March 01, 2024

International Organization of Securities Commissions
Calle Oquendo 12
28006 Madrid
Spain

Attention: Kris Nathanail
E: k.nathanial@iosco.org
F: +34 (91) 555 93 68

Submitted online and by post

Dear Sirs

Re: GFMA response to Voluntary Carbon Markets – Consultation Report

The Global Financial Markets Association (**GFMA**)[1] welcomes the opportunity to comment on the International Organization of Securities Commissions (**IOSCO**) "Voluntary Carbon Markets – Consultation Report" (**Consultation Report**).

Voluntary carbon[2] markets (**VCMs**) have an important role to play in supporting the transition to a low-carbon economy by facilitating the trading of carbon credits[3] which are capable of being surrendered to offset a corresponding volume of carbon emissions.

IOSCO is seeking feedback on a proposed set of Good Practices that aim to foster high integrity and well-functioning VCMs. The proposed set of 21 Good Practices relate to:

- primary market issuance of carbon credits;
- secondary market trading of carbon credits; and
- use and disclosure of use of carbon credits.

The GFMA supports IOSCO's efforts to:

(a) generate an open and meaningful, cross-industry dialogue with a view to maximising the potential of VCMs;

(b) identify the key considerations relating to VCMs;

[1] GFMA represents the common interests of the world's leading financial and capital market participants to provide a collective voice on matters that support global capital markets. It also advocates on policies to address risks that have no borders, regional market developments that impact global capital markets, and policies that promote efficient cross-border capital flows to end users. GFMA efficiently connects savers and borrowers, thereby benefiting broader global economic growth. The Association for Financial Markets in Europe (**AFME**) located in London, Brussels, and Frankfurt; the Asia Securities Industry & Financial Markets Association (**ASIFMA**) in Hong Kong; and the Securities Industry and Financial Markets Association (**SIFMA**) in New York and Washington are, respectively, the European, Asian, and North American members of GFMA. This submission reflects the views of a majority of the GFMA board members rather than those of any one member. Individual GFMA members may have views that differ from those expressed in this document.

[2] In this letter, references to 'carbon', 'emissions' and 'greenhouse gases' are references to those gases that become trapped in the Earth's atmosphere and contribute to the increase of surface temperatures, including carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, chlorofluorocarbons, sulphur hexafluoride and nitrogen trifluoride.

[3] Carbon credits (each representing one metric ton of carbon dioxide equivalent) are issued in relation to climate change mitigation projects that prevent, mitigate, remove, sequester, or reduce emissions. Under the 2022 Verified Carbon Credit Transaction Definitions published by the International Swaps and Derivatives Association, Inc. a "Verified Carbon Credit" or "VCC" means "a unit with a unique serial number, measured in tCO2e, representing an Emission Reduction and quantified, verified and Issued into a Registry Account". An "Emission Reduction" is defined as "the removal, reduction, avoidance, sequestration or mitigation of emissions of greenhouse gases measured in tCO2e from the atmosphere which are capable of being represented in a form of unit of measurement pursuant to the relevant Carbon Standard Rules".

(c) promote and support the development of sound and well-functioning VCMs that adhere to best practice; and

(d) identify, and make recommendations to resolve, uncertainties and overcome limitations within VCMs.

Our responses to the questions raised in the Consultation Report are set out in the schedule to this letter. We very much appreciate the opportunity to comment on the Consultation Report and we look forward to engaging with IOSCO further as may be helpful.

If you have any questions, or you would like to discuss the points raised in this letter, please feel free to contact us or our counsel, Richard Mazzochi (richard.mazzochi@hk.kwm.com; +852 3443 1046) and Claire Potter (claire.potter@hk.kwm.com; +852 3443 1093) at King & Wood Mallesons.

Yours faithfully

Allison Parent
Executive Director
Global Financial Markets Association (GFMA)
aparent@global.gfma.org
www.gfma.org

Schedule – GFMA feedback and responses

Overarching comments as regards the Consultation Report

GFMA members wish to make the following remarks by way of overarching comments in relation to the Consultation Report and the role that IOSCO has to play in the development of VCMs.

