March 1, 2024

Via electronic mail

Mr. Martin Moloney, Secretary General

International Organization of Securities Commissions (IOSCO)

Calle Oquendo 12

28006 Madrid

Spain

Re: IIF Public Comment on IOSCO Voluntary Carbon Markets – Consultation Report

Dear Mr. Moloney,

The Institute of International Finance (IIF) and its members, which broadly represent the global financial services industry, are pleased to submit industry perspectives in response to the International Organization of Securities Commissions (IOSCO) on its Voluntary Carbon Markets – Consultation Report (hereafter "the Consultation Report"). The IIF is the global association of the financial industry, with around 400 members from more than 60 countries, including commercial and investment banks, asset managers, insurance companies, rating agencies, market infrastructure providers, and professional services firms.

The IIF welcomes the release of the Consultation Report and supports IOSCO's continued engagement to promote the integrity and orderly functioning of Voluntary Carbon Markets (VCMs). In February 2023, the IIF was pleased to submit a response to IOSCO's Discussion Paper on Voluntary Carbon Markets (VCMs), in collaboration with the International Swaps and Derivatives Association (ISDA)[1].

This letter conveys feedback on behalf of the global financial industry on issues raised in the consultation report. **Section one** provides a summary of key messages, conveying high-level industry perspectives on the evolution of voluntary carbon markets, current market structures, and the respective roles of financial institutions, market initiatives, securities regulators, and other actors in ensuring integrity in voluntary carbon markets. **Section two** provides responses to specific questions posed in the consultation.

[1] https://www.iif.com/Publications/ID/5269/The-IIF-in-collaboration-with-ISDA-responds-to-the-IOSCO-consultations-on-Compliance-and-Voluntary-Carbon-Markets

1. Key messages

1.1 Industry views on Voluntary Carbon Markets, and IOSCO's proposals in the Consultation Report

The IIF and its members consider that the voluntary carbon market (VCM) plays a crucial role in supporting the transition to a sustainable, low-carbon, and nature-positive economy. VCMs can provide a mechanism for real economy firms, financial institutions, and other organizations to allocate capital, support market formation and price discovery for carbon projects, and as appropriate, enable firms to compensate for some emissions as they take steps to achieve their voluntary climate-related targets, such as net zero goals. Voluntary carbon markets can also play an important role in enabling individuals to contribute towards climate goals, by providing a channel for consumers to allocate capital in support of more sustainable activities and practices. Recognizing that while the voluntary carbon market can be a valuable tool, it is important to note that it should not be considered as a substitute for efforts to reduce emissions at their source, including sectoral policies and other economy-wide carbon pricing measures. Ensuring the credibility, transparency, permanence, and durability of carbon projects is crucial to maintaining the integrity of the voluntary carbon market.

The IIF and its members welcome IOSCO's proposed Consultation Report as a global baseline for VCM regulation, and broadly view the proposed Good Practices favourably. The IIF and its members consider that the representation of how the primary and secondary markets for carbon credits included in the Consultation Report is broadly accurate and is helpful in developing a shared understanding between regulators, industry, and other stakeholders on how the market functions.

1.2 Role for IOSCO and its members

The Consultation Report is appropriately focused on the role for IOSCO member regulators, in applying a set of Good Practices, where these fall within the scope of financial market integrity and the regulator's existing authority and mandates. While jurisdictional considerations matter in this context, financial regulators are not in a position to regulate the quality of the carbon credit tied to a financial product (environmental integrity). This authority would be better left to environmental ministries, other public authorities, or oversight bodies with experience in determining whether the carbon credit characteristics are valid. The Consultation Report also includes an accurate reflection of how the primary and secondary market function, which is important to ensure alignment between regulators and the industry on how the market functions.

As communicated in the IIF's 2023 letter to IOSCO on carbon markets, **the IIF and its members consider that market integrity and environmental integrity are separate concepts which may warrant specific consideration by different entities.** Firstly, market integrity addresses the need for robust market design and high-functioning market infrastructure capable of delivering adequate and consistent levels of transparency, liquidity, and security. On the other hand, environmental integrity refers to matters related to the project activities, attributes, and characteristics that validate a claimed emission reduction, removal, or avoidance as being real, additional, permanent, and verified, entitling a carbon credit to be issued. Environmental integrity should, therefore, be the

domain of subject matter experts in environmental performance and emission reduction pathways—e.g., the expert panel of the ICVCM.

