IOSCO Consultation Report on VCMs

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Questions

Chapter 2 – Carbon Credits Ecosystem and Market Structure

2.1. Terminology

Question 1

Does the Consultation Report use the correct and commonly accepted terminology? Are terms defined appropriately in the report and its glossary? Does the Consultation Report acknowledge all instances of inconsistent and conflicting terminology used in the industry? Are there any terms that have not been defined but which should be defined or alternatively, that should not be defined by IOSCO?

Save for a few instances, the Consultation Report uses correct and commonly accepted terminologies. Please see comments below:

The use of 'Third-party entity' - The commonly accepted term in the market is validation and verification bodies (VVBs). The use of 'third-party entity' in the Consultation Report can create confusion as to the exact nature and role of the third party entities.

The definition of "Third-party entity" - The Consultation Report defines third-party entity as an 'independent entity that is accredited by a carbon crediting program to perform validation and/or verification audits'. This definition appears restrictive since third party entities may be accredited by state regulators or other third parties. For instance, the ICVCM Assessment Framework issued in January 2024 requires validation and verification bodies (VVBs) to be accredited by a recognised international accreditation standard (e.g., according to the current edition of ISO 14065 and ISO 14066, or per rules relating to the UNFCCC Kyoto Protocol Clean Development Mechanism or Paris Agreement Article 6, paragraph 4 Supervisory Body).

Proposed definition - "an independent entity accredited to perform validation of mitigation projects, baselines and methodologies and verification of the removal or avoidance of GHG emissions."

The definition of "Measurement, reporting and verification (MRV) process" - The definition assumes that the MRV process is completed upon the issuance of the carbon credit. For high integrity carbon credits, the MRV process does not end when the carbon credits are issued. Periodic monitoring, review and verification is required especially for projects with a high risk of reversal.

Proposed definition - "a multi-step process that involves the monitoring/measuring the amount of GHG emissions removed or avoided by a specific mitigation activity, reporting the findings and the verification of the GHG emissions removed or avoided by an independent entity."

2.2. Primary Market Issuance

Question 2

Is the description of the issuance of carbon credits accurate? Are all key market participants properly reflected in the Consultation Report?

Yes, the description of the issuance of carbon credits is accurate. The description covers all key market participants and describes their roles accurately.

2.3. Secondary Market Trading

Question 3

Is the description of secondary market trading of carbon credits accurate? Are all key market participants properly reflected?

The description of secondary market trading does not include the role of regulators in the development of secondary market trading of carbon credits.
For instance, the US Commodity Futures Trading Commission recently released a proposed guidance regarding the listing of voluntary carbon credit derivative contracts. It also does not include the potential role of central clearing and settlement agents for voluntary carbon credit derivative contracts.

Question 4

Should carbon credit ratings and data product providers fall within the scope of the recommendations within

IOSCO’s Report on ESG Ratings and Data Product Providers?

Yes, I agree that the recommendations in the IOSCO's report on ESG ratings and Data Product Providers should apply to Carbon Credit Ratings and Data Providers.

2.4. Use and Disclosure of Use of Carbon Credits

Question 5

Is the description of the use and disclosure of use of carbon credits accurate? Are the related supply and demand issues appropriately captured?

The section on the use and disclosure of use of carbon credits does not expressly include the Claims Code of Practice issued by the Voluntary Carbon Markets Integrity Initiative (the VCMI Claims Code).which aims to provide clear requirements and recommendations to companies on how and when they can use voluntary use of carbon credits as part of their net-zero strategies.

On the supply and demand issues, the Consultation report fails to consider the effect of low quality carbon credits, reports of overestimated emissions reduction claims and associated risks of greenwashing on the shrinking demand for carbon credits. Furthermore, it is expected that the demand for high integrity carbon credits will rise as companies become required to make more climate-related disclosures and take action on their net-zero strategies.

2.5. Article 6 of the Paris Agreement

Question 6

Is the description of Article 6 mechanisms and its potential relationship to VCMs accurate? If not, please provide additional information.

The description of Article 6 mechanisms is fine. In my view, the operation of the Voluntary Carbon Markets (VCM) is very distinct from Article 6 of the Paris Agreement. At this time, it is not clear how Article 6.4 mechanism will interface or interplay with the VCM since the modalities of the mechanism is still in development. It may be noteworthy to point out that certain countries are being cautious about participating in the global voluntary carbon market to the detriment of meeting their nationally determined contributions with some countries placing a moratorium on VCM exports. See link below for further discussions on this.

https://www.spglobal.com/commodityinsights/en/market-insight
s/latest-news/energy-transition/051223-voluntary-carbon-mark
et-faces-headwinds-as-article-6-mechanism-gains-traction

Chapter 6 – Proposed Set of Good Practices

6.1. Regulatory Frameworks

Question 7

Are the Good Practices set out under the section on Regulatory Frameworks appropriate? Is there anything else

IOSCO should take into account?

