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IOSCO consultation on the development of sound and well-functioning carbon markets

10 February 2023

The Futures Industry Association (FIA)[1] welcomes the opportunity to respond to the IOSCO public consultation on recommendations for establishing sound Compliance Carbon Markets (CCMs) and on key considerations for enhancing the resilience and integrity of Voluntary Carbon Markets (VCMs). We commend IOSCO for commissioning the underlying reports and fostering dialogue among governmental and private stakeholders across countries and regions on the important, yet complex, issues surrounding the development of carbon markets.

FIA members know that risks posed by global climate change and energy transition are real and urgent. They include direct financial impacts from extreme weather, as well as the instability associated with fundamental changes in how the world does business.

Commodity markets, as well as related futures, options and centrally cleared derivatives markets, are playing -- and will continue to play -- a critical role in helping the global economy navigate and manage these risks. As the leading global trade organization for these markets, FIA members are committed to working with the public and private sectors to help foster robust and transparent market solutions to help meet the needs of a lower carbon economy.

FIA believes in the power of regulated markets to drive price discovery and provide opportunities for risk management that are critically important for the transition to a more sustainable economy. In just the last few years, we have witnessed extraordinary growth in carbon, climate and sustainability-linked markets. We expect this growth to continue in the years to come. We encourage policymakers, regulators, and global standard setters to prioritize actions that will allow for continued innovation and growth of these emerging markets and products.

FIA Efforts Related to Sustainable Finance and Market-Driven Energy Solutions

FIA is committed to helping the private and public sectors meet the needs of a lower carbon economy. Before providing our comments on the consultation, we want to highlight FIA's involvement in several initiatives to promote sustainable finance.

- In September 2020, FIA published a policy paper - How derivatives markets are helping the world fight climate change - showcasing industry efforts and potential partnerships with the public sector to help build a more sustainable economy. We believe one of our responsibilities as a trade association is to bring greater awareness to the challenges posed by climate-related financial risks and what is being done, and can be done, to mitigate those risks.

[1] FIA is the leading global trade organization for the futures, options and centrally cleared derivatives markets, with offices in Brussels, London, Singapore and Washington, DC. Our membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from about 50 countries as well as technology vendors, law firms and other professional service providers.

- Further in advancement of that mission, in 2021, FIA published a Sustainable Finance Report to highlight the derivatives industry's work on climate-related policy and other efforts to combat climate change.

- FIA also has joined three major trade associations to represent market participants in the derivatives industry in the broader conversation about climate change and sustainable finance.

    - FIA joined the Taskforce on Scaling Voluntary Carbon Markets ("TSVCM"), a private sector-led initiative working to scale an effective, efficient, and global voluntary carbon market. Following two consultations, the TSVCM formed the Integrity Council for Voluntary Carbon Markets ("IC-VCM"), an independent governance body for the voluntary carbon market which seeks to set and enforce global threshold standards. As explained further below, FIA supports industry-led efforts to promote standardization in carbon markets.

    - FIA is a member of the Global Sustainable Finance Council ("GSFC") sponsored by the International Capital Markets Association, the GSFC's objective is to bring together key global and regional associations and other stakeholders to coordinate and promote sustainable finance efforts and act as a representative counterparty to the official sector on sustainable finance policy matters.

      FIA also joined the US Climate Finance Working Group. Composed of 11 financial services trade associations, the group published its Principles for a US Transition to a Sustainable Low-Carbon Economy in February 2021 and since then has met on key issues related to sustainable finance.

FIA Response to the Compliance Carbon Markets Consultation Report

IOSCO's Report on CCMs provides a series of recommendations for jurisdictions seeking to establish compliance markets as a way to meet their obligations under Article 6 of the Paris Agreement. Jurisdictions' decisions to establish, or not establish, CCMs will depend on a variety of factors, many of which will be specific to the relevant jurisdiction. If policymakers want to support a transparent price for carbon, CCMs are an effective way so long as jurisdictions establish and operate CCMs subject to certain core principles.