We believe that securities and financial regulators and supervisors can play an important role in promoting market integrity, enhancing transparency, and supporting the uptake of common standards among market participants. In general, the Good Practices included in the Consultation Report provide a useful starting point for IOSCO and its members to ensure there is no manipulation in their relevant markets in accordance with their respective mandates, recognizing they are not responsible for overseeing all activities in the physical market (such as voluntary carbon credit project development and issuance). Given IOSCO's mandate, we appreciate that the proposed Good Practices should ideally focus on how financial regulators can and should use their expertise, authority, and scope of influence to enhance market functioning, trust, and overall market integrity – with due consideration of the evolving suite of market-based standards in development. As such, the primary focus of IOSCO and its members should be on creating appropriate frameworks to ensure financial market integrity, with a focus on market infrastructure and the behaviour of market participants, which can help bolster the overall integrity of VCMs.

In addition to seeking coordination and harmonization between financial regulatory schemes and market-based initiatives focused on environmental integrity, IOSCO should also strive for alignment across emerging regulatory guidance in key markets. In this regard, IOSCO could potentially consider the final guidance from the U.S. Commodity Futures Trading Commission (CFTC) on the Listing of Voluntary Carbon Credit Derivative Contracts following its release, or other official sector frameworks and policies in development.

1.3 Role for market-based initiatives in ensuring environmental integrity

Broadly, the IIF and its members would encourage IOSCO and its members to support the work of market-based initiatives, including the private sector-led Integrity Council for the Voluntary Carbon Market (ICVCM) and the Voluntary Carbon Markets Integrity Initiative (VCMI), which are actively promulgating standards to strengthen the environmental integrity of VCMs from a supply-side perspective, as well as on the demand side, in terms of clarifying appropriate use cases for carbon credits in the context of targets and claims. Alongside these market-based initiatives, it is important to consider official sector frameworks currently in development, such as the EU Certification Framework for Carbon Removals and the Australian Carbon Credit Unit (ACCU) scheme, which may further contribute to strengthening aspects of environmental integrity in VCMs.

We encourage IOSCO to call for further standardization and transparency across carbon crediting programs and methodologies, and for regulation/oversight of the third-party verifiers. Many of the issues raised in section 3, related to issuance and conflicts of interest are not unique to carbon markets and can be dealt with using similar tools and systems available in other markets. IOSCO can support the overall coordination of market initiatives that address these issues.

Finally, we emphasize that issuance of carbon credits is based on an evaluation by qualified practitioners of the environmental integrity of the underlying climate mitigation project, and the ongoing monitoring, reporting and verification (MRV) associated with the project. As such, these

vulnerabilities should be addressed by market actors focused on the environmental integrity of VCMs and are likely not within the purview of IOSCO or its members.

2. Responses to specific consultation questions

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?

The IIF and its members generally agree that the Consultation Report uses the correct and commonly accepted terminology. However, we would like to note that with increasing linkages between compliance and voluntary markets, the use or retirement of carbon credits should be considered separately from their primary verification, issuance, and how they are traded in the secondary market.

We would request IOSCO to consider clarifying the text in section 1.3, pertaining to the difference between voluntary carbon markets (VCMs) and compliance carbon markets (CCMs). The table refers to Baseline-and-credit only applying to CCMs, whereas carbon credits issued by most if not all VCM standards use baseline-and-credit methodologies. VCM credits are one of the tools used by companies for offsetting purposes, to make a contribution claim towards a specific objective. Frameworks and guidance to strengthen demand-side integrity in VCMs (in terms of how credits are retired against specific types of claims) are being advanced by different market-based and stakeholder initiatives. VCM credits can also be used to satisfy obligations in some compliance regimes, such as CORSIA, as well as jurisdictional emissions trading schemes (including in Singapore and California). The key difference is that the use of credits or allowances in CCMs is fundamentally driven by domestic or regional legislation, whereas VCMs are not. Therefore, the use of carbon credits should be separated from their primary verification and issuance.

