

Working Group on Financial Infrastructure for Carbon Credit Transactions – Summary of Report

- **Carbon credits** are expected to play an important role in achieving **carbon neutrality in 2050** by providing economic incentives for decarbonization etc. **The transactions are expected to further expand and diversify**, triggered by the full-scale operation of the emissions trading system (ETS) in Japan from FY2026. Under these circumstances, as with other financial assets, **it is important to ensure investor protection by improving the transparency and integrity of carbon credit transactions for their sound development.**
- This Working Group has been held since June 2024, conducted fact-finding regarding carbon credit transactions through interviews with relevant parties, mainly from the financial community, and **in June 2025 published a report summarizing the key issues related to improving the transparency and integrity of carbon credit transactions.**

I. Fact-Finding regarding Carbon Credit Transactions

Trading platforms, intermediaries, support for credit generation, structuring finance-related products, risk management, credibility rating, and tech utilization

II. Outline of the Key Issues

1. Basic Issues in Ensuring Transparency & Integrity

- ✓ Appropriate disclosure, prevention of conflicts of interest, and compliance
- ✓ Qualification of knowledge and experience.
- ✓ Ingenuity in practice and collaboration among relevant parties
- ✓ Legal nature and accounting treatment

2. Issues Related to Intermediaries & Credit Sellers

- ✓ Appropriate explanation and sales of products according to customer attributes.
- ✓ Ensuring customer-oriented business conduct
- ✓ Risk management in intermediaries

3. Issues Related to Exchanges & Trading Infrastructure

- ✓ Ensuring the accuracy of the registry and ensuring fair market access and transactions
- ✓ Risk management of trading and settlement infrastructure
- ✓ Standardization (data, contracts, product features, etc.)
- ✓ Considerations on derivative transactions
- ✓ Transparency and fairness of carbon credit rating agencies

4. Issues Related to Credit Buyers

- ✓ How to use carbon credit ratings and insurance services
- ✓ how to disclose information on carbon offsetting
- ✓ positioning of credits in users' climate strategies

II. Summary of Key Issues

1. Basic Issues in Ensuring Transparency & Integrity

A) Appropriate disclosure, prevention of conflicts of interest, and compliance

- Appropriate disclosure of information related to carbon credit transactions by relevant parties (standard setters and registries, trading platforms, sellers, and buyers) is crucial to ensure the transparency and integrity of transactions.
- The prevention of conflicts of interest is extremely important to ensure the integrity of the market.
- Compliance with applicable laws and regulations is also a prerequisite for ensuring the transparency and integrity of transactions.

B) Qualification of knowledge and experience.

- It is important to build up the capacity of each stakeholder in the ecosystem to cultivate knowledge and experience (literacy) on the treatment under the relevant framework, product features, and trading practices of carbon credits.

C) Ingenuity in practice and collaboration among relevant parties

- It is expected that the relevant parties will refer to good examples and best practices and link them to the development of the market.
- Collaboration among relevant parties, within and outside the region, and international stakeholders is also important.

D) Legal nature and accounting treatment

- It is important for the legal and accounting nature of carbon credits to be clarified to ensure predictability and stability in the handling of transactions (including effectuation requirements and perfection requirements for transfer). This is also important for increasing the number and sophistication of transactions (including collateralization and derivatives).

2. Issues Related to Intermediaries & Sellers

A) Appropriate explanation and sales of products according to customer attributes.

- It is important for the intermediary/seller of carbon credits to provide an appropriate explanation of the product features according to the attributes of the customer, when selling the product.
- When providing carbon credit related products, tokens, or services, it is also important to provide appropriate explanations on how carbon credits are incorporated and the product features of the incorporated credits.
- As individuals typically have more diverse objectives, knowledge, and experience, and a higher need for customer & investor protection compared to corporations, it is particularly important for providers to provide sufficient and robust explanations to client individuals.

B) Ensuring customer-oriented business conduct

- When the intermediary/seller is a financial institution, it is important to provide information to the buyer based on the purpose of the “Principles for Customer-Oriented Business Conduct” (since it is undesirable for the degree of customer protection to differ depending on the type of business of the seller, it is also important for non-financial institutions to provide information from the same perspective).

C) Risk management in intermediaries

- Appropriate management of operational risk, technology risk, and other risks is expected of intermediaries.

II. Summary of Key Issues

3. Issues Related to Exchanges & Trading Infrastructure

A) Ensuring the accuracy of the registry and ensuring fair market access and transactions

- It is important for streamlining of transactions to ensure the accuracy of credit registry and smooth transfer registration procedures.
- Regarding the eligibility of participants for trading platforms, a broad and fair distribution of trading opportunities would be beneficial from the perspective of enhancing price transparency and market efficiency by ensuring market liquidity.
- To ensure fair transactions on trading platforms, it is important for operators to set, monitor, and enforce appropriate rules.

B) Risk management of trading and settlement infrastructure

- Robust risk management on operational risk, counterparty risk, and other unsettlement risks in the trading infrastructure is important because it facilitates the functioning of the market and enhances its integrity and stability.

C) standardization (data, contracts, product features, etc.)

- Standardization of transactions is beneficial in overcoming fragmentation and expanding and scaling markets.

D) Considerations on derivative transactions

- In preparation for a future in which derivatives trading will take place in Japan, it is important to advance research aimed at developing an environment that will ensure credibility, sophisticate risk management, standardize transactions, and organize legal issues.

E) Transparency and fairness of carbon credit rating agencies

- It would be beneficial for enhancing transparency and fairness that carbon credit rating agencies implement best practices for ESG rating agencies, such as measures to prevent conflicts of interest.

4. Issues Related to Credit Buyers

A) How to use carbon credit rating and insurance services

- Widespread use of carbon credit rating and insurance services could lead to more sophisticated risk management by buyers and more sophisticated services through economies of scale at rating agencies and insurance companies.

B) How to disclose information on carbon offsetting

- In case of offsetting by the buyer, the buyer is expected to make appropriate disclosures about the credits used for offsetting based on disclosure standards, guidelines, etc.

C) Positioning of credits in users' climate strategies

- It is important for users of carbon credits to give priority to emission reduction efforts within their own value chain and consider offsetting with credits as a complementary measure.