helps ensure that carbon pricing remains an effective driver of emissions reductions while providing greater certainty for investors and industry.

The Commission's latest TNAC Communication confirms that the reserve will continue to play a central role in balancing the carbon market as the European Union advances towards its climate neutrality objective for 2050. At the same time, the proposed reform of the Market Stability Reserve

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is expected to further strengthen the resilience and predictability of the EU carbon market in the years ahead.

Source: *https://climate.ec.europa.eu/news-other-reads/news/190-million-eu-ets-allowances-be-placed-market-stability-reserve-between-september-2026-and-august-2026-05-29_en*

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