WORLD FEDERATION OF EXCHANGES

WFE Response: Department for Energy Security & Net Zero Consultation on Voluntary Carbon and Nature Markets: raising integrity

9 July 2025

Background

Established in 1961, the WFE is the global industry association for exchanges and clearing houses. Headquartered in London, it represents over 250 market infrastructure providers, including standalone CCPs that are not part of exchange groups. Of our members, 37% are in Asia-Pacific, 43% in EMEA and 20% in the Americas. WFE's 87 member CCPs and clearing services collectively ensure that risk takers post some $1.1 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges, together with other exchanges feeding into our database, are home to over 49,054 listed companies, and the market capitalisation of these entities is $116.58 trillion; around $155 trillion (EOB) in trading annually passes through WFE members (at end 2024).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back more than 40 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system.

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If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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Comments

The WFE supports the Government's ambition to foster integrity in carbon and nature markets, and to create an enabling regulatory and policy environment for those markets. The WFE also supports the principles-based approach proposed in the consultation, and clear efforts to align with international standards and best practice.

Exchanges will be critical to the success of carbon and nature markets because they provide the **efficient, rules-based market infrastructure** needed for investors, issuers and intermediaries to have confidence in traded-market activities.

Exchanges maintain a balance between the interests of all types of market participant and, in creating transparent markets that are accessible to all, serve the broader economy and society, providing **fair and orderly markets** and prioritising **investor protection**. Exchanges are able to ensure a reliable and predictable process that leads to a trade and to an official price as well as bringing together market participants to facilitate **liquidity**, supporting equal opportunity to trade and an **undisputable traded price**. These characteristics will be critical to the continued success of carbon and nature markets, which will rely on transparent and fair trading by a wide range of market participants based on reliable systems of price discovery.

Regulatory framework

A **supportive legal and regulatory framework is vital** to underpinning market infrastructure and supporting the success of carbon and nature markets. The UK's regulatory framework, which has already brought transparency and integrity to key areas of sustainability and sustainable finance, will be key in enabling high-integrity carbon and nature markets in the UK.

In particular, the UK's economy-wide disclosure requirements aligned with the Task Force on Climate Related Disclosure (TCFD) Recommendations has driven the availability of data on climate and carbon, which will enable and incentivise the use of carbon credits. Looking ahead, the UK's flagship Sustainability Disclosure Requirements regime (SDR) will do the same on nature and broader sustainability factors as it implements the International Sustainability Standards Board (ISSB) Standards (which are expected incorporate the Taskforce on Nature-related Financial Disclosures (TNFD) Framework). Meanwhile, the FCA's SDR labelling regime will facilitate investment in companies that take responsibility for their carbon emissions and impacts on nature.

Looking ahead, **how SDR is implemented** and **how the UK Transition Plan Taskforce (TPT) recommendations and guidance are incorporated** will be critical in determining the role that carbon and nature credits will play in the UK and how they are incentivised.

Broader policy environment

The WFE encourages a **whole-of-Government approach** to the creation of robust UK carbon and nature markets. This means ensuring that the legal framework, property rights, accounting framework, taxation policy and prudential frameworks are all aligned and consistent with objectives to incentivise and support robust carbon and nature markets.

One step the Government could take to set carbon and nature markets up for success is to **clarify legal rights** in relation to carbon and nature credits. The Government could do this by making the system more flexible to account for novel forms of property such as carbon and nature credits. The Government could also potentially do this by codifying legal rights in relation to carbon and nature credits and providing clarification in law (through a vehicle such as the Property Digital Assets Bill currently making its way through Parliament) on whether credits are personal property and/or rights of action.

To encourage companies to take responsibility for their emissions and impacts on nature through credits, the Government should also **zero rate transactions in carbon credits for VAT purposes**, as they do for transactions in commodity derivatives. Additionally, and more broadly, the Government should consider **clarifying the taxation regime** as it is not always clear when transactions will be zero rated and exchanges often find that they need to seek clarification from HMRC directly, creating system inefficiencies and a competitive disadvantage for the UK. How tax could be simplified for carbon and nature markets should be a consideration in the Government's planned legislative reform of the VAT Terminal Markets Order (TMO). The Government should also explore other ways in which the tax system could incentivise the take up of credits, such as allowing for a faster rate for depreciation and recognising that credits should be treated as a financial asset.

