Voluntary Carbon Markets Forum
November 14, 2023

Opening Remarks
Scott O'Malia, ISDA Chief Executive

Good afternoon, everyone. I'd like to add my thanks to all of you for attending today. I'd also like to thank BeZero for partnering with us on this important topic.

With more and more companies across the globe pledging to reduce their emissions of greenhouse gases and support the transition to a green economy, there has been growing interest in how financial markets and products – including derivatives – can help.

For me, this boils down to a single critical reason: without financial markets, we have very little hope of achieving the trillions of dollars of investment needed to finance new projects that will reduce or capture carbon. That's what markets do – they allow capital to move from those entities that have it to those that need it, as well as enabling investors and lenders to manage their risk.

The good news is that investment is growing. According to research earlier this year from BNEF, the amount invested in global energy transition in 2022 was, for the first time ever, the same as the amount invested in fossil fuels, suggesting we're on the cusp of a paradigm shift.

The bad news is that we're still way off what's needed to reach net zero by 2050. The BNEF research suggests that investment would need to triple from now until 2030 and increase by seven times between 2041 and 2050. It's difficult to see how this can be achieved without mobilizing financial markets and a variety of investment and hedging tools.

The voluntary carbon market could be part of the answer. For companies unable to immediately transition fully from fossil fuels, the voluntary carbon market offers the opportunity to meet their sustainability objectives by offsetting those emissions they can't cut now.

This in turn channels capital to those projects that generate credits by reducing or removing greenhouse gases from the atmosphere. This market could see strong growth in the coming years, with BNEF predicting it could reach $1 trillion by 2037 versus an estimated $2 billion now. As well as getting us closer to the annual investment target needed to reach net zero by 2050, the voluntary carbon market would help establish a price for carbon in those jurisdictions where compliance markets are fragmented or don't exist.

But there is a fly in the ointment – concern about greenwashing. Doubts over credit quality and environmental value, as well as concerns over a lack of transparency, have undoubtedly affected trust in this market and could hamper its growth.

According to BNEF, the number of offsets purchased fell by 4% last year, which it attributes to fears of reputational risk from purchasing low-quality credits. An overabundance of poor-quality credits that don't reflect permanent carbon removal will keep prices low, discouraging investment in new technologies like direct air capture.

For this market to reach its full potential and make a real difference, we need greater standardization and transparency, so market participants can be confident the projects they are supporting when they buy carbon credits have a genuine and verifiable impact on carbon reduction.

As we'll hear today, progress is being made.

I'd like to recognize BeZero's terrific work in helping to improve transparency and integrity in this market. The BeZero platform, with its clear, risk-based ratings, enables investors to make more informed decisions when buying carbon credits.

In addition, the Integrity Council for the Voluntary Carbon Market (ICVCM) has developed a set of core carbon principles (CCPs) that establish standards for firms to identify high-quality credits that have a permanent, additional and verifiable impact on emissions. Earlier this month, the ICVCM started assessing carbon credit programs against its core carbon principles framework. Programs that meet the criteria will be able to issue CCP-labelled credits, giving buyers more comfort that they are high quality.

We believe initiatives like these are critical to the future success of the voluntary carbon market. This needs to go hand in hand with a robust legal and regulatory framework – and this is an area that ISDA has been working to address.

We published two whitepapers in 2021 and 2022 that explored the key legal issues associated with the voluntary carbon market and recommended steps to create greater legal certainty.

Last December, we launched the 2022 ISDA Verified Carbon Credit Transactions Definitions, which bring greater consistency to the trading of carbon credits. Having a single contractual framework that can be used for any carbon standard or registry will allow firms to trade carbon credits more easily and on a global basis – in turn, enhancing liquidity.

Of course, we recognize the voluntary carbon market is not the only channel available to firms to meet their sustainability objectives and support the green transition. But we do think the voluntary carbon market has a valuable role to play – which is why it's so important that we all work together to ensure this market has the transparency, integrity and legal certainty it needs to function safely and efficiently.

Thank you.