GFMA members support:

(a) IOSCO's high level approach towards developing VCM regulatory principles and to bringing financial market best practice to VCMs, which support sound market structures and enhance market integrity; and

(b) IOSCO's assessment that:

   (i) regulatory good practices will likely be most relevant to promoting market integrity within secondary VCMs; and

   (ii) environmental integrity issues, which typically fall outside of the remit of financial market regulators, are best dealt with by private led VCC initiatives (e.g., the ICVCM) that specialise in this area.

GFMA members recommend that:

(c) IOSCO's guidance should follow existing financial markets best practice and regulation where relevant. A principles-based approach towards VCM regulation is preferred to prevent stifling market development especially noting differences in the regulatory treatment of carbon credits in different jurisdictions;

(d) IOSCO supports standardisation and transparency within carbon credit programs and enhanced regulation/oversight of third-party verifiers and data providers. Issues relating to data integrity and conflicts of interest are not unique to VCMs and can be dealt with using similar tools and systems available in other financial markets. GFMA members suggest that IOSCO continues to support the overall coordination of market initiatives that seek to address these issues;

(e) an international approach to taxonomy is preferable as VCMs are international in nature; and

(f) IOSCO encourages governments and relevant authorities to support the continued development of industry best practice relating to carbon credit use.

GFMA members note that:

(g) VCM participants should already have in place a comprehensive 'governance and risk management framework' with clear lines of responsibility and accountability, including policies that address potential conflicts of interest as well as any operational and technological risks associated with trading, or the provision of services in relation to, financial products. Such frameworks and policies should be extended to cover trading of, or the provision of services in relation to, carbon credits; and

(h) the Consultation Report does not raise any specific questions in relation to chapters 3, 4 and 5, nor is any feedback specifically sought in relation to those sections. Accordingly, GFMA members do not provide any comments on chapters 3, 4 and 5 of the Consultation Report. The absence of comments in relation to chapters 3, 4 and 5 of the Consultation Report should not be construed as an endorsement of those chapters. GFMA members request IOSCO to consider removing these chapters from the final Consultation Report because they are not central to the key themes of the Consultation Report.

GFMA members suggest it would be helpful to the development of VCMs if IOSCO encourages governments and applicable regulators to openly support a position (through policy statements in the first instance) as regards the legal nature and the regulatory treatment of carbon credits within their respective jurisdictions (noting that it is important not to conflate the legal nature of carbon credits with their regulatory status). Whilst GFMA members accept that differences in classification will arise between jurisdictions, GFMA members consider that transparency helps to encourage certainty.

Responses to the questions raised in the Consultation Report

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?

GFMA members wish to make the following comments:

- references to ‘removal or sequestration’ should be amended to ‘removal and sequestration’, as the removal of CO2e should be permanent;
- use of the phrase ‘offset credit’ is confusing in comparison with other publications such as the Science Based Targets Initiative. GFMA members suggest that the term ‘carbon credit’ should be used instead, with ‘offsetting’ being used to refer to the action of compensating for emissions;
- there should be a clear distinction throughout the Consultation Report between (i) standard setters, (ii) rating agencies and (iii) validators/verifiers (or VVBs), as they perform very different roles;
- the diagram on page 17 of the Consultation Report (sourced from Bloomberg) is unhelpful. For example, it is not correct to colour code rating agencies as ‘standard setters’. GFMA members suggest that the diagram is deleted;
- it is important to emphasise the critical role of ‘risk takers’ (such as banks and other financial institutions) for scaling up VCMs. The expansion of VCMs is reliant on private stakeholders who are willing and capable of providing capital while absorbing the risks associated with direct financing or market risk;
- there is some confusion about the difference between VCMs and CCMs. The table refers to baseline-and-credit methodologies as only applying to CCMs. However, carbon credits issued by most, if not all, VCM standards use baseline-and-credit methodologies. Carbon credits can be used for offsetting purposes, to make a contribution claim, or within some compliance regimes (e.g., CORSIA, Climate Impact X in Singapore, or California’s cap-and-trade program). The key difference between VCMs and CCMs is that the use of carbon credits within CCMs (to the extent permitted by the applicable scheme) is prescribed by legislation. This is not the case within VCMs. Accordingly, it is necessary to separate the use of carbon credits from their primary verification and issuance;
- some GFMA members suggest revising the definition of ‘Voluntary Carbon Market (VCM)’ in the glossary to the Consultation Report as follows to more fully reflect how VCMs may be employed: “*A type of carbon market where entities voluntarily buy credits generated from projects that (i) avoid CO2 emissions, (ii) assist in the reduction of CO2 emissions or (iii) permanently remove CO2 emissions from the atmosphere, thereby allowing these buying entities to offset some or all of their CO2 emissions or to contribute*

to climate change mitigation.". By contrast, other GFMA members consider that the definition of 'Voluntary Carbon Market (VCM)' in the glossary to the Consultation Report should not make any reference as to how carbon credits are used (as to do so may be inadvertently limiting).

