Members of the Sustainable Market Initiative's Financial Services Task Force signal support for carbon credits

The role of banks in catalysing voluntary carbon markets

Members of the Sustainable Market Initiative's Financial Services Taskforce[1] (FSTF) recognise the urgent need for deep, broad-ranging and rapid action to reduce emissions across the economy to align with the goals of the Paris Agreement.

Banks play an important role in this transition to a net-zero economy. FSTF member organisations are committed to mobilising finance, and working with customers to support their transition. Banks must also decarbonise their own portfolios, allocating finance to projects that reduce emissions and support the transition of all sectors, including high emitting industries. As part of its work, and to help advance industry action, the FSTF has produced a Practitioner's Guide, which outlines ways in which banks can operationalise their net zero commitments.

To urgently limit global warming, companies must commit to reduce carbon in their own operations and value chains at a rate of reduction that is in line with scientific consensus. The FSTF recognises that net zero strategies should prioritise carbon reduction ahead of purchasing voluntary carbon credits, but both actions will be necessary to achieve net zero targets.

Establishing scale in the voluntary carbon market can play a critical role in accelerating progress in achieving overall climate commitments. The IPCC has found that existing low-carbon technologies only have the potential to reduce about two-thirds of the global emissions that must be addressed[2]. Nature loss also poses an increasing threat to achieving the Paris Agreement, and mobilising capital is urgently needed to protect and restore it. High-quality carbon credits can provide a practical solution to help bridge these gaps, especially in the near term. A company's pathway to achieving net-zero should be able to include additional actions or investments that mitigate emissions beyond its value chain.

The FSTF recognises the benefits that investing in nature and new technologies via voluntary carbon markets can bring to the environment, economy, and society. Establishing high-standards and broad scale to this market is a critical part of helping to deliver credible emissions reductions and carbon sequestration towards global net zero, aligned with science based targets.

Catalysing carbon markets

Acknowledging that emissions reductions must be prioritised, FSTF members also recognise that voluntary carbon credits are likely to play an important role as part of, and in addition to, growing corporate climate commitments consistent with science-aligned abatement towards net zero.

Voluntary carbon credits are a critical tool supporting the transition to net zero, as they provide a market mechanism to match funding to valid decarbonisation projects. Strong demand for high-

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[2] Intergovernmental Panel on Climate Change (IPCC)

quality carbon credits is expected to increase financing available to technology and nature-based projects that avoid or remove emissions. Importantly, this includes projects that are expected to enhance emerging markets' resilience to environmental, social and climate risks.

Greater rigor, integrity and scale in voluntary carbon markets is needed to ensure carbon credits can reach their potential. The *Taskforce on Scaling Voluntary Carbon Markets (TSVCM)* is working to do just this, and has found that a clear 'demand signal' from market participants is necessary to enable the voluntary carbon markets to reach effective and efficient scale[3]. The *Voluntary Carbon Market Integrity Initiative* (VCMI) has also been created as a multi-stakeholder platform to drive credible net zero aligned participation in voluntary carbon markets.

The role of banks: our ambition

To support the development of the voluntary carbon market, we intend to:

Our clients

- Support clients in their commitments to science-based decarbonisation efforts aligned with the goals of the Paris Agreement. Transition strategies should prioritise carbon reduction of scope 1 and 2 emissions in business operations and the reduction of all scope 3 emissions including upstream and downstream supply chains. We will support the use of voluntary carbon credits to balance residual emissions where there are limited technologically or financially viable options to abate, as part of science and Paris Agreement aligned decarbonisation scenarios. This will involve working alongside and supporting existing initiatives such as the VCMI and TSVCM.

- Raise awareness on the role of carbon credits in contributing to net zero targets.

- Help guide clients towards high quality projects (aligned with the TSCVM principles[4]), supporting the UN Sustainable Development Goals (SDGs).

Our activity

- Develop transition strategies to achieve net zero targets through prioritising emissions reductions, then use voluntary carbon credits to compensate for or neutralise our own scope 1 and 2 residual emissions where there are limited technologically viable alternatives to eliminate emissions.

- Focus on the use of high-quality carbon credits, aligned to the TSVCM Core Carbon Principles, and other high integrity standards and aligned with the SDGs, and report transparently on doing so.

[3] https://www.iif.com/Portals/1/Files/TSVCM_Report.pdf
[4] https://www.iif.com/Portals/1/Files/TSVCM_Phase_2_Report.pdf

- Consider compensation and neutralisation of emissions on the "path to net zero"[5], as a means of encouraging the protection and restoration of natural carbon sinks, and the financing of new removal and reduction technologies.

- Support the continued scaling of investment and financing in activities generating high quality carbon credits, especially for activities located in developing countries and least developed countries.

- Apply (and encourage others to apply) best practice principles in guiding carbon credit purchases and incorporate these into accepted corporate carbon accounting methodologies such as the GHG Protocol, especially related to avoiding double counting and addressing double claiming.

Our engagement

- Encourage the timely resolution of the Paris Agreement Article 6 rulebook to help assist all parties in achieving greater clarity in their carbon market activities.

- Acknowledge that participants may choose to continue purchasing credits in connection with climate-related claims, without corresponding adjustments during a phased transition period while the Paris Agreement Article 6 infrastructure and local capacity necessary for corresponding adjustments is put in place and unique claims can be realised.

- Promote, once the Paris Agreement Article 6 infrastructure is in place, the procurement and use of correspondingly adjusted carbon credits that are transferred internationally for use by voluntary market participants seeking to make net-zero or similar claims.

- Support the development of project standards that encourage dialogue between project proponents and host governments, so that governments are aware of, and approve, activities generating voluntary carbon credits.

- Call for all voluntary carbon credits to be transacted on robust registry systems to help ensure each carbon credit is unique and there is a clear chain of custody and traceability from issuance through to retirement.

FSTF members acknowledge the vital role of banks in supporting the transition of the real economy to net-zero emissions and intend to adopt this approach consistent with the Net-Zero Banking Alliance and Guidelines for Target Setting for Banks. FSTF members will keep this approach under review as matters develop.

The FSTF would like to thank Pollination for their support in preparing this document.

[5] TSVCM 'Statement on high ambition path to net zero' https://www.iif.com/Portals/1/Files/High_Ambition_Path_to_Net_Zero.pdf

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