
AFME response to the UK Government consultation on Voluntary Carbon and Nature Markets: Raising integrity

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The Association for Financial Markets in Europe (AFME) welcomes the opportunity to respond to the UK Government's consultation on Voluntary Carbon and Nature Markets (VCNM): Raising integrity. AFME represents a broad range of participants in Europe's wholesale financial markets, including banks active in carbon markets and in the financing of climate and nature-positive projects.

We support the Government's ambition to promote high-integrity VCNMs and welcome the UK's Principles. A well-functioning voluntary carbon market can play a valuable role in the net-zero transition by mobilising private capital towards emissions reduction and removal projects. These markets also support the development of robust carbon-related financial instruments, enabling market participants to manage risk effectively and allocate capital efficiently.

AFME's members are active across the carbon credit value chain, as investors, financiers, intermediaries, and users of carbon market instruments. Many have made public net-zero commitments and are seeking consistent, comparable, and transparent market frameworks to support the scaling of high-quality carbon and nature markets. We therefore welcome efforts to strengthen governance, boost liquidity, and build confidence in the UK's voluntary carbon and nature markets.

Principle 1: Use credits in addition to ambitious actions within value chain

The Voluntary Carbon Market Integrity Initiative

Q.1: Do you agree with the Government's proposal to recognise VCM's Claims Code as representative of international best practice?

AFME members support efforts to promote high-integrity voluntary carbon and nature markets and welcome initiatives such as the VCM's Claims Code of Practice.

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The Claims Code reflects a commendable level of ambition, but it is still in an early phase of adoption and lacks sector-specific flexibility. This, combined with its stringent requirements on Scope 3 emissions, makes it difficult in practice to achieve the higher-tier labels under the framework.

We therefore urge the government to consider a more cautious approach and not to move forward with a formal endorsement at this stage. Importantly, while the framework reflects a high-level ambition, adoption remains uneven across sectors and jurisdictions, and many companies are still evaluating how to operationalise this requirements. Mandating use, either explicitly or via disclosure frameworks, risks creating disproportionate compliance burdens without materially advancing climate goals.

In parallel, we believe it is important for the UK government to consider how it can play a more active role in supporting demand for high-quality carbon credits. One of the greatest challenges facing the market is the persistent failure to stimulate meaningful voluntary demand, despite well-intentioned efforts. For example, while the VCMI framework was developed in part to help catalyse demand, there are early indications that its adoption may, in fact, be contributing to market hesitation and uncertainty.

We would therefore encourage the UK government to explore complementary measures that could help unlock demand for high-integrity credits. One such measure could be to support and promote the use of environmental contribution claims, alongside, and not only within, net-zero strategies. For instance, the UK could encourage alignment with the Science-Based Targets initiative (SBTi) guidance on Beyond Value Chain Mitigation (BVCM).

More broadly, AFME members are concerned that diverging national endorsements of different standards could lead to market fragmentation. To avoid this outcome and foster a coherent and efficient global carbon market, it is essential that the UK government coordinates closely with other jurisdictions as it considers the role of the VCMI Claims Code in its policy framework.

We would also recommend conducting a benchmarking or gap analysis against other emerging claims frameworks, such as the EU's Green Claims Directive, a proposed legislative framework introducing strict requirements to prevent greenwashing, and the SBTi's revised Corporate Net-Zero Standard, a global science-based framework for corporate net-zero target setting. This would help ensure alignment, consistency, and international operability across regimes.

Q.2: Do you have any views on VCMI's guidance for Scope 3, noting that the final version may be published during this consultation period?

AFME members welcome the various initiatives to support corporate buyers facing challenges in reducing Scope 3 emissions, including the VCMI's Beta Scope 3 Flexibility Claim. However, we believe it is premature for the UK government to formally endorse the Scope 3 guidance.

In particular, we are concerned that certain design elements of the guidance, such as rigid caps on credit use and fixed phaseout timelines, may not align with the realities faced by companies with complex value chains or significant Scope 3 exposures. These features could discourage participation by companies that are actively working to reduce emissions but require flexibility in how they incorporate credits into their strategies. For financial institutions in particular, overly prescriptive limits may complicate portfolio management and introduce operational constraints without meaningfully improving environmental outcomes.