In addition, **we would encourage IOSCO to revise the table in Sec. 1.3 where it references "reduction or avoidance carbon credits" and "removal/sequestration carbon credits" as separate "Issued Products" by VCMs.** While it is relevant from an environmental integrity perspective, and in respect of the pricing and liquidity of specific products, to consider the various types of climate mitigation projects that comprise VCMs (i.e., avoidance, reduction, and removal projects), the product issued by carbon crediting standards in the VCM is the same irrespective of the type of underlying project. For instance, Verra's Voluntary Carbon Standard issues "Voluntary Carbon Units (VCUs)" for all its methodologies, whether such methodologies are based on emissions reductions or removals. Indicating that VCMs issue separate products for reduction / avoidance projects and for removal / sequestration projects is imprecise and misleading and could result in market confusion.

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

The IIF and its members consider that IOSCO generally captures the description of carbon credit issuance and key market participants are properly reflected, but we would like to draw attention to the discussion in section 2.2. We propose that "validation/verification bodies (VVBs)" is a widely used and accepted term that could be incorporated in IOSCO's Consultation Report, rather than the more generic term "third-party entities." Conceptually, a key element of validation and verification is that these processes are undertaken by qualified, independent, third-party entities in order to minimize various risks (such as a lack of credibility, leakage, double claiming, etc.) associated with the voluntary carbon market. Yet, using the term "third-party entities" is potentially over broad and fails to incorporate other aspects of such validation/verification entities, and risks introducing unnecessary confusion. It may be helpful to provide greater clarification regarding aspects of the certification and crediting processes; however, we would note that both of these processes are directly related to environmental integrity and, thus, generally outside of IOSCO members' mandates. As such, it may also be helpful to note in this context that IOSCO's mandate focuses on the integrity and security of registries, and other market infrastructure and trading processes.

We would encourage IOSCO to consider clarifying its description of the role of financial intermediaries and brokers in the secondary market, specifically with regards to the role of registries in primary and secondary market trading. IOSCO generally captures how the VCM primary market functions but overemphasizes the likelihood that projects will get added on multiple registries (see pg. 21 of consultation) and double selling risk (pg. 26).

We would also like to emphasize that the risk of projects being added to multiple registries and the double selling of carbon credits is low, due to: the costs and technical requirements needed to engage with carbon crediting standards to issue credits from climate mitigation projects; the rigorous validation/verification requirements for issuing credits with serialized identifiers whereby a carbon credit is tracked from issuance to retirement; and the collaboration and coordination between the major registries and crediting programs. Specifically, projects are unlikely to get added on several registries given the effort to align with the project design description (PDD), which in most instances will specifically clarify whether a project will apply to multiple registries, and if so, how they plan to avoid double-selling. Another factor contributing to the low risk of double-selling is the system of credits being linked to unique serial numbers, which can enable tracing and cross-checking against public retirement records from registries.

Finally, **we would encourage IOSCO to consider drawing a clearer distinction between the use and disclosure of carbon credit use and overall market integrity**. Financial intermediaries, project developers, and other players in the ecosystem do not have control over how the credit is used or disclosed, and this is an important point for regulators to be mindful of.

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

The IIF and its members consider it important to note that the role of financial intermediaries (including investment banks) in the voluntary carbon market is broader than just that of facilitator or broker. IOSCO could consider clarifying the role that market intermediaries play in secondary markets, particularly the role of investment banks (such as trading

desks) and how they participate in the market (pg. 22). IOSCO could consider distinguishing between different groups of market actors, particularly true brokers and investment banks, which act as an intermediaries. The current paragraph lists financial intermediaries as brokers, when only some financial intermediaries are brokers but not all.

The IIF and its members encourage IOSCO to consider more balanced approaches to the discussion of carbon credit ratings and data product providers (see answer to question 4 below). While these types of entities may play a role in improving transparency and elevating integrity in VCMs, providers are predominantly for-profit entities that utilize 'black box' approaches to develop ratings – with little transparency regarding their construction and integrity.