Question 2: Is the description of the issuance of carbon credits accurate? Are all key market participants properly reflected in the Consultation Report?

GFMA members broadly agree with IOSCO's description of the primary market and offer some comments below for IOSCO's consideration. It is important that regulators globally have a common understanding as to how primary and secondary VCMs operate and who the key players are. GFMA members support IOSCO's endeavours to leverage industry best thinking to inform its own understanding of the VCM ecosystem.

GFMA members wish to make the following comments:

- many of the issues relating to the issuance of carbon credits are best left to private led VCC initiatives (e.g., the ICVCM). While jurisdictional considerations matter in this context, GFMA members suggest that financial regulators are not in a position to ensure the environmental integrity of a carbon credit, and that such oversight is better left to environmental regulators or bodies that have experience in determining whether the claimed characteristics of a carbon credit are valid;
- carbon credits may be retired in the primary market as well as traded and retired in the secondary market;
- the process for the issuance of carbon credits functions well and is largely the same process followed by each of the standard setters. The problem is not the process itself but the lack of alignment of that process with an agreed benchmark and the proper implementation of the rules governing the methodologies;
- use of the terms 'certification' and 'carbon crediting program' makes sense. However, referring to VVBs as third-party entities is confusing;
- GFMA members recommend that IOSCO focuses on the reliability and security of carbon credit registries. The security and transparency of carbon credit registries requires robust data protection protocols and for information to be updated in real time;
- insurance should not be used as a tool to circumvent due diligence. That said, there is a need for standardisation within insurance products relating to carbon credits as a bespoke solution will not promote a vibrant market;
- IOSCO should note the need for the involvement of the country where the mitigation activity is taking place. This does not refer to the Paris Agreement mechanisms but to the domestic legislation and rules governing the oversight of carbon projects in the jurisdiction of origin of the underlying climate mitigation project;
- whilst ratings are provided *ex-post*, rating agencies may be involved at the pre-project or project stage. This is not addressed in the Consultation Report;
- concerns relating to a climate mitigation project being registered in more than one registry appear to be overstated, given the requirement for a project to align with specific registry protocols; and
- please refer to our comments under Question 1 as regards the diagram on page 17 of the Consultation Report.

Question 3: Is the description of secondary market trading of carbon credits accurate? Are all key market participants properly reflected?

GFMA members broadly agree with IOSCO's description of the secondary market and offer the following comments for IOSCO's consideration:

- individual trading platforms for carbon credits operate differently, according to different rules and with varying degrees of success;
- the role of market intermediaries is not well explained. It is important to distinguish between (i) true brokers and (ii) investment banks that act as intermediaries. Not all financial intermediaries are brokers;
- the roles of financial intermediaries, brokers and exchanges depend on the nature of the underlying credit and how it is treated from a regulatory standpoint;
- financial intermediaries are vital to the functioning of VCMs. GFMA members support IOSCO's statement that "*financial intermediaries play an important role in facilitating trades between buyers and sellers. Intermediaries can pool different orders to facilitate trading activity, provide clients with market information not readily accessible to many participants, and provide liquidity by bridging the gap between bids and offers*";
- it is important to emphasise the critical role of 'risk takers' (such as banks and other financial institutions) for scaling up VCMs. The expansion of VCMs is reliant on private stakeholders who are willing and capable of providing capital while absorbing the risks associated with direct financing or market risk;
- it is important to recognise the value of secondary market trading and that standardisation of products and processes within VCMs can help promote liquidity, transparency and price discovery, all of which are key ingredients for the development of a healthy market and to increase the size and value of the primary market. The success of the primary market relies on a vibrant secondary market;
- regulated exchanges can play a significant role in the ongoing development of VCMs by working to create the infrastructure that can help VCMs work more efficiently, assist with price discovery and transparency, as well as increase standardisation and the integration of various existing markets in the long term;
- the risk of double counting appears to be overstated as each carbon crediting program has a unique registry and carbon project developers are required to confirm that they have only registered their projects once. As credits are not transferable between registries, the risk of double counting is minimal. However this does not remove the need for a meta-registry, where it will be possible to see all issued credits and retirements in one place, further increasing transparency;
- the risk of fraudulent transactions should be dealt with by insisting that registries have the highest level of data and cyber-security protection; and
- secondary market conflicts of interest relating to traders being on both sides of the market should be dealt with through existing protocols in other financial markets. Robust regulation of derivatives already exists in all major jurisdictions and any regulation of carbon credits as an asset class should not duplicate or undermine such regulation.

