THE INVESTMENT ASSOCIATION

Response to the IOSCO consultation on voluntary carbon markets

FEBRUARY 2024

We welcome the opportunity to respond to IOSCO's consultation outlining good practices to promote the integrity and orderly functioning of voluntary carbon markets.

The Investment Association is the trade body that represents UK investment managers. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £8.8 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 48% of this is for overseas clients. The UK investment management industry is the largest in Europe and the second largest globally. The IA is an affiliate member of IOSCO.

As investors, IA members recognise that climate change poses significant risks and opportunities for clients, investee companies, and the wider economy and society. Considering climate risk in investment is a fiduciary responsibility and a potential driver of long-term value creation. Climate risk can affect the performance and prospects of companies across sectors and regions.

By establishing mechanisms to adequately and appropriately price climate risk through financial markets, investors can allocate capital more efficiently and effectively towards activities that reduce carbon emissions and increase climate resilience and assess and manage their exposure to physical and transition risks arising from climate change.

Carbon markets are a key instrument to enable the transition to a low-carbon economy. They provide a mechanism to put a price on carbon emissions and incentivise the reduction of greenhouse gas emissions across sectors and geographies. Carbon markets can also mobilise finance for climate action and support innovation in low-carbon technologies and practices.

However, carbon markets can only deliver these benefits if they operate with high integrity and transparency. This means making sure that the carbon credits exchanged in these markets reflect actual, quantifiable, and additional emission reductions that are verified and reliably recorded. It also means preventing any fraud, manipulation, or double counting of carbon credits that could undermine the environmental integrity and credibility of these markets. High-integrity carbon markets can enhance investor confidence and participation, as well as foster trust and cooperation among countries and other stakeholders.

Voluntary carbon markets can complement and supplement the efforts of governments and regulators to reduce greenhouse gas emissions. By allowing entities to voluntarily purchase and retire carbon credits,

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voluntary carbon markets can create additional demand and incentives for emission reduction projects and activities across the world. However, for voluntary carbon markets to realise their full potential, they need to be truly international and harmonised. This means that there should be common standards and rules for the quality, verification, issuance, and tracking of carbon credits, as well as for the disclosure and reporting of carbon transactions and claims. A fragmented and inconsistent landscape of voluntary carbon markets could create confusion and uncertainty for market participants, as well as risks of greenwashing, double counting, and fraud. It could also hamper the scalability and liquidity of these markets and limit their environmental and social impact.

We welcome the role of IOSCO and its members in promoting high-integrity voluntary carbon markets through this consultation. We believe that IOSCO, as the global standard setter for securities regulation, is well positioned to bring together the relevant stakeholders and authorities from different jurisdictions and sectors to develop and implement a coherent and consistent framework for voluntary carbon markets that can enhance their transparency, credibility, and effectiveness. We look forward to engaging with IOSCO and its members on this important topic and contributing to the development of good practices for voluntary carbon markets.

We support the good practices set out in this consultation and the intent behind them. As IOSCO and its international partners pursue the implementation of these good practices, we encourage you to consider the following principles:

- An effective regime for bringing integrity to voluntary carbon markets internationally must **ensure that the voices of IOSCO members from the widest possible range of countries are heard**. With some exceptions, there is likely to be a misalignment between those countries that have an abundance of natural capital and those with well-established financial centres. While they are likely to be committed to developing the highest standards in their own jurisdictions, securities regulators from leading global financial centres should consider how they can contribute to knowledge and capacity building in countries with substantial but potentially vulnerable reserves of natural capital. IOSCO should consider the role it can play in facilitating such cooperation.
- To develop a robust voluntary carbon market, it is important to **consider alignment with compliance carbon markets** regulated by governments and international agreements. Compliance markets provide a clear price signal for carbon emissions and incentives for emitters to reduce emissions. Voluntary markets rely on the demand and supply of carbon credits, which may vary in quality. It is important that voluntary and compliance markets pursue comparable standards to ensure environmental integrity and avoid undermining their common objectives. Existing initiatives, such as the TSVCM and CORSIA, are working towards achieving such alignment.
- It is essential for policymakers to **provide clear and predictable policy roadmaps that indicate the course and pace of change** that will be followed in the transition of the global economy towards zero net emissions. In some countries, the bodies which are responsible for implementing good practices in voluntary carbon markets may also have a role in setting these real-economy policy signals. Those policymakers must not regard the creation of high-integrity carbon markets as an alternative to the broader work required to create incentives and support innovation and investment in low-carbon solutions, including the blending of public and private sources of capital. Indeed, such policy interventions can help to build confidence in voluntary carbon markets where they give market participants greater certainty around the future viability of natural capital markets.
- Equally, while voluntary carbon markets can be a useful tool to support climate transition, they should not be seen as a substitute for ambitious and immediate emission reductions across sectors and regions. **Companies and investors should continue to prioritise reducing their own emissions and aligning their strategies and portfolios with the net zero goal**, as well as supporting and engaging with companies that are committed to broad and systematic emissions reduction. Voluntary carbon markets should only be used as a supplement to science-based emissions

reduction efforts on the path to net zero, and not as a way to avoid or delay the necessary transformation of the global economy towards low-carbon transition.