We also emphasize the relatively low risk of carbon projects being added to multiple registries or the double selling of carbon credits. In this regard, we consider that Section 3.2.1 may overstate the risk of double counting as each carbon crediting program has a unique registry, carbon project developers do not register their projects with multiple programs, and credits are not transferable between registries. However, there could indeed be benefits associated with the development of an overarching meta-registry, where it would be possible to see all issued credits and retirements in one place, and there by dramatically increasing transparency.

To minimize risk of fraudulent transactions, IOSCO should insist that registries have the highest level of data and cyber security protection – but should not assume an outsized role for registries in secondary market trading. While there may be room for improvement in registry functionality and operation, we consider that the current text appears to overstate the risk of double counting due to potential registry failures. Secondary market conflicts of interest relating to traders being on both sides of the market should be dealt with through existing regulation that covers other commodities or securities 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 this 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?

The IIF and its members consider the role of carbon credit ratings and data product providers as generally providing data and analyses to support market participants' understanding of the underlying environmental integrity of carbon credits traded on VCMs. While carbon credit ratings providers do provide a valuable service in helping buyers understand the differences between projects and project developers, we would caution against language which suggests that they should be viewed as providing a singular authoritative view on the on environmental effectiveness of a carbon credit.

Considering that the core focus of carbon credit ratings and data product providers is on environmental integrity, their activities are therefore not directly within the purview of IOSCO or its members. It is important to note that carbon credit ratings will not automatically fall within the scope of IOSCO's Report on ESG Ratings and Data Product Providers. This treatment of carbon credit ratings and data providers may need to be determined at a jurisdictional level, depending on how carbon credits are categorized under domestic rules. However, to the extent such entities'

ratings impact the value of a carbon credit on a regulated exchange or marketplace, **it may be necessary for IOSCO members to coordinate with other regulators to ensure such entities are operating in a transparent, independent, and defensible manner.**

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 IIF and its members broadly agree with the description of the use and disclosure of carbon credits, and generally agree that the related supply and demand issues have been appropriately captured. However, we would like to suggest a few points of clarification relevant to this section, set out below:

- We would encourage IOSCO, in Section 2.4 (Demand for Carbon Credits and Retirement), to clarify some of the language describing the use and retirement of carbon credits. In a properly functioning VCM, a carbon credit purchaser may only use (i.e., offset its own emissions in its GHG accounting or promote its contribution to climate change mitigation efforts) its purchased carbon credits once the credits are retired on their respective registries. Retirement is a registry mechanic that that the owner of the credits initiates before using / making claims about the credits, e.g., in a sustainability report or marketing materials. This avoids double counting and potentially misleading consumers. Our view is that IOSCO is intending to convey this concept, but by using language such as "A carbon credit purchaser can *decide* to retire the credit as it uses it . . ." (emphasis added) they seem to be introducing unnecessary ambiguity into this process. We would encourage IOSCO to use more precise language in describing this process.

- The third paragraph of Section 2.4 states, "not all carbon credits end up on carbon credit marketplaces… and are retired without ever being listed on a carbon credit marketplace," and it is unclear what is meant by "listed on a carbon credit marketplace." All carbon credits are issued to registries, which track issuance, transfer, and retirement - as such, even credits that are the subject of forward purchase agreements and which are retired upon issuance are still tracked on their respective registries. To the extent this paragraph is intending to describe exchanges, then certainly not all carbon credits are listed on exchanges. Further clarification on what is meant in this paragraph would be useful.

- IOSCO defines "double selling" as "when two parties are sold, and attempt to claim, the same emission offset or contribution to climate change mitigation." In the context of this paragraph of Section 2.4, we contend this is an inaccurate definition of double selling and, rather, introduces the concept of "double claiming". Both double selling and double claiming are a risk if a carbon credit is not transparently recorded as retired in its registry. More precise definitions of "double selling" and "double claiming", which are consistent with current market use (or use of the broadly recognized overarching term "double counting"), would be helpful in Section 2.4.

- Regarding the European Sustainability Reporting Standards (ESRS), we do not agree with p. 27 of the Consultation Report which suggests that entities will have to disclose the characteristics of the carbon credits that they purchase to "achieve their emission reduction

or avoidances goals." ESRS provides (on p. 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."