FIA believes carbon allowances are commodities, rather than financial instruments, and should be regulated by authorities under existing frameworks. The United States, Europe, and UK, for example, already have well developed commodity regulatory models and frameworks. Authorities should not establish a new set of regulatory oversight, which would potentially harm market liquidity and prohibit market participation from smaller market participants.

FIA encourages IOSCO to closely monitor developments in the CCM space and, where relevant, ensure there is cross-border coordination.

CCM Consultation Question 1: What are the benefits and risks of linking frameworks? How can these benefits be enhanced and these risks be mitigated?

In Europe, FIA has advocated to start the process of linking the EU Emissions Trading System (EU ETS) with the new UK Emissions Trading System (UK ETS) as soon as practicable. Linkage can benefit both parties and allow the EU and the UK to reach net zero faster and more cost-effectively. Additionally, the advantages of linkage are clear in terms of liquidity, price discovery and the ability to attract abatement from across a larger area and could also be beneficial in avoiding carbon leakage.

Today, the largest CCM is in Europe, but there also are two regional markets in the US – The Regional Greenhouse Gas Initiative ("RGGI") in the East, and the California Cap-and-Trade Program in the West. As referenced in the consultation report, California's program is directly linked to the Canadian province of Quebec's cap-and-trade system through the Western Climate Initiative.

Linkage requires several critical elements, most importantly cross-border coordination among jurisdictions. Additionally, the ETS systems must be aligned, harmonized, and comparable. For example, jurisdictions must coordinate to ensure that linking two ETSs would not result in an oversupply of carbon offsets, which would diminish the price signals of the market.

Arbitrage between the different carbon markets could lead to less efficient outcomes if there is too much divergence. A risk of linking carbon markets globally is that it makes it more difficult to tailor local carbon markets to local needs, such as protecting industries, consumers or employees.

Although the markets and structure of schemes should be similar, due to its political nature, the market should be set up regionally/locally.

CCM Consultation Question 2: What should be the conditions underpinning a decision to link frameworks?

As CCMs continue to emerge and develop across jurisdictions, there may be merit in considering how to promote further interlinkages between different schemes. Ultimately, those decisions will need to be made bilaterally, between jurisdictions. That said, should jurisdictions consider linking frameworks, the markets should be interoperable, with agreed definitions of products and agreement on repositories to measure impact. Linking requires mutual trust between systems, and jurisdictions, structural elements must be tightly aligned, if not identical. See above for additional descriptions of the conditions that must underpin linked frameworks.

CCM Consultation Question 3: Do you agree these IOSCO principles are appropriate for carbon markets? Explain your response.

Overall, FIA supports a principles-based approach to regulation. Principles-based regulation provides regulators with outcomes-based tools that can be tailored to an ever-changing global marketplace.

Whilst generally FIA agrees with taking into account such principles rather than determining a whole new set of regulation, regulators should keep in mind the bespoke character of carbon markets and assess which regulations would be appropriate.

For example, European Securities and Markets Authority (ESMA) has recently noted in their report from March 2022 that "The data analysis has evidenced the specificities and unique characteristics of the EU carbon market, as well as some of its complexities."[2]

FIA encourages IOSCO to be deliberate in determining whether and how to apply any principles to carbon markets (both compliance markets and voluntary markets) as application of the IOSCO principles to exchange-traded derivatives (and indirectly to the underlying cash carbon allowance markets) could

[2] https://www.esma.europa.eu/press-news/esma-news/esma-publishes-its-final-report-eu-carbon-market

inhibit the growth of these important markets. Regulators and industry participants are presently working in a number of jurisdictions and with international bodies to develop standards for emerging environmental products, voluntary carbon products chief among them. Broad application of these principles--at least at this time--to derivatives on carbon credits, as well as other intangible underliers, including carbon allowances, could disrupt these ongoing work streams, which notably have been structured to consider the specific features of carbon markets.

FIA believes the IOSCO principles should, at this time, apply principally to exchange traded derivatives on a physical commodity or a non-financial deliverable with a finite supply.