We encourage the Government to take a measured and voluntary approach when referencing the VCMI Scope 3 guidance in policy frameworks to avoid embedding its provisions in disclosure mandates or transition planning expectations. Continued consultation with industry will be essential to ensure these frameworks support demand without introducing unintended barriers to engagement.

Insetting

Q.7: Is there an appetite amongst stakeholders for further standardization of high-integrity insetting approaches for industries, particularly the FLAG sector?

Yes, there is clear appetite among AFME members for further standardisation of high-integrity insetting approaches, particularly in the Forest, Land and Agriculture (FLAG) sector. Greater consistency in methodologies, definitions, and reporting frameworks would enhance comparability across companies and support more robust assessments of client transition strategies. In this context, improved monitoring, reporting, and verification (MRV) for the FLAG sector is critical. Exploring synergies between overlapping initiatives, such as the EU Deforestation Regulation (EUDR), insetting methodologies, and offsetting frameworks, could help accelerate the development of reliable and interoperable MRV systems.

While this need is especially relevant for the FLAG sector, given its complexity and emissions profile, AFME members emphasise that standardisation, designed in collaboration with industry experts, is broadly desirable across all sectors to support credible and transparent climate action. Enhanced standardisation would also reduce uncertainty for financial institutions and facilitate the integration of insetting approaches into decision-making processes and disclosures.

Principle 2: Use high integrity credits

Global Voluntary Carbon Markets

Q.9: Do you have any concerns with, or feedback related to the proposal to endorse ICVCM's CCPs and their accompanying Assessment Framework, as representing a minimum quality requirement?

AFME members very much welcome the development of the ICVCM's Core Carbon Principles (CCPs) and their accompanying Assessment Framework. Members recognise the CCPs as a valuable initiative that strengthens the integrity of the voluntary carbon market by providing a science-based, credible benchmark for high-quality carbon credits.

We note the CCPs represent a widely supported framework for ensuring supply-side integrity, grounded in core quality principles such as additionality, permanence, and the avoidance of double counting. These principles are consistently reflected across major standards currently being developed or implemented.

The majority of AFME members would therefore support a high-level, non-binding endorsement of the CCPs by the UK Government. Such an endorsement should not preclude use of an alternative standard by companies at this stage, thus preserving flexibility and recognising that other high-quality and credible crediting programmes, such as PACM as well as integrity labels like CORSIA and ICROA, also play an important role in upholding credit quality.

It is equally important to acknowledge the current fragmentation across carbon credit standard setters, each operating with different methodologies and frameworks. While the ICVCM plays a critical role in driving supply-side integrity, it does not consolidate the entire ecosystem. Greater coordination across these standard setters will be essential to streamline the carbon credit assessment process, avoid conflicting integrity claims, and establish a coherent and reliable quality benchmark. AFME encourages continued collaboration between the UK Government and international standard setters to help achieve this outcome and to acknowledge the complementary roles of methodologies, methodology-based assessment frameworks, and project-based assessments in characterising credit integrity.

Q10: Do you have any views on the accompanying use of carbon credit ratings assessments by CCRAs, or any other steps or guidance that could help identify high integrity credits at the project level?

AFME members view the use of carbon credit ratings assessments by Carbon Credit Rating Agencies (CCRAs) as a helpful additional layer of due diligence. These assessments can support market participants in identifying high-integrity credits at the project level by providing independent evaluations of quality and risk. However, members caution against making the use of such ratings a formal requirement. As CCRAs are private entities, mandating their involvement could create bottlenecks, particularly if the availability of ratings is limited or access is costly. Instead, guidance could encourage the use of such tools on a voluntary basis, while ensuring transparency around methodologies and assumptions to support informed decision-making.