- More broadly, we would encourage IOSCO to consider that a lack of reliable information in carbon markets can influence supply and demand dynamics, affecting levels of investment and market liquidity. Information asymmetries that investors face when trading in carbon markets suggests that there is room to support the standardization of the terms and conditions in the creation process of carbon credits, the environmental integrity of these instruments, and the use that corporations are making of them. We also believe that current market-led integrity initiatives are having a positive effect on market activity, as December 2023 saw an all-time high of carbon credits retired – highlighting the importance of IOSCO supporting these initiatives where possible and seeking harmonization and continuity in policies that lead to responsible market growth.

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

We consider that the description of Article 6 mechanisms and potential impact on VCMs is broadly accurate. Recognizing our overarching recommendation that IOSCO and its members focus their efforts on market integrity issues, there are potential areas of convergence between Article 6 and VCMs of which IOSCO and its members should be aware and could be noted in the consultation. Article 6 authorization is an important criterion with respect to the environmental integrity of carbon credits, as it is relevant to avoiding double counting at the country level. It may also affect price and eligibility for certain uses of carbon credits (i.e., for use under CORSIA). There is currently a gap in the market with respect to how authorization is applied and confirmed to the extent that crediting programs take different approaches and Article 6 processes are being developed. It could be important for crediting programs and/or registries to acknowledge when carbon credits are authorized for use under Article 6 of the Paris Agreement (i.e., label the credits with corresponding adjustments) so that double counting at the country level does not occur and consumers are not misled.

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

We consider the Good Practices as broadly appropriate, but also view many of them as standard business practices and would stress that, as these markets develop, any regulation remains appropriate and fit for purpose. At a high level, we would encourage that IOSCO highlight that the proposed Good Practices should be applied consistent with regulators' respective mandates. In this context, we would question the inclusion of the recommendation under Good Practice 1 to develop "frameworks to ensure that carbon credits issued, traded, or retired within their jurisdictions represent real, measurable, additional, unique, permanent, and independently verified emission reductions or removals." To the extent IOSCO members rely on other initiatives and existing standards for environmental integrity, this recommendation could be feasible.

However, we would discourage IOSCO members from creating new frameworks for evaluating environmental integrity.

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

We consider these Good Practices mostly appropriate, but we do underscore here the importance of taking an international approach to standardization to avoid regulatory and policy fragmentation. Broadly, we consider that Good Practices 6, 7, and 9 are mostly appropriate and support a consistent, international approach to improved transparency, due diligence, and disclosures, which builds upon existing guidance from the ISSB and other regulators. We also advise removing any reference to registries serving as a reliable source of information regarding price at issuance (Good Practice 8) as registries do not have trading data. Keeping registries separate from the trading activities in the secondary market is important to minimize conflicts of interest in VCMs. Generally, considering that VCMs are international in nature, an international approach to standardization would be preferable. It will not be helpful if each jurisdiction or region comes out with its own taxonomy in this area.

However, we question the role that Good Practice 5 plays with respect to IOSCO members' mandates. We broadly agree that the efforts by the ICVCM and other environmental integrity market actors to better harmonize taxonomies, align environmental integrity criteria, and promote comparability of carbon crediting methodologies is beneficial to help build confidence in and scale VCMs. However, this work generally falls outside of the mandate of IOSCO and its members.

Standardization plays a key role in scaling VCMs. Certain aspects, like ensuring each credit represents robust quantification, additionality, and permanence, are fundamental to the integrity and reliability of the market. The industry is diligently working to harmonize methodologies, monitoring, reporting, and verification (MRV) processes, among other aspects, for similar project types. Support from IOSCO for these initiatives is important in promoting environmental integrity within the market.

However, regulators should recognize that carbon credits will never be completely standardized. While some degree of standardization is important for ensuring the credibility of carbon credits, the unique aspects of each credit—reflecting the specific context, co-benefits, and impact of the underlying projects—are what make them valuable to investors and corporations.

Market regulators should support efforts aimed at standardizing the primary market, while also acknowledging that the unique capability of the VCM to adapt to specific demands, through offering differentiated credits, is an essential feature that enhances its overall value and effectiveness. This balance between standardization for integrity and differentiation for value is critical for the continued growth and relevance of the VCM.