CCM Consultation Question 4: Are other IOSCO principles relevant for application to these markets?

Given that carbon allowances and offsets are commodities, FIA believes the same principles that apply to other commodities should apply to carbon allowances and offsets. This would promote transparency and consistency for market participants. However, IOSCO should also recognize that CCMs in several jurisdictions are in different stages of development, and VCMs are still in their early stages of development. As such, IOSCO should consider whether certain principles, and regulatory frameworks, are appropriate at this stage in the market's development.

CCM Consultation Question 5: Do you agree the rules currently in place across key jurisdictions are helpful for scaling of carbon markets?

To date, the rules currently in place across key jurisdictions are not completely helpful in scaling carbon markets. It should also be noted that some rules under consideration by certain authorities – notably proposals to ban financial market participants from engaging in CCMs and proposals to implement certain position limits – would significantly harm the scaling of carbon markets. Furthermore, it is important for well-functioning markets to have a network of intermediaries that have the ability to provide customers with access to the markets and a range of services related to their trading and risk management activity.

FIA does not believe new rules or regulatory frameworks are necessary. Instead, existing rules and regulatory frameworks that apply to commodities markets should apply to CCMs and VCMs.

Additionally, settlement procedures in compliance carbon markets would be helpful in the further adoption of these markets, especially if buying carbon allowances becomes mandatory for more industries. Improving settlement procedures would be helpful in scaling carbon markets, but does not necessarily require new rules or regulatory frameworks.

CCM Consultation Question 6: Are there any other aspects of compliance markets that could benefit from regulatory oversight?

By its very nature, a compliance market has regulatory oversight. FIA encourages regulators overseeing CCMs to coordinate closely with independent industry bodies that are working to improve the integrity and transparency of carbon offset and allowance markets. Several bodies are advancing standards and developing market solutions that are designed to be practicable and capable of adoption across the world, creating additional opportunities for cross-border coordination.

CCM Consultation Question 7: Are the recommendations appropriate for the compliance markets?

FIA agrees many of the IOSCO recommendations for compliance markets are appropriate and support efforts to increase regulatory certainty and predictability for market participants.

- FIA supports "Recommendation 1: Relevant authorities should increase predictability and transparency in primary market decisions." FIA agrees that greater predictability will help market participants to plan and manage risks and provide greater market confidence and stability. Communication should be in line with relevant CO2-reduction targets. Political debate should not impede the predictability of markets.

- FIA supports "Recommendation 2: To foster fair, stable and competitive markets, relevant authorities in charge of primary market issuance should place greater reliance on auctions over free allocation." This would also serve the objective of compliance carbon markets (to reduce carbon emissions). However, risks include potential carbon leakage to other jurisdictions, which must be considered.

  It should be noted that Under Article 6 of the Paris Climate Agreement, emission reductions that have been authorized for transfer by the selling country's government may be sold to another country, but only one country may count the emission reduction toward its Nationally Determined Contribution (NDC). Any transfer between respective NDCs (referred to as a corresponding adjustment) is subject to bilateral agreements between each jurisdiction. Jurisdictions may consider employing a mechanism of an export tariff. Ultimately market participants will seek to buy carbon at the lowest price to export to locations where the price is higher, similar to the functioning of other commodity markets.

- FIA generally supports "Recommendation 3: Relevant Authorities should consider setting frequent auctions." FIA acknowledges that irregular auctions can result in a lack of liquidity in a CCM market and an impediment to trading activity, which ultimately harms the important price discovery function of the CCM.

  FIA believes the frequency of auctions, and desire for better price formation, must also be balanced with the operational burden placed on auction participants (e.g., some FIA members have raised concerns about burdens related to certain requirements for positing collateral to participate in auctions) which can have the unintended consequence of reducing auction participation.

  It should also be noted that, in addition to CCMs, VCMs serve an important price discovery function. A well-functioning secondary market is a constant price discovery mechanism, which emphasizes the important role of financial intermediaries. The important role of the secondary market should also be considered by relevant authorities when setting auctions in a CCM.