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?

GFMA members wish to make the following comments:

- it is important to distinguish between 'carbon ratings' (which consider applicable ESG factors) and 'credit ratings' (which consider the risk of a default by a counterparty). For this reason, GFMA members suggest that it is better to refer to 'carbon-credit ratings' rather than 'carbon credit ratings';
- where information is used to calculate the value of a carbon credit on a regulated exchange or marketplace, GFMA members agree that carbon-credit ratings and data product providers should fall within the scope of the recommendations within IOSCO's Report on ESG Ratings and Data Product Providers. Carbon-credit rating providers provide a valuable service in helping buyers understand the differences between projects and project developers, but due to differences in their own models, they cannot be used to rate the environmental integrity of a carbon credit. This aspect should be left to private led VCC initiatives (e.g., the ICVCM). It is essential that VCM participants have faith in the integrity of each tonne of CO_2e that carbon credits represent. Accordingly, the term 'carbon-credit rating' should not be conflated with the principles published by private led VCC initiatives (e.g., the Core Carbon Principles published by the ICVCM);
- carbon-credit ratings will not automatically fall within the scope of IOSCO's Report on ESG Ratings and Data Product Providers. This issue will be determined at jurisdictional level, according to whether carbon credits are categorised as an ESG product under domestic rules;
- standard setting bodies and regulators should remain agnostic as regards the use of DLT in the context of VCMs. Technology continues to develop and any technological solution must be tailored according to the ecosystem in which it is proposed to be deployed; and
- some of the comments in the Consultation Report relating to DLT and tokenisation are inaccurate. It is important to ensure that the application of DLT (i.e., the technology) is not conflated with the risks associated with crypto currency transactions i.e., application of DLT does not of itself expose investors to significant price volatility or speculation. DLT has the potential, for example, to help prevent double counting as transaction records created within a DLT platform have a unique identification number.

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?

GFMA members wish to make the following comments:

- 'use cases' for carbon credits are best decided by private led VCC initiatives. IOSCO should acknowledge and support the efforts of such bodies in scoping the 'use cases' for carbon credits. VCMs are an important mechanism for enabling entities to achieve greenhouse gas emissions reductions. VCMs should be positioned as a mutually supportive mechanism for financing emissions reductions across all industry sectors;
- with reference to the European Sustainability Reporting Standards (**ESRS**), GFMA members do not think that entities will have to disclose the characteristics of the carbon credits that they purchase "*to achieve their emission reduction or avoidances goals*" as mentioned page 27 of Consultation Report. ESRS provides (on page 78) that "*GHG emission reduction targets shall be gross targets, meaning that the undertaking shall not include GHG removals, carbon credits or avoided emissions as a means of achieving the GHG emission reduction targets*";
- the risk of double selling appears to be overstated as carbon credits are either 'live' in a registry (and can be traded multiple times) or retired (and

can no longer be used for any purpose). Carbon credits have a serial number and retirement records are available from registries;

- a surplus of carbon credits is not, of itself, indicative that VCMs are failing. A surplus may arise for various reasons, including (for example) that not enough entities are taking accountability for their annual emissions and retiring carbon credits equivalent to those emissions on an annual basis, or as a result of a particular type of carbon credit not meeting the requirements of buyers;
- in relation to monitoring and control, GFMA members' preference is to leverage existing frameworks rather than to design new frameworks; and
- there is some debate to what extent it is appropriate to use carbon credits to achieve 'carbon neutrality'.

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

GFMA members wish to comment that (i) the very high level description of Article 6 set out in the Consultation Report and (ii) the fact that the development of Article 6 mechanisms is still in the very early stages, mean that it is simply too early to comment on the potential relationship between Article 6 and VCMs.

