

**Voluntary Carbon Markets Forum
Completing the Carbon Pricing Framework
December 5, 2024**

**Introductory Remarks
Scott O'Malia, ISDA Chief Executive**

Good afternoon and thank you for joining us today for the Voluntary Carbon Markets Forum. Thank you to our distinguished speakers, and special thanks to BeZero for co-hosting this event with us.

This is a critical moment in the development of global carbon markets. Here in the EU, the pace of change is unmistakable. A new European Commission (EC) has just taken office this week and we know that accelerating the work on carbon credits will be one of its priorities. Wopke Hoekstra, commissioner for climate, net-zero and clean growth, confirmed in his recent parliamentary hearing that promoting carbon pricing and carbon markets will be central to the EU's climate diplomacy strategy.

Earlier this year, the EC established the Task Force for International Carbon Pricing and Markets Diplomacy, which aims to promote the development of the global carbon markets. The EU is also taking steps to establish a certification framework for permanent carbon removals, carbon farming and carbon storage in products, with the objective of verifying and quantifying the removal of carbon from the atmosphere. In 2026, the EU's Carbon Border Adjustment Mechanism (CBAM) will come into force – a huge change that will require importers to pay a tax for carbon emitted during the production of certain products.

These are all important steps in the development of a robust, well-functioning carbon market. It is critical that the public and private sectors align their efforts to develop a globally consistent market that delivers a single, transparent price on carbon. They must ensure the compliance and voluntary carbon markets complement each other to achieve that goal.

We've also seen progress on the global stage. At the COP29 climate summit in Azerbaijan last month, a deal was finally reached to develop a United Nations (UN) backed carbon market under Article 6 of the Paris Agreement. It has taken many years of negotiation to achieve this breakthrough, which should enable sovereigns and corporates to offset those emissions they can't immediately reduce while channelling vital investment to green infrastructure and technology. In other words, it could be a game changer in the transition to net zero.

Now the hard work begins. We need to develop a globally consistent market for the trading of carbon credits that serves to deliver a unified, reliable reference price. This can only be achieved if we work together to build and maintain robust standards that can be applied on a global basis. Among other things, we need a universally accepted definition of a ton of carbon, a sound legal framework, a liquid forward market and an effective regulatory

framework. These are vital prerequisites for the carbon market to work effectively and to reach its true potential.

We still have a long way to go. I read the same headlines as you. Insufficient resources are being allocated to the transition to net zero. Policy proposals in different jurisdictions don't line up. We don't yet have consistent standards for voluntary carbon credits. All true.

But the stakes are too high for inaction. Just think about the opportunity that could be unlocked if we work together to raise standards and increase demand for carbon credits. There is the potential to create a deep channel of investment in the most consequential projects around the world – those that can really move the needle in reducing emissions. We must act now.

I'm pleased to say we've seen some positive developments. During COP29, the International Organization of Securities Commissions published its good practices to promote the financial integrity and smooth functioning of voluntary carbon markets. These 21 principles are designed to facilitate the orderly and transparent trading of carbon credits, offering a blueprint for market regulators around the world to develop a consistent regulatory framework.

We've also seen important progress in the private sector. The Integrity Council for the Voluntary Carbon Market (ICVCM) has established core carbon principles that set a global benchmark for high-integrity carbon credits, with rigorous thresholds on disclosure and sustainable development. Meanwhile, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSA), established by the International Civil Aviation Organization, is moving forward in its ambitious quest to reduce emissions from international aviation.

At ISDA, we believe passionately in robust and consistent standards as the cornerstone of vibrant, well-functioning markets. We have integrated the ICVCM standards into the 2022 ISDA Verified Carbon Credit Transactions Definitions, enabling market participants to efficiently reference them in their trading documentation.

We are also continuing our work to establish legal certainty for this market. This began several years ago when we explored the key legal issues and developed the VCC definitions, but it continues beyond that. We have asked two intergovernmental institutions, the International Institute for the Unification of Private Law and the United Nations Commission on International Trade Law, to provide guidance on the appropriate standards to ensure bankruptcy treatment and the exchange of security are properly defined, and the rights of holders are protected. This guidance will establish a common baseline that can be applied to voluntary carbon credits around the world, so investors fully understand their rights.

We've worked closely with the International Emissions Trading Association (IETA), which has a strong footprint in these markets. IETA's expertise has been invaluable in establishing strong legal standards, and we are grateful for that cooperation and dialogue.

A robust legal framework is critical, but it is only one of the foundations of a healthy market. We know from our experience in other asset classes that standardization of terms and definitions is also vital. We need a globally agreed, widely adopted definition of a ton of carbon that is consistent across the UN-backed carbon market, the ICVCM principles and

CORSIA. Without that consistency, we will never achieve a truly effective market for the trading of carbon credits.

Linked to this is the need for effective, independent verification and identification systems to uphold the integrity and environmental value of carbon credits. This is the key to restoring trust in carbon trading and holding projects to the highest possible standards.

This requirement is not without precedent in other markets. Just think about the bond market. When investors are looking to purchase corporate or sovereign credit, they need to assess the quality of the bond and the risk of the underlying entity. No two bonds are the same, and investors rely on credit rating agencies to provide an accurate, independent assessment of the risk and reward.

The same principle applies to carbon credits. No two projects are alike. Each one has different objectives and delivers its own level of environmental value. Buyers rely on independent, science-based ratings so they can make informed decisions, based on the quality and risk of each project. That's why the BeZero ratings are so valuable, delivering expert analysis and independent verification to give firms greater confidence in pricing and trading carbon credits.

That's the key message here. Information creates confidence. Informed investors are confident investors. With the tools to properly evaluate the quality and risk of each project, portfolios of carbon credits can be developed that can be used to reduce hard-to-abate emissions. By diversifying their risks in this way, investors are more likely to achieve their objectives. This, in turn, will drive increased investment in carbon-reducing projects and technologies all around the world.

There is an opportunity to ramp up investment in the projects and infrastructure that will make a lasting difference in reducing carbon levels. We must act now.

Of course, we should also be mindful of the future policy measures that will affect the pricing of carbon. Here in the EU, the CBAM will be a transformational change, charging a carbon tax to importers for the first time. It is expected this will drive other countries to adopt carbon pricing measures.

The voluntary carbon market could play an important role in the implementation of the CBAM. Importers will need to show they have paid an equivalent carbon price to sell their products in the EU and the UK. But for carbon credits to be considered as a potential recognized carbon cost, there is no question that setting sufficiently robust minimum standards and transparency will be a necessary condition.

I'm delighted we have been able to work with BeZero again to hold this important forum, and I'd like to thank all our speakers for their contributions. The agenda combines global perspectives with EU-specific insights, and we're privileged to be joined by a number of senior experts from the official sector who are closely involved in regional and global carbon markets.

The stakes are high, the time is short and there is much to consider. I'm looking forward to some interesting and constructive discussions this afternoon. Thank you.