- FIA supports "Recommendation 4: When relevant authorities establish market stability mechanisms, any market intervention should be rule-based to allow better predictability." Functioning markets require certainty and confidence of market participants. Often, market intervention can result in detrimental implications on liquidity and risk management and could introduce unacceptable levels of systemic and operational risk while not necessarily achieving the primary policy objectives of the intervention.

  We agree with IOSCO's statement that some level of volatility is helpful to financial markets and see greater investor appetite in markets with some volatility. Any intervention should increase investor confidence in the market; unpredictable interventions by authorities, especially related to price, impair the willingness of investors to participate in developing markets.

- FIA supports "Recommendation 5: Relevant authorities should consider allowing the participation of non-compliance firms in primary markets." FIA agrees that allowing participation by non-compliance firms can facilitate market making, access to the markets, carbon financing, the provision of liquidity, and price formation mechanisms in all carbon markets.

  In September, FIA co-signed a letter with seven other trade associations on the importance of preserving diversity of market participants in the EU ETS. A diverse ecosystem of participants stands to make carbon markets, in the EU and elsewhere, resilient, more accessible, and better equipped to provide hedging and risk management solutions to companies.

  Both ESMA[3] and the European Central Bank[4] have published reports that explore carbon market functioning and participation by non-compliance members. These reports address concerns about price increases in the EU Allowances (EUA) traded on the EU ETS, noting that several factors are at play beyond the role of speculation. In fact, in its preliminary report on the structure of the carbon market, ESMA[5] documented that while the number of counterparties holding EUA futures positions has tended to increase since 2018, this increase has been relatively homogeneous across types of counterparty. Additionally, ESMA found that "the observed evolution of carbon prices and volatility seems to have followed market fundamentals,"

  It is also important to note that market-based solutions pre-date the current climate change debate. The US Environmental Protection Agency put such a cap-and-trade system in place in the 1990s in response to atmospheric levels of sulfur dioxide and nitrogen oxides, which cause acid rain. This system allowed non-compliance firms to participate in the market – similar to the EU ETS market - and the system worked incredibly well. Acid rain has declined substantially since implementation of the cap-and-trade system, with sulfur dioxide emissions declining 92% from 1980 to 2019, to the point that the market has become obsolete after the problem was fully addressed.

- FIA has concerns with "Recommendation 6: Relevant authorities should define the legal nature of allowances in their jurisdiction." While a lack of legal clarity for carbon allowances presents certain challenges, FIA has concerns that a patchwork of definitions could lead to hurdles for market access, and create significant cross border challenges. FIA encourages IOSCO to undertake work to assist relevant authorities in harmonizing definitions across jurisdictions.

- FIA supports "Recommendation 7: Relevant authorities should encourage the scrutiny of auction performances." Surveillance of the market for those attempting price manipulation is necessary for market functioning. However, in some instances actions taken by relevant authorities have impaired the ability of the market to function by creating volume limits that are too strict, will harm liquidity, and harm the ability of commercial firms to participate.

- FIA has concerns about "Recommendation 8: Relevant authorities should consider establishing clear and robust frameworks for conducting market surveillance, overseeing of entities' behaviour in spot and derivatives carbon markets and ensuring appropriate enforcement." While FIA agrees authorities should establish clear and robust frameworks and rules for CCMs that contribute to

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[3] https://www.esma.europa.eu/sites/default/files/library/esma70-445-38_final_report_on_emission_allowances_and_associated_derivatives.pdf
[4] https://www.ecb.europa.eu/pub/economic-bulletin/focus/2022/html/ecb.ebbox202203_06~ca1e9ea13e.en.html
[5] https://www.esma.europa.eu/sites/default/files/library/esma70-445-7_preliminary_report_on_emission_allowances.pdf

market transparency and integrity, FIA urges caution when considering measures such as position limits or reporting requirements. These types of requirements may increase the compliance burden on market participants, harming market liquidity and robust market participation – particularly in emerging markets. There is a significant risk in large commercial firms being forced to disclose commercially sensitive information (for example hedging positions).