At present, CCRAs apply different approaches to evaluating the quality and risk of carbon projects, and there is no universally accepted definition of a “high-quality” credit. This lack of standardisation can lead to fragmentation and confusion in the market. To address this, clear government guidance, greater consistency in rating methodologies, and enhanced transparency of data and assessment processes are needed. We encourage the government to work closely with CCRAs and other stakeholders to help calibrate approaches, align expectations, and bring greater harmonisation to the market, ultimately supporting its credibility, scalability, and long-term development.

Equally important, if not more so, than CCRAs is the role played by registries in carbon markets. Registries form a core component of market infrastructure, with responsibilities that span the entire lifecycle of a carbon credit. Despite their centrality, registries currently operate without consistent oversight or harmonised operational standards that reflect their systemic importance. Registries are essential for improving transparency and credibility in carbon markets globally, and they also play a foundational role in the infrastructure that underpins derivative contracts linked to carbon credits. To support the growth of efficient and trustworthy carbon markets, there is a clear need for an internationally aligned regulatory framework to ensure appropriate oversight of registry functions.

We therefore support the implementation of Good Practice 8 (Soundness and accuracy of registries) from IOSCO’s final report on Voluntary Carbon Markets, which calls for registries to function as reliable sources of information on the attributes, issuance, transfer, ownership, and cancellation or retirement of carbon credits.

Principle 5: Make accurate green claims using appropriate terminology

Terminology in claims

Q24: To what extent is a lack of clarity on claims inhibiting wider use of voluntary credits? And is what, if any, is the role of the UK Government in addressing any challenges, e.g. through official definitions?

AFME members agree that a lack of clarity around permissible claims is a key barrier to broader participation in voluntary carbon markets. This uncertainty, reflected in feedback from AFME members’ clients, creates hesitation among corporates who are unsure how to communicate the use of carbon credits credibly and in line with market expectations.

While there is value in greater consistency and clearer guidance, AFME members would caution against the introduction of rigid, official definitions, particularly if there is a risk that these may later be embedded in regulation. Prescriptive definitions could limit flexibility, stifle innovation, and fail to accommodate evolving best practices. Instead, members would welcome the development of a principles-based framework that offers clarity and credibility without being overly restrictive. Such an approach would allow companies to engage in the market with greater confidence while preserving the ability to adapt to future developments in carbon accounting and claims integrity.

Principle 6: Co-operate with others to support the growth of high integrity markets

Global carbon markets capacity building

Q.28: How could global carbon market capacity building be more effectively and efficiently deployed?

AFME members believe that more effective and efficient global carbon market capacity building requires a clear division of responsibilities between environmental and market integrity. As noted in the GFMA response to the IOSCO consultation on voluntary carbon markets, it is important to distinguish between:

- Environmental integrity, which includes harmonising taxonomies, aligning quality criteria, and promoting comparability of carbon credits; and
- Market integrity, which relates to the functioning of financial infrastructure, transparency, liquidity, and robust trading mechanisms.

AFME members consider ICVCM and VCMI well-placed to lead on environmental integrity. In contrast, financial regulators, including those in the UK, should focus on strengthening market infrastructure, ensuring transparency, and enhancing regulatory coherence.

The UK Government can support capacity building by reinforcing this division of responsibilities, backing global efforts by e.g. ICVCM, while dedicating its own resources to developing the market framework needed for high-integrity, scalable voluntary carbon markets. This would help avoid duplication, ensure efficient use of resources, and accelerate market development in a coordinated manner.

Support for interoperable market infrastructure

Q.29: Do you see any role for additional initiative(s) to support global interoperability of carbon markets?

AFME members see a potential role for additional initiatives to enhance global interoperability of carbon markets. As highlighted in the GFMA response to the IOSCO consultation on voluntary carbon markets, one promising concept is the development of a meta-registry, a platform that would enable visibility across all issued credits and retirements, regardless of the underlying registry. Such a tool would significantly improve transparency, reduce the risk of double counting, and enhance trust in the market.

The UK could play a constructive role by supporting or participating in the development of a global meta-registry and by ensuring that any UK-based registries are designed to be interoperable, secure, and aligned with international best practices. This would help position the UK as a credible and connected hub for voluntary carbon trading while supporting the integrity and scalability of global carbon markets.

