



ISDA Launches Standard Definitions for the Voluntary Carbon Market

NEW YORK, December 13, 2022 – The International Swaps and Derivatives Association, Inc. (ISDA) has published new industry documentation for the trading of verified carbon credits (VCCs), as part of a broad effort to support the transition to a green economy by developing robust legal and risk management standards for markets related to environmental, social and governance (ESG) activities.

The [2022 ISDA Verified Carbon Credit Transactions Definitions](#) and related template confirmations for spot, forward and options contracts have been developed with the flexibility to support trading of carbon credits across carbon standards and registries. The documents have also been designed to allow parties to accept a wide pool of VCCs for delivery or to specify particular attributes the VCCs must satisfy (for example, being linked to a particular registry or project). The new standards will be available digitally on ISDA’s MyLibrary electronic documentation platform, enabling ISDA to seamlessly revise and update the new documents as market practices evolve. Linklaters acted as drafting counsel for the definitions.

“To transition to a more sustainable economy, we need to mobilize trillions of dollars of private sector investment to implement cleaner energy and transport solutions and build more energy efficient buildings. The voluntary carbon market will help channel the critical financing to support green infrastructure, technologies and other initiatives,” said Scott O’Malia, ISDA’s Chief Executive.

The definitions follow publication of [ISDA whitepapers in December 2021](#) and [November 2022](#) that explored the key legal issues associated with the voluntary carbon market and recommended steps to create greater legal certainty, which included the development of standard documentation.

Finalization of the definitions coincides with other industry efforts to scale the voluntary carbon market. For example, the [Integrity Council for the Voluntary Carbon Market](#), an industry-led governance body, published a proposed set of core carbon principles in July 2022, aimed at setting a global benchmark for high-integrity carbon credits that have a verifiable impact on climate change.

“It is critical that market participants have confidence that the carbon credits they trade are associated with genuine, verifiable offsetting projects. But we also need robust, standardized documentation, which will bring greater legal certainty and consistency to VCC trading,” said Katherine Tew Darras, ISDA’s General Counsel.

In addition to the voluntary carbon market, ISDA is working to bring greater standardization to the sustainability-linked derivatives (SLD) market. These products embed a sustainability-linked cashflow in a derivatives structure and use key performance indicators (KPIs) to monitor compliance with ESG targets, with incentives to encourage parties to meet their sustainability objectives.

ISDA last year [published guidelines](#) on drafting KPIs to help establish best practice and common principles, and has subsequently circulated a [series of whitepapers](#) that explore key regulatory issues for SLDs in the EU, Hong Kong, Japan, UK and US. In November 2022, ISDA published the [results of a survey](#) that reveal how firms are currently documenting SLD transactions, with the aim of identifying areas where standardization would be beneficial.

The 2022 ISDA Verified Carbon Credit Transactions Definitions are available here:
www.isda.org/book/2022-isda-verified-carbon-credit-transaction-definitions/

About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 79 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on [Twitter](#), [LinkedIn](#), [Facebook](#) and [YouTube](#).

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