Question 7: Are the Good Practices set out under the section on Regulatory Frameworks appropriate? Is there anything else IOSCO should take into account?

GFMA members wish to make the following comments:

- harmonisation of VCMs at global level is extremely challenging given the differences in the regulatory treatment of carbon credits in different jurisdictions (although GFMA members note that in this respect VCMs are no different to other types of financial products or services). For example, in some jurisdictions carbon credits are classified as securities, whereas in others they are classified as commodities. Notwithstanding the challenges, GFMA members consider that harmonisation of VCMs at global level should be a goal to aspire to in the mid to long term through the adoption of a principles based approach to avoid the emergence of a plurality of markets fragmented along national/regional lines;
- agencies such as the ICVCM are not 'authorities' but private led VCC initiatives;
- it is important for IOSCO to leverage (for regulatory application) the principles developed by private led VCC initiatives (e.g., the ICVCM) that promote industry best practice and regulate the environmental integrity (or 'quality') of carbon credits;
- initiatives that help to educate both investors and professionals about carbon credits is beneficial to the well-functioning of VCMs. GFMA members consider that such educational initiatives form the basis for Good Practice 4. GFMA members expect that market participants (rather than regulators) will be the entities that are tasked to develop investor education programs; and
- it is important not to conflate the regulatory treatment of carbon credits with the legal nature of carbon credits as the two concepts are distinct. The legal classification and treatment of a carbon credit determines (for example) how title to a carbon credit is evidenced, perfected and transferred, and how security over a carbon credit is taken, perfected and enforced. Whereas, the regulatory classification and treatment of a carbon credit determines (for example) the applicable licensing requirements, trading rules and oversight.

Question 8: Are the Good Practices set out under the section on Primary Markets appropriate? Is there anything else IOSCO should take into account?

GFMA members wish to make the following comments:

- the right balance needs to be found in the context of disclosure. Over-regulation may stifle the development of VCMs. It is important to be clear about what needs to be protected and why;
- GFMA members support carbon credits being treated comparably to other securities/commodities (as applicable within the relevant jurisdiction), including as regards disclosure requirements;
- GFMA members suggest that the disclosure regime for VCMs should have regard to the nature, size, and investor profile of the applicable market (in the same way that disclosure requirements are nuanced and tailored within other financial markets);
- GFMA members suggest that all key actors within VCMs should be subject to disclosure requirements and/or supervision appropriate to their role, and the impact that they have within VCMs (noting that some key actors within VCMs, such as financial intermediaries, are already regulated and supervised whereas others, such as standard setters, are not);
- in relation to Good Practice 5, GFMA members request IOSCO to clarify what is meant for regulators to "*strengthen verification methodologies and streamline verification process*". GFMA members note that, although standardisation of processes can be helpful, the variety and individual characteristics of projects that generate carbon credits means that they cannot be easily compared. GFMA members welcome more transparency and disclosure as to how carbon credits are created, audited, measured and verified;
- in relation to Good Practice 6 and the statement that "*[t]ransparency of contracts and pricing in the primary market could also be encouraged*", GFMA members suggest that measurement, reporting and verification within VCMs should be in line with market expectations for other securities/commodities (as applicable within the relevant jurisdiction); and
- in relation to Good Practice 8, GFMA members suggest that references to 'price at issuance' (for the purposes of price discovery) is better promoted through exchanges rather than registries (as registries are not involved in trading carbon credits).

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.

GFMA members wish to make the following comments:

- IOSCO's contributions relating to disclosure requirements within VCMs are welcome but should leverage the existing recommended disclosure practices of private-led VCC initiatives (e.g., the ICVCM), rather than create their own requirements;
- there are efforts being made in some jurisdictions (e.g., Australia and the EU) to promote transparency within VCMs and also in relation to the regulation of VCMs, although these have not been completely achieved as yet. Anti-greenwashing rules are also developing in a number of jurisdictions regions (e.g., the EU, Australia, and the United States) to increase investor and public confidence in VCMs;

- KYC processes are important safeguards because they promote transparency;
- references to registries being involved in disclosing trading data/information should be removed from the Consultation Report. Registries are not involved in trading carbon credits (e.g., in terms of pricing, listing, transaction execution) and therefore do not have access to applicable data. GFMA members consider that it is important for registries to remain isolated from trading/pricing;
- disclosure requirements relating to carbon credits should be aligned with the relevant disclosure requirements in existing OTC or exchange traded markets (as applicable); and
- the 'end-use' of carbon credits by purchasers may fall outside of IOSCOs remit. Purchasers have a responsibility to conduct due diligence on the carbon credits that they buy and to report their use of carbon credits in a manner that is transparent to their investors and that aligns with their applicable policies.