- FIA has concerns with "Recommendation 9: Relevant authorities should ensure that the relevant market infrastructures (e.g., trading venues, auction platforms, central counterparties, registries) are robust and properly regulated." While FIA agrees that relevant authorities should ensure markets are safe and transparent, FIA urges caution in establishing new financial regulatory structures for CCMs. Rather, FIA encourages authorities to apply existing regulatory frameworks to the market infrastructures.

- FIA supports "Recommendation 10: Relevant authorities should encourage the development of standardized derivatives contracts.**"** Various benefits could be achieved through standardized derivatives contracts. Standardized contracts will improve primary and secondary market liquidity and should be traded in parallel with contracts that allow for physical delivery. FIA also agrees that standardization provides greater comparability between products and increases legal certainty for market participants. In doing so, standardization facilitates liquidity and enhances price discovery. In addition, standardization can help in reducing counterparty credit risk as it facilitates exchange trading and the use of central counterparty clearing. However, relevant authorities should recognize that the carbon markets cannot become fully standardized due to the bespoke nature of certain credits, which will continue to rely on the over-the-counter market.

- FIA has concerns with "Recommendation 11: Relevant authorities should consider public disclosures about aggregate positions, as well as periodic public reporting derived from regulatory data." While FIA is supportive of relevant authorities providing aggregate data in liquid, well-developed futures markets, as is common practice in those markets, this is not common practice for illiquid physical commodities markets. Relevant authorities need to carefully consider market depth before releasing even aggregate information. In some cases, positions of specific market participants could become known to the market through the release of aggregate data due to the bespoke nature of certain positions and insufficient market depth. The physical compliance markets, to date, are not ripe for disclosures about aggregate positions.

- FIA supports "Recommendation 12: Relevant authorities should set clear lines of responsibilities and cooperation between authorities in charge of compliance markets at primary and secondary market level, including both environmental and financial agencies as appropriate and promoting regulatory coordination between these entities." Coordination among relevant authorities is critical for CCMs to flourish. FIA would recommend expanding this recommendation to more clearly encourage international, cross border, coordination.

CCM Consultation Question 8: Are there any other aspects that the recommendations should address? If so, please state which ones and explain your reasoning.

FIA would encourage IOSCO to include a recommendation focused on providing access to compliance markets for smaller market participants. FIA would also encourage including in recommendations that the efficiency of CCMs should be similar to developed commodities markets, which would reduce the cost of trading and generally make the market more attractive.

Closing for the Compliance Carbon Markets Consultation Report

Compliance carbon markets work a lot like other commodity markets. Market participants and end users look to them for the price on carbon. The largest market is in Europe, but there also are regional markets in the UK, the US – The Regional Greenhouse Gas Initiative ("RGGI") in the east, and the California Cap-and-Trade Program in the west – and others around the world and in various stages of development.

It should be noted that futures on carbon allowances have become a core component for CCMs. They complement the issuance of allowances by providing a continuous source for price discovery and risk management.

When considering recommendations for integrity and orderly functioning of CCMs, FIA encourages IOSCO to:

- recognize carbon allowances as commodities;
- support a principles-based approach to regulation while also encouraging regulators to keep in mind the bespoke character of carbon markets and assess which regulations are appropriate;
- support access to CCMs by a wide range of market participants, including financial participants and intermediaries;
- encourage the development of standardized derivatives contracts; and
- closely monitor developments in the CCM space and, where relevant, ensure there is cross border coordination.

FIA Response to the Voluntary Carbon Markets Discussion Paper

VCMs are a prime example of the kind of innovation financial markets can provide to the global economy to help address climate-related risks. FIA agrees with the discussion paper that voluntary carbon markets have thus far not yet scaled to their full potential in helping to mitigate climate change. However, it should be noted that carbon markets have grown exceptionally over recent years and FIA is committed to working with the public and private sectors to facilitate the continued growth of voluntary carbon markets that are reliable, transparent and resilient.