Q.30: For existing initiatives, do you see any barriers that would stop your organization, or others, from participating?

AFME members identify several barriers that currently limit participation in existing voluntary carbon market initiatives, both for financial institutions and their clients. As stated in our response to Question 24, a recurring concern is the lack of clarity on how to credibly communicate carbon credit usage and make claims, which continues to deter many companies from entering the market.

In addition, AFME members highlight six key areas where improvement is needed to support broader engagement:

1. Lack of durable demand signals – Voluntary markets alone have not yet provided the long-term demand visibility needed to support large scale investment in credit supply. Integration of high-quality

credits into compliance systems and other financial incentives for corporate participation will be important to unlock capital at scale.

2. Lack of globally consistent concepts and quality standards – The absence of harmonised definitions and criteria makes it difficult to compare credits and assess integrity across jurisdictions and initiatives, leading to uncertainty and fragmentation.
3. Lack of a sound legal framework – The lack of clear, harmonised legal frameworks around the ownership, transferability, and enforceability for credits, especially in cross-border transactions, creates legal risk and inhibits the development of more mature financial products linked to carbon credits.
4. Lack of clarity on accounting and tax treatment – Ambiguity over how carbon credits should be accounted for in financial statements, and whether they are classified as inventory, intangible assets, or another category. Similarly, the tax treatment of credits is unclear, particularly with regard to VAT, corporate income tax deductibility, and cross-border transactions. Carbon credits need to benefit from a clear and consistent tax framework that reduces administrative burdens and time-to-market for new financial products linked to carbon, enabling more efficient market participation..
5. Lack of features typical of a liquid secondary market – These include access to derivatives, credit ratings, a centralised reporting platform, and improved mechanisms for price discovery.
6. Lack of aligned regulatory standards – Inconsistent or unclear regulatory approaches across jurisdictions create friction and limit the ability of firms to participate at scale.

Addressing these gaps, alongside clearer, principles-based guidance on claims, would significantly enhance market confidence and enable wider participation from financial institutions and their clients.

Clarity and consistency around the legal treatment of credits

Q.31: Do you think the legal status of credits in the UK is sufficiently clear? Please explain your answer and include examples where possible?

AFME members consider that the legal status of voluntary carbon credits (VCCs) in the UK is sufficiently clear for current market activity, insofar as this area can continue to evolve under English common law. Market participants already operate on the basis that VCCs constitute a form of intangible property.

However, legal clarity could be further enhanced through ongoing developments such as the proposed Property (Digital Assets etc.) Bill, which may help codify and formalise this treatment. We welcome this direction, particularly if it supports legal certainty around ownership, transferability, and enforceability of rights in VCCs.

Importantly, the legal classification of VCCs plays a critical role in determining their treatment as collateral, particularly in insolvency or bankruptcy scenarios. For example, under the U.S. bankruptcy regime, emissions credits and allowances, including VCCs, are treated as part of the debtor's estate, both as assets and liabilities. This allows for their transfer during insolvency, subject to standard bankruptcy rules, and provides legal certainty to investors that they can obtain good title upon transfer, an important factor in encouraging broader participation in voluntary carbon markets.

To support market development and cross-border consistency, we encourage jurisdictions to establish clear and harmonised legal frameworks governing the treatment and transfer of VCCs in insolvency. Ultimately, the legal status of carbon credits must be sufficiently well-defined to ensure that property and ownership rights are recognised, enforceable, and protected under law.

Q.32: What role, if any, should the UK play in promoting a consistent legal treatment for credits internationally?

AFME members believe the UK can play a constructive role in promoting consistent legal treatment of carbon credits internationally. Legal certainty is essential for scaling voluntary carbon markets and supporting the development of a credible and liquid secondary market.

To this end, the UK should actively support and reference the work of UNIDROIT and the World Bank on the legal characterisation of verified carbon credits. This initiative aims to develop an international instrument addressing key legal aspects such as credit lifecycle, ownership, transfer, retirement, custody, and use as collateral, issues that are fundamental to market confidence and functionality.

