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Regulators and Industry Standard Setters Step Up Efforts to Regulate Voluntary Carbon Markets

In recent months, regulators and standard setters have focused their attention on the carbon credit sector in recognition of its role in supporting decarbonization efforts. Last week, the Financial Accounting Standards Board voted to propose new rules on how companies account for environmental credits. In May, the Biden administration released policy principles for voluntary carbon markets focused on improving integrity in the sector. And earlier this year, California's AB 1305 introduced disclosure requirements on the sale and purchase of carbon offsets while the Commodity Futures Trading Commission has proposed guidance on the listing of voluntary carbon credit derivative contracts for trading.

The carbon credit market is also gaining attention abroad. In April, the Board of Trustees of the Science Based Targets Initiative (SBTi) announced that it is considering the use of environmental attribute certificates for abating value chain (Scope 3) emissions. The International Organization of Securities Commissions has proposed measures for improving the integrity and function of voluntary carbon markets. The European Union has also reached a provisional agreement on a certification framework for carbon removal.

Regulatory and standard setter efforts to catalyze market-based emissions reduction solutions such as carbon credits underscore the ongoing challenges companies face in setting and meeting emissions reduction commitments. A report released by SBTi earlier this year disclosed that 29% of companies that had committed to setting near- and long-term science-based targets had failed to do so within the allotted two-year time frame. Other recent research suggests that a large portion of the private sector has not set emissions reduction commitments even as public companies face ongoing pressure to reduce value chain emissions.

The size of the voluntary carbon markets has hovered around $2 billion since 2021, with its growth hampered by greenwashing concerns. While it remains to be seen whether efforts to improve the integrity of the sector will transform the sector and impact the price of carbon, the latest developments will likely draw further attention to the quality of carbon credits being purchased by companies and internal processes and controls used to oversee the purchase of carbon credits.

More broadly, as the suite of technological and market instruments geared toward emissions reductions continues to evolve and expand, one puzzle for companies could be determining which investments will deliver the greatest return in mitigating the transition risks tied to carbon emissions.

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