It is our overarching view that IOSCO and its members should aim to:

- Embrace the existing regulatory and legal treatment carbon credits, where possible, to avoid market disruptions, and should continue to follow the work of other entities in this space such as UNIDROIT and UNCITRAL; and
- Apply market regulatory frameworks to carbon credits in a manner that is consistent with how they treat other similar financial products.

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.

It is difficult to provide a comprehensive answer to this question, given that a single disclosure regime that extends across all key actors cannot be found within VCMs. In order to provide a more substantive response, a thorough country by country review administered by an international body could be conducted in order to provide a clearer view.

We note that the various private sector-led industry initiatives are continuously improving their individual standards as well as their collaboration with each other to ensure that VCMs will scale responsibly and with integrity in order to amplify their impact in accelerating carbon emissions reductions.

In addition, there are an array of emerging disclosure requirements that could require entities to more transparently disclose and describe their use of carbon credits in achieving sustainability targets, such as the ISSB climate-related disclosure guidelines, the EU Corporate Sustainability Reporting Directive Standards (ESRS E1), California's Assembly Bill 1305, the proposed SEC rules (final rule expected in April 2024), as well as guidance and enforcement action by the CFTC (including its proposed Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts and its formation of the Environmental Fraud Task Force to focus on fraud and manipulation in carbon credit markets).

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?

In VCMs, market initiatives and stakeholder organizations have developed established standards and methodologies for project-level carbon crediting that seek to maintain high levels of environmental integrity and to continue improving the quality of these standards and methodologies to promote robust validation and verification. For example, under the ICVCM Assessment Framework, carbon crediting programs must have a process for developing and adopting updates to existing quantification methodologies and are required to use the most conservative value or quantification methodology to address inherent uncertainty. We encourage IOSCO to support these industry efforts to enhance the robust validation and verification of GHG emissions reductions and removals at the project level and recognize that best practice is continuously going to evolve in this area. However, we again emphasize that the environmental integrity of voluntary carbon credits should remain the domain of subject matter experts in environmental performance and emission reduction pathways, and therefore falls outside the mandate of financial regulatory bodies.

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?

There are a number of accounting-based approaches for nature-based project baseline determination that can be used to appropriately evaluate such projects, including, for instance, ART's TREES standard for REDD+ transactions and Verra's REDD+ methodology. Additionality is an important concern for VCMs from a supply-side integrity perspective; we see issues relating to standards for evaluating project additionality as primarily relating to environmental integrity, which would fall outside of the remit of IOSCO and related regulatory bodies.

Question 12: Are there existing best practices for modeling 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?

There are an array of emerging practices for modelling carbon emissions reductions which appropriately take into account the effects of climate change. For example, carbon crediting standards typically conduct risk assessments to account for increases in the severity of natural disasters events (e.g. storms, fires) which may pose risks to project permanence and require mitigation measures (e.g. credit deductions and contributions to buffer pools). As above, we consider permanence (like additionality) to be an important environmental integrity concern to be addressed by the ICVCM and other market-based entities.

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?

Disclosures that follow the VCMI Claims Code of Practice as well as the ISSB frameworks for climate and sustainability reporting may enhance transparency around the use and environmental integrity of carbon credits. As previously noted (see response to Question 9), we would encourage IOSCO to consider that the assessment of environmental integrity is likely best left to market-based integrity initiatives, or an environmental regulator which has the relevant expertise and experience.

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?

As disclosure measures are finalized and implemented, the most helpful role for IOSCO may be to develop initiatives to align these disclosure and transparency regimes, and to ensure that they do not lead to barriers to cross-border business or to disproportionately onerous requirements that may act as an impediment to growth of this nascent market. We consider this the best approach until more standardized regulatory frameworks are developed, and also note that sustainable

finance and VCM disclosure and transparency measures are currently being developed both at a national level (e.g., with the EU and UK developing disclosure regimes) and by independent bodies (e.g., the ICVCM).

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

We consider these Good Practices appropriate as they broadly reflect existing financial market practices and regulation. We encourage IOSCO to more explicitly specify that any OTC trading disclosure requirements follow existing financial markets' regulation. All regulatory measures should be considered with a view to increase market participation, and not discourage it.

