

## Cabinet News and Views

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### Regulation: IOSCO Begins Consultation on Carbon Markets



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The International Organization of Securities Commissions ("IOSCO"), an international policy forum for securities regulators, has [announced](#) the publication of a consultation report and discussion paper. The 90-day public consultation covers “recommendations for establishing sound Compliance Carbon Markets” and “key considerations for enhancing the resilience and integrity of Voluntary Carbon Markets. . . .” [The Compliance Carbon Markets \("CCM"s\) Consultation Report](#) and the [Voluntary Carbon Markets \("VCM"s\) Discussion Paper](#) are open to public comment until February 10, 2023. IOSCO is asking for market participants to give feedback on “how to foster fair and functional markets and increase structural resilience to ensure these markets achieve their stated purpose, *i.e.*, the environmental objectives upon which their existence is based.” The report on CCMs (which are created and regulated by mandatory governmental carbon-reduction regimes) offers various recommendations for jurisdictions that are looking to establish compliant carbon markets as a way to achieve their obligations under Article 6 of the Paris Agreement. The report on VCMs (which operate outside of compliance markets) details characteristics that can “foster sound carbon credit markets,” together with weaknesses that currently limit the growth of the carbon credit markets. The report requests that respondents consider the role that financial regulators should play in overseeing these markets.

Announcing the publication of the reports at COP27, Jean Paul Servais, IOSCO Chairman, IFRS Foundation Monitoring Board Chair and Chairman of the Belgium Financial Services and Markets Authority, said: “In recent years, carbon markets have gained significant importance as a mechanism for corporates, and society in general, to facilitate their transition towards net zero. However, they have so far fallen short of their objectives. No market can function without appropriate levels of integrity and, transparency, and liquidity so IOSCO today hopes to lend its international, market expertise to help develop appropriate frameworks for sound and well-functioning carbon markets, focusing on promoting integrity and liquidity and increasing transparency to facilitate price discovery.”

**Taking the Temperature: IOSCO is a significant force in the regulatory landscape with its membership regulating over 95% of the world's securities markets in 130 jurisdictions. Its proposals will likely carry great weight with their member regulators. The carbon offset market has come under significant scrutiny recently due to concerns that product inconsistencies and lack of scrutiny may be leading to greenwashing. There are also concerns that carbon offset markets can disincentivize or distract corporate actors from the primary objective of reducing emissions. The IOSCO consultation was launched in large part in response to these concerns. Of course, the effectiveness of regulatory activity in promoting well-functioning and high-volume carbon markets remains to be seen, and the future verdict on that issue will have to await the further evolution of any such regulation.**

**Notably, the U.S. Commodity Futures Trade Commission's ("CFTC") Chair, Rostin Behnam, was recently appointed as the vice chair of IOSCO. Behnam is an avid advocate for the development of carbon markets in the U.S., and the CFTC has been active in finding market solutions to climate change. The CFTC has also published several reports on VCMs and in June 2022 hosted a VCM convening. The CFTC is currently working on a report regarding the impact of climate change on the U.S. financial market.**

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