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?

GFMA members wish to make the following comments:

- GFMA members consider that standards for certifying voluntary carbon credits are best left to private led VCC initiatives (e.g., the ICVCM). GFMA members request IOSCO to support the efforts of such initiatives to increase the level of scrutiny within VCMs, noting that whilst some standards for certifying voluntary carbon credits may be sufficient, others are not;
- the role of financial regulators within VCMs is to monitor and enforce market integrity (rather than environmental integrity) within VCMs. To the extent appropriate, regulators should consider adopting the standards of private led VCC initiatives (that have been developed having regard to feedback from a range of VCM participants) to drive robust validation and verification practices within, and underpin investor and public confidence in, VCMs as a tool for reducing greenhouse gas emissions;
- GFMA members support carbon credits being treated comparably to other securities/commodities (as applicable within the relevant jurisdiction) as regards disclosure requirements; and
- carbon crediting programs typically disclose their standards, governance and methodology to the public and GFMA members would support measures for these to be reviewed by relevant regulatory authorities.

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?

GFMA members wish to make the following comments:

- matters relating to the establishment of baseline scenarios to help ensure additionality and avoid double counting are best left to private led VCC initiatives (e.g., the ICVCM). GFMA members request IOSCO to support the efforts of such initiatives;
- both technical-based solutions and nature-based solutions are in need of baseline scenario modelling. There are existing accounting-based

approaches for establishing baseline scenarios for nature-based projects, however there is differing methodology based on project type; and

- there are existing standards and guiding criteria for ensuring high-quality nature-based credits that work to ensure additionality and avoid double counting, such as the ICVCM's Core Carbon Principles. However, there is no singular standard that all bodies align with, which has resulted in fragmentation. Until there is convergence on a common set of standards and accountability mechanisms, organisations must largely rely on their own processes for navigating VCMs to meet their business and sustainability goals.

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?

GFMA members wish to make the following comments:

- there are existing best practices for modelling carbon emissions reductions that take into account the effects of climate change. For example, registries typically employ risk assessments to account for increases in the severity of natural disasters and storms; and
- matters relating to the modelling of carbon emissions reductions to take into account the permanence and efficiency of climate mitigation projects are best left to private led VCC initiatives (e.g., the ICVCM). GFMA members request IOSCO to support the efforts of such initiatives.

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?

GFMA members wish to make the following comments:

- this is a matter that is best left to private led VCC initiatives (e.g., the ICVCM). GFMA members request IOSCO to support the efforts of such initiatives to increase the level of scrutiny within VCMs; and
- GFMA members support carbon credits being treated comparably to other securities/commodities (as applicable within the relevant jurisdiction) as regards disclosure requirements.

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?

GFMA members wish to make the following comments:

- matters relating to the environmental integrity (or 'quality') of carbon credits (including disclosure requirements) are best left to private led VCC initiatives (e.g., the ICVCM). Accordingly, GFMA members request IOSCO to support the efforts of such initiatives for the purpose of instilling robust verification processes for carbon credit attributes within VCMs;
- private led VCC initiatives (e.g., the ICVCM) should be allowed to develop the ways in which the environmental integrity of climate mitigation projects and the carbon credits that are associated with them can be protected; and

- the role of financial regulators is quite specific to protecting market integrity. The regulation of environment integrity and the maintenance of associated standards is best undertaken by the regulatory authority whose remit is closest to that task.

Question 15: Are the Good Practices set out under the section on Secondary Markets appropriate? Is there anything else IOSCO should take into account?