The Good Practices set out under the section on Regulatory Framework are appropriate. However, there should be domestic and international cooperation to ensure that the carbon market is not unduly fragmented. Without alignment, there is a risk that over-regulation will hinder the development of the voluntary carbon market.

6.2. Primary Market Issuance

Question 8

Are the Good Practices set out under the section on Primary Markets appropriate? Is there anything else IOSCO should take into account?

In addition to the Good Practices under the Primary Markets section, the underlying mitigation projects should comply with all environmental and social requirements in the relevant country.

Question 9

Are existing disclosures, third-party standards, and/or industry best practices sufficient to ensure that investors are not misled as to the environmental or carbon emissions reductions benefits? Please identify specific regulations, standards, or practices and why they are sufficient.

Last year, the Integrity Council of the Voluntary Carbon Markets released the Core Carbon Principles. The Core Carbon Principles (CCPs) are a global benchmark for high-integrity carbon credits and provides a credible and rigorous means of identifying high-integrity carbon credits that create real, verifiable climate impact, based on the latest science and best practice.

Where a carbon credit issuance is issued with a CCP label, it is evidence that the carbon credit issuance has been assessed under the stringent assessment requirements of the ICVCM Assessment Framework as a credible carbon credit.

Question 10

Are existing standards for certifying voluntary carbon credits sufficient to promote robust validation and verification of GHG emissions reductions/removals at the project level?

Yes, please see the ICVCM Core Carbon Principles.

Question 11

Are there existing accounting-based approaches for establishing baseline scenarios for nature-based projects to help ensure the additionality of projects and avoid double counting?

Please see link
https://www.nature.org/en-us/newsroom/verra-voluntary-carbon
-market-accounting-methodology-dynamic-baseline
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Question 12

Are there existing best practices for modelling carbon emissions reductions related to nature-based projects that take into account the effects of climate change that could affect project permanence and efficiency in terms of meeting carbon objectives?

Question 13

Where issuance and trading of voluntary carbon credits is not subject to comprehensive regulation, how can the accuracy of disclosures around the carbon emissions reductions benefits of voluntary carbon credits be more transparent to regulators?

It will be difficult to verify the accuracy of disclosures on carbon emissions reductions where there are no clear regulations or standards for the issuance or trading of voluntary credits. In such instance, independent verification/audit of the reported emissions reductions is crucial.

Where there are no comprehensive regulations on the issuance and trading of carbon credits, regulators could require companies to comply with demand-side standard initiatives like the VCMI Claims Code. The VCMI Claims Code requires companies who wish to use voluntary carbon credits as part of their net-zero emissions strategies to meet certain criteria including the requirement to use only Core Carbon Principles (CCP)-Approved credits except in limited instances. It also includes a monitoring, reporting and assurance framework which allows for third-party verification of reported information.

Question 14

To address risks that low-quality projects could result in voluntary carbon credits that do not represent their promised carbon emissions reductions benefits, are disclosure-based standards sufficient to mitigate against misleading investors? Are there cases where even robust disclosure as to the underlying project quality, and therefore the quality of the carbon credits based on such project, would be insufficient to protect investors?

Disclosure-based standards alone are not sufficient to mitigate the risk of the use of low quality carbon credits. To ensure the credibility of the disclosure, it is important to that the regulatory framework includes a process for the audit of the disclosures by an independent entity. Alternatively, companies could be required to use only carbon credits that meet certain quality standards e.g. only CCP labelled carbon credits for their net-zero strategies.

6.3. Secondary Market Trading

6.3.1 Market Functioning and Transparency

Question 15

Are the Good Practices set out under the section on Secondary Markets appropriate? Is there anything else IOSCO should take into account?

Yes, the Good Practices set out under the section on Secondary Markets are generally appropriate.

6.3.2. Governance and Risk Management

Question 16

Are the Good Practices set out under the section on governance and risk management appropriate? Is there anything else IOSCO should take into account?

The Good Practices set out under the section on governance and risk management are generally robust.

6.3.3. Market Abuse

Question 17

Are the Good Practices set out under the section on market abuse appropriate? Is there anything else IOSCO should take into account?

The Good Practices on market abuse are appropriate.

6.4. Use and Disclosure of Use of Carbon Credits

Question 18

Are the Good Practices included in this Consultation Report appropriate? Are there any Good Practices that IOSCO should consider modifying, removing, or adding in the final report? Please provide commentary on each of the Good Practices. Please explain your rationale.

The Good Practices are appropriate.

Other Comments to the Report

If you have additional comments, please enter them here.