As with any emerging or evolving market, meeting these objectives will require the infrastructure supporting these markets to continue to mature and a greater degree of standardisation to facilitate increased participation. This will ultimately boost confidence of participants across the entire value chain and promote a successful market.

To date, however, significant regulatory intervention is not necessary. Rather, FIA encourages IOSCO to leverage lessons learned from existing successful carbon markets (ex. CCMs like the EU ETS) prior to considering wholesale changes to regulatory frameworks.

Regulatory certainty is necessary for robust participation in markets and carbon markets are no exception. Regulators and industry participants are presently working in several jurisdictions and international bodies to develop standards for emerging environmental products, carbon products chief among them. We support these efforts broadly and encourage policymakers to implement clear regulatory frameworks that recognize the global nature of these products and the market participants who trade them.

Additionally, it should be noted that FIA views carbon offsets as a commodity and encourages jurisdictions to implement existing regulatory frameworks and rules to this growing asset class.

VCM Discussion Paper Question 1: Is the description of the issuance of carbon credits accurate? Are all key market participants properly reflected?

Voluntary carbon markets are very young and any descriptions of the issuance of carbon credits, or about key market participants, could change over the coming years as the market matures. FIA considers the description of the issuance of carbon credits to be accurate. However, as one example, it should be noted that "landowners" are also a key market participant, especially for nature-based projects, and they are not properly reflected in IOSCO's VCM discussion paper.

VCM Discussion Paper Question 2: Has the consultation identified the relevant vulnerabilities? Are there any others that should be considered? Please explain.

Generally, FIA believes IOSCO has identified many of the relevant potential vulnerabilities in voluntary carbon markets. FIA believes that the existing regulatory oversight of market participants can be achieved in the same way as other commodity markets. One vulnerability IOSCO may want to consider is the tax treatment of voluntary carbon credits and whether there are vulnerabilities across jurisdictions.

VCM Discussion Paper Question 3: What kind of role could IOSCO play in coordinating the actions of industry specific organizations and public authorities?

VCMs must be built from the ground up – with integrity and transparency of the underlying carbon offsets. FIA encourages IOSCO to take a leadership role in coordinating cross border engagement among regulators and public authorities to examine their treatment of voluntary carbon offsets to better align these programs across the globe.

Additionally, numerous independent, industry led efforts are taking place with the goal of supporting VCM integrity. FIA supports these efforts broadly and encourages IOSCO to collaborate closely with the private market-led initiatives that have been created to support the growth of VCMs, working to identify best practices and factors relevant to the standards or guidance that IOSCO may intend to develop.

Ultimately, the integrity of the underlying carbon offset is critical for any derivatives product listed on exchange.

VCM Discussion Paper Question 4: How do you think IOSCO should achieve these objectives?

IOSCO could consider a mapping exercise to determine what industry specific organizations and public authorities are doing to date, related to voluntary carbon markets.

VCM Discussion Paper Question 5: Should IOSCO seek to collaborate more closely with these private initiatives? How might such a collaboration function?

FIA agrees IOSCO should seek to collaborate closely with private sector led initiatives and seek opportunities to harmonise potentially conflicting standards developed by private sector led initiatives, to ensure cross border consistency. FIA also encourages IOSCO to engage with regulated financial participants to increase institutional participation.

VCM Discussion Paper Question 6: What, in your view, is the legal nature of an offset credit? Should IOSCO recommend a specific approach to relevant authorities?

FIA agrees that the lack of legal clarity on the nature of voluntary carbon credits is a significant challenge. Generally, FIA recognizes carbon credits as commodities rather than securities or other types of financial interests. To the extent that carbon offsets and allowances are viewed as securities by jurisdictions, subject to the full suite of financial services regulation, it could deter market participants (particularly less resourced market participants) from entering carbon markets. Importantly, it should be noted that commodities and derivatives are already highly regulated in all major jurisdictions and that the legal nature of carbon credits should not subject market participants to duplicate or conflicting regulation.