Equally, the Government should ensure that market participants are not disincentivised from holding credits due to **unfavourable prudential treatment** under the framework for risk-weighted assets. Carbon and nature credits should be treated as financial instruments and should consequently be treated for market risk as such, with their prudential treatment calibrated to the documented level of risk and volatility.

The WFE encourages the Government to also **consider broader policy incentives** for trading in credits. A key incentive that the Government could introduce, building on its manifesto commitment to mandate transition plans for UK-regulated financial institutions and FTSE 100 companies, would be to **broaden the scope of this initiative to introduce mandatory requirements for the same scope of firms as is captured by its TCFD and prospective SDR regimes**. Requiring transition plans from these firms would build on existing TCFD-aligned requirements and provide a sufficiently broad incentive for companies to take responsibility for their emissions and sustainability impacts.

To ensure that carbon and nature markets play a key role in firms assuming accountability for their sustainability impacts, when developing requirements and guidance relating to transition planning for its anticipated 2025 consultation, the Government should ensure that **the role of credits is clear** and that **enabling standards and guidance are adequately robust**.

The Government could also explore **mechanisms that create financial liability** for excessive negative impacts on the climate and broader environment to encourage firms to take financial responsibility for their impacts, including through credits. Any such mechanisms would have to be consistent with requirements and guidance around transition planning and sectoral transition pathways. The Government should periodically assess how compliance markets (which create financial liabilities for negative impacts) in the UK and internationally interact with voluntary markets. As part of those periodic assessments, the Government should consider whether further work is needed to adapt voluntary markets to align with or bolster compliance markets.

Implementation

The WFE encourages the UK to **adopt a climate-first approach**. There is greater standardisation in the carbon market, where it is commonly understood that one carbon credit represents a reduction/removal of one metric tonne of CO_2. Standards and regulation are also more developed in relation to climate and carbon than on nature, including in the UK which has implemented TCFD-aligned disclosures but has yet to implement the ISSB Standards and, even then, has signalled that it intends to do so on a climate-first basis. The fact that carbon credits rely on one agreed, standardised metric also means that they are fungible while nature credits are not. For these reasons, it will be much easier to scale up carbon markets and create a global market for carbon than it will be for nature credits. The Government would benefit from focusing on carbon credits in the first instance then extending its approach to nature once standards, regulation and best practice are more mature.

The fact that standards on nature are at a relatively nascent stage globally compared to standards on climate and carbon not only creates consequent difficulties around developing high-integrity nature credits, but it also creates a risk of international fragmentation as countries develop their own standards and regulation around nature. When the UK progresses its nature-related standards and regulations (through regulatory initiatives such as SDR and transition planning requirements, and Forest Risk Commodities regulation) it is important that the Government prioritises **alignment and interoperability with leading global standards**, frameworks and regulations. In particular, the Government should prioritise alignment and interoperability with the ISSB Standards, the TNFD Framework, the EU Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD).

The WFE also encourages the Government to consider facilitating access to Article 6 carbon credits through **the Paris Agreement Crediting Mechanism** as this would increase market liquidity and help to create a global carbon market.

In endorsing standards for the purposes of the UK Carbon and Nature Market Principles, the UK should also bear in mind that standards in this space are still evolving and are doing so at pace. The UK should ensure that endorsements of particular standards, such as the Integrity Council for the Voluntary Carbon Market (ICVCM) Principles and the Voluntary Carbon Market Integrity initiative (VCMI) guidance, do not preclude use of an alternative standard by companies at this stage. As carbon and nature markets are still rapidly evolving and international consensus is still forming, building in the **flexibility, at least initially, to adapt to new standards** and best practice as they develop will support companies in keeping pace and minimise the risk of future market fragmentation. The UK should **keep the standards it chooses to endorse under review** and consider endorsing additional robust and internationally recognised standards as and when they develop.

Lastly, the Government should carefully consider its approach to credit stacking. If stacking is to be permitted, the government should **develop standards and guidance that address double counting** in order to maintain market integrity.