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Investing: LSE Announces Launch of Voluntary Carbon Market

October 18, 2022

Investing

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The London Stock Exchange (LSE) has announced the launch of its voluntary carbon market (VCM) together with the publication of its final admission and disclosure standards for companies to be eligible to participate. The LSE first announced its intention to establish a VCM marketplace in November 2021. The new market is open to closed-ended investment funds and operating companies admitted to LSE's markets. It permits qualified funds or companies to raise funds through the VCM for climate mitigation projects.

According to LSE, eligible "issuers will be seeking to finance projects directly or indirectly and may issue carbon credits as a dividend." The designation also "requires issuers to produce additional disclosures relating to the projects they are directly or indirectly financing, including but not limited to: the qualifying bodies whose standards will be applied to the projects, project types, expected carbon credit yield and the extent to which they are expecting to meet the United Nations Sustainable Development Goals."

Julia Hoggett, CEO of the LSE, stated that: "Our goal is to facilitate the financing of projects that are focused on climate change mitigation. Today's publication of our admission and disclosure standards marks the launch of the first public markets solution to help raise capital for the voluntary carbon market. It paves the way for capital at scale to be channeled into a range of climate change mitigation projects, while providing corporates and other investors with net zero commitments with the ability to access a diverse supply of high-quality carbon credits."

Taking the Temperature: As highlighted in our update above, the carbon credit market is controversial, has attracted high-profile criticism and can expect further regulatory and

investor scrutiny. Despite these concerns, there is increasing demand for carbon credits as part of a pathway to make good on net-zero goals. As companies face increased pressure from investors to adhere to climate-related targets, many are turning to carbon offsetting as a method of meeting these obligations. By tying a participating company's issuance of carbon credits to specific GhG reduction projects, the LSE's VCM market offers the potential to address criticism that carbon credits do not meaningfully promote sustainability goals. The magnitude of the possible beneficial impact of the LSE's initiative will depend in large part on issuers' utilization of the market and the pricing of the resulting carbon credits relative to other potentially less expensive credits not subject to the LSE's controls. But the LSE's VCM approach appears to be a useful way to mitigate concerns over the accuracy of climate-related disclosure impacted by the use of carbon credits.