Beyond legal definitions, the UK has an opportunity to lead in developing the digital infrastructure that could support legally robust, high-integrity markets. Emerging tools such as block-chain-based registries and digital RMV systems can enhance transparency, traceability, and efficiency in how credits are tracked and verified across jurisdictions. These systems could eventually enable trusted credit movement between voluntary and compliance markets, provided the underlying legal frameworks are aligned.

At the domestic level, the UK can help build legal clarity through legislation such as the proposed Property (Digital Assets etc.) Bill, ensuring that verified carbon credits have a clear and secure legal status under UK law. However, it is important that the UK aligns with emerging international standards and avoids front-running global efforts in a way that could create fragmentation or additional barriers to participation, particularly for smaller actors.

By promoting consistency and interoperability, rather than divergence, the UK can enhance its leadership role while supporting a more integrated and trustworthy global carbon market.

Accounting treatment of credits

Q.33: Will the accounting treatment for credits affect your ability to participate in voluntary credits markets? What characteristics of the credit and the market for credits will be necessary to maximise participation?

Yes, AFME members view the lack of uniform accounting principles for voluntary carbon credits as a significant barrier to scaling participation in the market. As with legal uncertainty, inconsistent or unclear accounting treatment undermines clarity and confidence for both financial institutions and corporate clients.

Currently, there are no dedicated International Financial Reporting Standards (IFRS) or US Generally Accepted Accounting Principles (US GAAP) specifically addressing the treatment of voluntary carbon credits. As a result, the accounting treatment is often determined on a case-by-case basis, depending on factors such as:

- Whether credits are acquired for resale, internal use, or bundled with other products or services;
- Whether they are used to meet contractual obligations or for promotional purposes; and
- Whether the buyer derives measurable economic benefit from holding or retiring the credits.

For instance, credits purchased to offset an entity's own emissions may be treated as intangible assets, while those held for resale may be accounted for as inventory under IFRS guidelines. If they do not meet asset recognition criteria, they may be treated as expenses. This fragmented approach results in significant divergence in how companies account for voluntary carbon credit transactions, complicating financial reporting, valuation, and audit processes.

AFME supports continued engagement between global standard-setting bodies, particularly the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), to develop clear, consistent accounting guidance for voluntary carbon credits. Key areas to address include how to demonstrate

and measure economic benefit, how to reflect market value, and how to structure accounting for contracts to acquire and use credits.

Market governance in the UK

Q.34: Do you agree with the functional requirements set out for a high integrity UK market governance framework: standards; assurance; accreditation; and regulatory oversight?

AFME members broadly agree with the functional requirements outlined for a high-integrity UK market governance framework, namely: standards, assurance, accreditation, and regulatory oversight. These elements are essential to ensure trust, transparency, and credibility in the voluntary carbon market.

As noted in the GFMA response to the IOSCO VCM consultation, AFME supports a governance model that clearly delineates responsibilities:

- Environmental integrity should remain the remit of expert, market-based initiatives such as ICVCM and VCMI.
- Financial regulators should focus on market conduct, infrastructure, transparency, and risk management.

The UK's proposed framework is generally consistent with this approach. However, it is important that any regulatory oversight is proportionate, clearly scoped, and does not duplicate or overstep the role of environmental standard-setters. Maintaining this balance will help ensure effective governance while enabling continued innovation and international interoperability.

Q.35: Do you agree that the measures set out in this consultation will help to provide appropriate regulatory oversight for UK VCNMs at their current stages of development? If not, what other interventions may be appropriate?

