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IOSCO Consultation Report on Voluntary Carbon Markets

We refer to the consultation report on Voluntary Carbon Markets (VCMs), published by the International Organization of Securities Commissions in December 2023. We appreciate the opportunity to contribute our investor perspective to the proposed Good Practices.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global (the fund). NBIM is a globally diversified investment manager with 15,765 billion Norwegian kroner at year end 2023. We are a long-term investor, working to safeguard and build financial wealth for future generations.

We have a financial interest in an orderly transition towards net zero global emissions by 2050, aligned with the goals of the Paris Agreement. We expect companies we invest in to commit to align their business activities with this goal. In the near term, companies should prioritise reducing their greenhouse gas (GHG) emissions; however, we acknowledge that reducing emissions to zero seems unfeasible for companies in certain sectors, given current technologies. Many companies will likely use carbon removals to “net off” residual corporate emissions in their net zero target year. Some companies are also using carbon credits to supplement their internal decarbonisation efforts in the short and medium term.

Although we are not a direct participant in the voluntary carbon market, we are a long-term investor of companies that do participate as a part of their transition strategy, and therefore need information on companies’ use of voluntary carbon credits to inform our climate change engagements. The lack of transparency on how companies are using voluntary carbon credits in the context of their climate commitments presents a challenge for us when evaluating the credibility and progress of these commitments and achievements. Investors holding portfolios with widespread use of low-quality carbon offsetting may underestimate the climate risk they are exposed to. Consequently, our consultation response provides a high-level commentary on the proposed Good Practices most relevant to our perspective, rather than detailed feedback on each individual Good Practice.

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In September 2023 we updated our expectations to companies on climate change¹. These expectations include our view on how companies use carbon credits in their transition plan. Given the complexity and importance of the topic, we also published a separate document where we set out what we believe are the key elements of credible use of carbon credits². Firstly, companies should prioritise emissions reductions in their own operations and value chains, and any carbon credits used to supplement their decarbonisation efforts should not be counted towards progress on near-term science-based emission reduction targets. Secondly, carbon credits should represent additional and verified emissions reductions. Companies should opt for carbon credits validated by a recognised standard-setting body. The credits should also be additional, meaning they should only be issued for activities that would not have been carried out without the financing raised through carbon credits. Thirdly, over time, companies should move towards carbon credits that represent removals with durable storage. Finally, we believe there should be greater transparency in VCMs and that companies should clearly disclose any use of carbon credits in their corporate reporting. We also encourage companies to disclose the price, or price range, of carbon credits they have purchased in VCMs. This will help investors assess the robustness of companies' approaches and enable efficient price discovery for market participants.

Well-functioning Voluntary Carbon Markets that are transparent and credible could direct funds to cost-effective mitigation and sequestration opportunities, particularly in markets and sectors where financing is needed. They could also incentivise investments in critical technologies that will be required to achieve net zero pathways in emission-intensive industries. However, we concur with IOSCO's description of the potential vulnerabilities in the VCM market, which include carbon credit quality, effectiveness of emission reduction/removal, and data availability. We support the development of standards that can mitigate those vulnerabilities and IOSCO's work in proposing a Good Practice Framework.

We particularly support Good Practice 21 on the disclosure of an entity's use of carbon credits to achieve any net GHG emission targets. Such disclosures allow investors and other stakeholders to accurately assess the entity's GHG emission reductions, commitments, and achievements. We further support Good Practice 6 encouraging greater transparency around the origination of a carbon credit, particularly relating to the underlying climate change mitigation project and its measurement, reporting, verification, and certification. Similarly, our view also aligns with Good Practice 7, promoting enhanced disclosures related to the primary issuance of carbon credits and any associated risks. Greater transparency and disclosures allow companies to pick the most appropriate carbon credit for their use, and investors to better understand the role of credits in companies' decarbonisation strategy. Finally, we strongly support Good Practice 3 on domestic and international consistency and cooperation. Global standards can better support the integrity of the market and are essential for global investors like NBIM who have holdings across multiple jurisdictions.

¹ [Climate change \(nbim.no\)](https://www.nbim.no)

² [Corporate use of voluntary carbon credits | Norges Bank Investment Management \(nbim.no\)](https://www.nbim.no)



We thank you for considering our perspective and remain at your disposal should you wish to discuss these matters further.

Yours sincerely,

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