IOSCO and its members are well-positioned to support standardization of contractual arrangements for the secondary market, which can help enhance market confidence in derivative products and support liquidity by allowing participants to transact with a greater degree of efficiency, with greater fungibility, and harmonized price discovery. Nevertheless, when it comes to the quality or integrity of the underlying carbon credits, this is not the purview of financial regulators; this is a specialized task for which IOSCO and its members are not adequately equipped. Instead, it will be important to rely on existing high-quality crediting programs and industry initiatives (see response to Question 9).

With respect to Good Practices 12 (public reports) and 13 (pre- and post-trade disclosure), we would encourage IOSCO to consider removing the suggestion that registries should be involved in disclosing trading data/information. Registries are explicitly not a part of trading in terms of pricing, listing, execution, etc., and therefore would have no access to trading data (this is a good thing, and an important thing, in our view). IOSCO should more explicitly specify that any OTC trading disclosure requirements follow what is required in other products/markets. The industry would not be comfortable with disclosing our bid/asks or OTC trade prices beyond what it's already required to do in other markets.

With respect to Good Practice 14 (derivatives standards), we would encourage IOSCO to consider the recent CFTC Request for Comment on the Commission's proposed guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts as an example of a jurisdictional guidance in line with Good Practice 14.

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?

We consider that the Good Practices set out under the section on governance and risk management are appropriate. The section focuses on regulators applying oversight on governance, risk management and conflict of interest VCM vulnerabilities consistent with their respective mandates and authority.

IOSCO, within its authority, should consider supporting the industry's proactive efforts to enhance governance and risk management in the voluntary carbon market. These initiatives represent a

proactive approach by market participants to address key challenges and continue to improve standards for accountability. For example, under the ICVCM's Core Carbon Principles (CCPs), there are several high level guidelines related to how carbon crediting programs should approach effective governance, tracking, transparency, and robust independent third party validation and verification. By supporting these efforts, regulators can contribute to the ongoing improvement of standards for accountability and transparency in VCMs. Encouraging and reinforcing such industry-led initiatives will not only bolster market integrity but also ensure that governance and risk management practices keep pace with evolving market needs and challenges.

We feel IOSCO and its members could be well-suited to encourage marketplaces, exchanges, and trading venues to establish clear processes to identify, mitigate, and monitor conflicts of interest with respect to secondary market issues and to take appropriate actions if there are risks to orderly trading or market integrity.

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

We consider the proposed Good Practices set out under this section generally appropriate as a means by which IOSCO and its members can support greater confidence and integrity in VCMs. We encourage IOSCO to emphasize that all regulation should follow existing financial market best practices, and to consider existing efforts in this space, e.g., CFTC's formation and recent activity of the Environmental Fraud Task Force, which focuses on fraud and manipulation in carbon credit markets.

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 IIF and its members are grateful for IOSCO's engagement on VCMs and, as noted above, believe the Good Practices included in the Consultation Report provide a useful starting point. However, we would encourage IOSCO to consider modifying the proposed Good Practices related to the primary market to clarify and emphasize that the role of IOSCO and its members is to improve financial market integrity. We would emphasize that most of the primary market issues raised in the Consultation Report relate more directly to environmental integrity rather than financial market integrity, and such environmental integrity issues are largely outside the purview of IOSCO and its members.

With regards to Good Practice 21 we would like to point out that IOSCO should take care not to assume that the disclosure of the use of a carbon credit (see our response to Question 9 for relevant examples)—over which other players in the carbon market ecosystem have no control—should not be directly tied to other aspects of market integrity.

Thank you for your consideration of these comments. On behalf of the IIF membership, we hope that you will find our comments useful and constructive. If you have any questions, please feel free to contact Sonja Gibbs (sgibbs@iif.com) or Andrés Portilla (aportilla@iif.com).

Yours sincerely,

Sonja Gibbs
Managing Director and
Head of Sustainable Finance
Institute of International Finance (IIF)

Andrés Portilla
Managing Director and
Head of Regulatory Affairs
Institute of International Finance (IIF)