AFME members broadly support the direction of travel outlined in this consultation and agree that the proposed measures will contribute to building appropriate regulatory oversight for UK voluntary carbon and nature markets (VCNMs) at their current stage of development. However, further steps are needed to ensure regulation remains fit for purpose as the market matures. In particular, we recommend the following priorities:

- Adopt a principles-based approach – Regulation should remain flexible and aligned with international best practices. Oversight should be focused on enabling transparency, good governance, and risk management, rather than prescriptive rules. This will allow space for innovation and market-led standard development to continue.
- Encourage trading on centralised platforms – Standardised and transparent trading environments would reduce information asymmetry, lower fraud risk (e.g. double counting), and promote market confidence and price discovery.
- Increase transparency from registries – Registries play a central role in credit issuance, tracking, and retirement, yet currently operate without consistent oversight. The UK should adopt IOSCO's Good Practice 8, promoting reliable transparency registry operations to undermine credit integrity and support market infrastructure (e.g., derivatives, pooled structures).
- Recognise the role of high-integrity credits in transition plans without mandating detailed disclosures. Carbon credits, particularly removals, will be necessary to address residual emissions and support long-term net-zero strategies. Many companies are already considering how credits can complement decarbonisation. However, the role of credits in transition planning is still evolving and it may be

premature to require detailed disclosures, such as credit type, quantity, timing, or project-level specifics, within TPT-aligned frameworks or other corporate reporting tools. Prescriptive requirements could introduce legal and operational complexity, deter participation, and limit flexibility for large buyers and intermediaries managing diversified portfolios. Credit-related disclosures, if included, should remain high-level and principles-based, with an emphasis on governance and transparency rather than rigid metrics. Importantly, government guidance should remain inclusive of both nature-based and engineered removals, recognising their respective roles in delivering credible climate outcomes.

- Develop legal clarity around collateral and counterparty risk – Clear and consistent rules on the treatment of voluntary carbon credits in collateral arrangements are necessary to build confidence among financial institutions and support the development of more sophisticated market structures.
- Support globally consistent standards – AFME encourages continued efforts to establish internationally aligned, principles-based standards for high-quality credits. Greater alignment across registries and jurisdictions will be essential to foster scale and liquidity.

In sum, while the measures in the consultation are a step in the right direction, ongoing attention to these issues will be key to enabling a credible, investable, and internationally connected UK voluntary carbon market.

Q.36: Do you agree with the considerations for the cross-regulatory working group, and are there any additional priorities for inclusion?

AFME members agree with the establishment of a cross-regulatory working group and support the involvement of key bodies such as HM Treasury, the FCA, DESNZ, and other relevant regulators. It is important that this group operates within a clearly defined structure, with transparent objectives and coordination mechanisms to ensure effective joint working. International cooperation is essential, as carbon projects often operate across borders, and isolated national initiatives risk further fragmenting an already complex and emerging market.

Addressing barriers to purchasing of engineered GGR credits

Q.43: What further information or actions do companies need to see to feel confident and encouraged to engage in the Voluntary Carbon Market and purchasing of high-quality engineered removals credits?

To scale corporate engagement in the voluntary carbon market and purchase of high-quality engineered carbon removals, companies need greater long-term policy certainty and clearer demand signals. Many corporate recognise that engineered removals will be necessary to achieve net-zero targets, but current challenges, such as high cost and absence of financial and policy incentives, uncertain long-term demand, lack of guidance and alignment on best practices, and fragmented perception of quality, continue to inhibit participation.

We encourage the UK Government to help future-proof the market by introducing or supporting financial incentives that reward early action, such as tax benefits, preferential procurement treatment, or access to public co-financing for long term offtake agreements. These tools can reduce risk for first movers and help justify early commitments to high-quality engineered removals. Without clear economic incentives, many companies will be reluctant to enter into multi-year contracts for removals that are currently high cost.

In parallel, we emphasise that nature-based removals should continue to be recognised as a credible and necessary part of the market. These solutions offer meaningful near-term mitigation potential and important co-benefits for biodiversity, ecosystem and communities, and should not be deprioritised in favour of a narrow

focus on engineered solutions alone. Both types of removals will be needed to meet net-zero and other climate goals, and government policy should reflect this balanced portfolio approach.

Finally, integrating high-integrity removal into compliance markets, such as the UK emissions Trading Scheme (UK ETS), could provide a durable, scalable demand signal, enhancing investor confidence, and help anchor long-term credit pricing in the UK voluntary carbon market.

Thank you for the opportunity to comment and we remain available for further discussion.

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About AFME

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.