GFMA members wish to make the following comments:

- GFMA members support carbon credits being treated comparably to other securities/commodities (as applicable within the relevant jurisdiction), including as regards disclosure requirements. IOSCO's guidance as regards secondary VCMs should follow existing financial markets best practice and regulation where relevant;
- Good Practices 10, 11, 13 and 14 seem generally sensible on the basis that carbon credits are treated as a tradeable asset class; and
- in relation to Good Practice 12:
  - GFMA members suggest that data and reporting requirements relating to carbon credits should be comparable with the data and reporting requirements applicable to other OTC or exchange traded products (as applicable) to maintain consistency in approach; and
  - registries can already be publicly searched. GFMA members note however that registries are not involved in trading carbon credits and do not therefore have access to trading data. GFMA members consider that it is important for registries to remain isolated from trading/pricing.

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?

GFMA members wish to make the following comments:

- IOSCO's guidance as regards governance and risk management should follow existing financial markets best practice and regulation where possible;
- GFMA members consider that governance and risk management frameworks for carbon credits should be aligned with governance and risk management frameworks for other tradeable instruments to ensure consistency of approach. GFMA members request IOSCO to encourage financial regulators to clarify the regulatory status of carbon credits within their respective jurisdictions, and to then apply corresponding rules, principles and guidelines to carbon credits where possible. The goal is to avoid bifurcation of the applicable regulatory regime as between carbon credits and similarly classified financial products within the same jurisdiction; and
- some thought will need to be given as to whether (and if so, how) carbon credit registries can be regulated.

Question 17: Are the Good Practices set out under the section on market abuse appropriate? Is there anything else IOSCO should take into account?

GFMA members wish to make the following comments:

- IOSCO's guidance as regards market abuse mitigation and avoidance should follow existing financial markets best practice and regulation where relevant;
- minimum standards and appropriate guardrails are necessary in all financial markets; VCMs are no different. Financial market regulators and other authorities with enforcement power have an important role to play in helping to detect and prevent fraud and other abusive market practices in VCMs. In so doing, they can help instil investor and public confidence in the operation and functioning of VCMs
- it is important to distinguish between market integrity (which falls under the remit of financial market regulators) and environmental integrity (the regulation of which is best left to private-led VCC initiatives e.g., the ICVCM). While greenwashing directly impacts the environmental integrity of carbon credits, it does not necessarily constitute market abuse within VCMs in the way that term is applied in other financial markets;
- the appropriateness, extent and implementation of market abuse safeguards needs to be considered at the different stages of the carbon-credit lifecycle e.g., certification, MRV, trading, retirement; and
- the requirement for there to a Chief Compliance Officer or Chief Regulatory Officer may be unnecessarily prescriptive, especially if such a requirement would represent a departure from traditional market abuse management expectations related to other financial products.

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.

GFMA members wish to make the following comments:

- at present, there is a lack of transparency within VCMs which obstructs market participants' visibility of key financial metrics, market dynamics and market products, and their ability to forecast market trends. Transparency is an important component for liquidity within VCMs, and consequently the ability of VCMs to achieve their purpose. GFMA members suggest that to address issues relating to opaqueness, disclosure requirements within VCMs should be aligned with the relevant disclosure requirements in existing OTC or exchange traded markets (as applicable). In some jurisdictions, the need for enhanced disclosure within VCMs is being recognised and addressed through the adoption of ad hoc rules;
- IOSCO's guidance as regards VCMs should follow existing financial markets best practice and regulation where relevant;
- it is important for IOSCO to support private led VCC initiatives (e.g., the ICVCM) that seek to protect the integrity of, and promote best practice within, VCMs;
- it is important to draw a distinction between environmental integrity and market integrity, and to recognise that the disclosure of carbon credit use is not related to the integrity of carbon credits or VCMs *per se*, but potential greenwashing. Potential liability for fraud or misrepresentation as regards the attributes of carbon credits (and the underlying project) should sit with the project developer or third party verifier;
- a principles based approach that seeks to standardise approaches within VCMs but also allows for some flexibility in the way that different jurisdictions apply and enforce those principles is preferred to a more prescriptive approach that risks stifling the development of VCMs.

Governments and legislators should support VCM development by enacting applicable implementing legislation; and

- in general, GFMA members view IOSCO's proposed Good Practices favourably and welcome the efforts being made by IOSCO to formulate and implement a set of regulatory good practices to support and protect market integrity within VCMs whilst recognising that issues pertaining to environmental integrity are best left to private VCC initiatives (e.g., the ICVCM) and overseen by an environmental regulator or authority with the requisite experience and enforcement powers.