FIA acknowledges there will need to be legal certainty on market issues such as netting and the enforceability of collateral transfers for carbon credit markets to flourish. Additionally, the legal nature of carbon credits, including issues related to reversibility and insolvency, must be considered. FIA agrees there would be merit in seeking to harmonize the definition or scope across jurisdictions as this will be an important enabler for scaling voluntary carbon markets at global level.

Additionally, it should be noted that when considering the unit of measure for carbon offsets, generally, one carbon offset equals one metric ton of carbon dioxide equivalent (MTCO2e). However, depending on the methodology, there have been instances where carbon offsets from specific projects have been deemed worth less than 1 MTCO2e, which complicates trading and greenhouse gas emissions reporting for companies. FIA suggests IOSCO consider 1 MTCO2e as a unit of measurement on the voluntary side.

VCM Discussion Paper Question 7: What is the role of blockchain and distributed ledger technology in voluntary carbon markets?

Although Blockchain/distributed ledger technology (DLT) and digital assets usage in climate-related finance is still very much in its infancy, the underlying technology has strong potential to accelerate climate reduction efforts for market participants. For example, Blockchain/DLT allows for deeper access to underlying data and confirmation of that data's provenance, allowing investors to potentially have access to real-time raw data, which could minimize risks of green-washing and use of process validation. Risk reduction is possible with this greater visibility since issuers have greater credibility by being associated with a carbon project.

VCM Discussion Paper Question 8: What are the benefits and vulnerabilities of using tokenization over relying on more traditional market infrastructure? Do these benefits outweigh how energy-intensive the use of blockchain is?

Not all blockchain technologies are energy intensive. It is important to differentiate between tokenization of carbon credits (which is to say, using blockchain technology to allow individual credits to be readily traced and tracked) and the many other possible applications of blockchain technology. The underlying technology may hold promising opportunities beyond tokenization of credits.

VCM Discussion Paper Question 9: Should IOSCO recommend good practices regarding transparency on the use and impact of carbon credits by market players?

FIA encourages IOSCO to support existing efforts taking place in jurisdictions that seek to make these markets more transparent, traceable, and standardized.

VCM Discussion Paper Question 10: Are these the key considerations appropriate for the sound functioning of voluntary carbon markets?

FIA agrees with many of IOSCO's considerations for regulators contemplating frameworks to promote market integrity in voluntary carbon markets. FIA agrees that broad market participation is a critical aspect of the scaling of these markets and encourages regulators to ensure any regulatory framework they develop includes cross-border coordination and harmonization and leverages private sector-led efforts that seek to help the transition to a lower carbon economy.

VCM Discussion Paper Question 11: What other key considerations may be necessary in order to scale up carbon markets?

FIA encourages global regulators to review their treatment of voluntary carbon credits with the aim to better align these programs across jurisdictions. Additionally, FIA supports efforts to promote standardized contracts, and support large centralized clearing counterparties, which will improve primary and secondary market liquidity and should be traded in parallel with contracts that allow for physical delivery.

Closing for the Voluntary Carbon Markets Discussion Paper

FIA is committed to working with the public and private sectors to facilitate the continued growth of voluntary carbon markets that are reliable, transparent and resilient.

When considering recommendations for integrity and orderly functioning of VCMs, FIA encourages IOSCO to:

- recognize carbon offsets as a commodity, rather than a financial instrument;
- support the efforts of international bodies to develop standards for emerging environmental products;
- urge authorities to coordinate with these international bodies, and other jurisdictions, to implement clear regulatory frameworks that recognize the global nature of carbon markets and market participants; and
- engage with regulated financial participants to increase institutional participation.

Closing

FIA members are committed to working with the public and private sectors to help respond to the real and urgent threat of climate change. Thank you for the opportunity to comment on these important consultations about the future of carbon markets.

Most respectfully,

Walt L. Lukken

Walt L. Lukken
President and CEO