

11 May 2022

N12/22 - Consultation on the creation of London Stock Exchange's Voluntary Carbon Market and amendments to the Admission and Disclosure Standards

Introduction

1. London Stock Exchange plc (the "**Exchange**") is consulting on the creation of its Voluntary Carbon Market and amendments to the Admission and Disclosure Standards (the "**Standards**").
2. This consultation is relevant to issuers admitted to trading, or proposing to seek admission to trading on the Exchange's markets, together with their corporate advisers and investors. The proposed changes relate to:
Part A: Schedule 8 - Creation of the Exchange's Voluntary Carbon Market¹; and
Part B: other administrative changes.
3. Attachment 1 to this Notice sets out the Exchange's revised proposed amendments, shown in tracked changes.

PART A: Creation of the Exchange's Voluntary Carbon Market

4. Addressing climate change is perhaps the biggest generational task we face and there is a clear opportunity for finance to accelerate the response to that task. Stock exchanges have a vital role in ensuring we have a financial ecosystem that supports the natural ecosystem.
5. Recognising that voluntary carbon markets are an important enabler for the transition to a low-carbon economy, at COP26 the Exchange announced that it would be developing a market offering to support publicly traded carbon funds. This consultation sets out proposals for the Exchange's Voluntary Carbon Market which is a **designation** open to **Funds**, admitted to certain of the Exchange's markets, which has an investing policy focused on carbon reduction and/or removal projects.
6. There has been significant growth in the number of corporates making commitments to carbon offsetting to support their sustainability objectives. Developing a public market framework for the labelling of **Funds** is key to directing capital from corporates looking to access long term **Carbon Credits** to complement their net zero strategies and thereby support the scaling of funding to climate change mitigation projects. This aligns with the **Exchange's** view that

¹ Any words in bold, in Part A, are defined in the Voluntary Carbon Market schedule (Schedule 8) or the Glossary of the Admission and Disclosure Standards, which is appended to this Notice.

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carbon offsetting is not a substitute for corporate action towards decarbonisation, but should be used in conjunction with credible climate transition strategies.

7. The Voluntary Carbon Market **designation** aims to provide greater transparency to attract capital for **Carbon Credit** projects. The requirements for the Voluntary Carbon Market **designation**, and the enhanced disclosure proposed in this consultation, are designed to inform investors of specific information relating to a **Fund's** carbon reduction and/or removal projects. Whilst the **designation** is not intended to denote assurance on matters such as to the **Fund's** investment policy or its successful implementation, it is expected that the existing UK legal and regulatory obligations for companies admitted to public markets, which includes disclosure, governance, and protections against market abuse, will provide a robust framework to maintain integrity.
8. Initially, the **Exchange's** Voluntary Carbon Market will be open only to closed-ended investment funds but other asset classes will be considered in the future.
9. The **Exchange** has a strong track record as a destination for green funds. More than 30 funds with a combined market capitalisation of £1.7bn have received the Green Economy Mark, which recognises funds investing into green sectors that are contributing to environmental objectives. The Voluntary Carbon Market **designation** will differ in that it will recognise **Funds** that are investing in climate change mitigation projects with the objective of supplying **Carbon Credits** to investors. Companies admitted to our markets that trade in **Carbon Credits** may apply for the Green Economy Mark but not the Voluntary Carbon Market **designation**, which is currently only open to **Funds** investing in climate change mitigation projects.
10. We welcome engagement from market participants to help shape the **Exchange's** Voluntary Carbon Market.

Key Features of the Voluntary Carbon Market

11. The **Exchange** is consulting on the proposed new rules for the creation of the **Exchange's** Voluntary Carbon Market, which will be set out as a new Schedule 8 in the **Standards**. As well as any general comments in respect of the new rules, we welcome responses to any of the specific questions raised.

I. Type of Issuers that will be Eligible

Schedule 8, paragraphs 1a and 1b

12. It is proposed that, on launch, the Voluntary Carbon Market **designation** will only be open to closed-ended investment funds. The **Exchange** will consider other asset classes in the future.
13. The **Fund** must be admitted to trading on the **Main Market** or **AIM**.

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14. A **Fund's** portfolio management must be conducted by a person authorised by the FCA, the Jersey, Guernsey or Isle of Man regulatory bodies to manage an unauthorised Alternative Investment Fund.
15. By requiring the **Fund Manager** to be so authorised, the **Fund** can demonstrate that the **Fund Manager** has appropriate internal governance procedures and processes to manage its investing policy.

II. Investment Policy

Schedule 8, paragraphs 1c, 1d and 7

16. The **Exchange's** Voluntary Carbon Market is intended to support transparency and attract capital for climate change mitigation projects. Accordingly, a **Fund's** investment strategy should have a focus on investing in carbon reduction and/or removal projects that are expected to yield **Carbon Credits**. The **Fund** is required to make investments in keeping with the low-carbon transition principles across the remainder of its portfolio and, accordingly, revenues from its other investments must be able to be mapped to the Tier 1 or Tier 2 micro sectors within [FTSE Russell's Green Revenues Classification System](#).
17. So as to ensure commitment to climate change mitigation, the **Fund** must make investment in at least one **Proposed Project**² or **Qualifying Project**³ within three years of receipt of the Voluntary Carbon Market **designation**.

*Question 1: Do **Fund Managers** have any comments in respect of the requirements for the **Fund's** investments?*

III. Qualifying Bodies

18. In order for the Voluntary Carbon Market **designation** to provide transparency regarding the quality of the **Carbon Credits**, it is proposed that the **Proposed Projects** or **Qualifying Projects** are registered with one of the following recognised bodies:
 - The International Carbon Reduction & Offset Alliance (ICROA), which includes the UK Woodland Carbon Code, Gold Standard, Verra's Verified Carbon Standard and others; or
 - The Integrity Council for the Voluntary Carbon Market (ICVCM) (once its Core Carbon Principles are issued⁴).

² A project in which the **Fund** is investing with the reasonable expectation that it is, or will be, a **Qualifying Project**.

³ A project which has been **Independently Certified** and appears on the register of the relevant **Qualifying Body**.

⁴ Consultation expected to be launched in Q2 2022.

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19. This is a rapidly evolving and innovative sector and, accordingly, the **Exchange** will continue to review the recognised bodies as the carbon offset market develops and becomes more unified.

Question 2: Are there other standards bodies which provide investors with a good level of confidence that should be considered?

*Question 3: Are there any other requirements which you believe would support investor confidence in respect of the expected quality of **Carbon Credits**?*

IV. Delivery of Carbon Credits

20. The Voluntary Carbon Market rules do not provide for how the **Carbon Credits** will be delivered to investors. The **Fund** will have full autonomy in determining how it proposes to deliver or **retire Carbon Credits** and will be required to disclose this to shareholders. Options available to **Funds** include delivery as a dividend in specie or a **Fund** may elect to **retire Carbon Credits** on behalf of shareholders and maintain a **Registry**. The **Fund** will also need to consider the management of fractional entitlements.

V. Additional Disclosure

Schedule 8, paragraph 5

21. The FCA's Prospectus Rules and the AIM Rules for Companies specify the content of a prospectus and **AIM** admission documents, respectively.
22. In addition to the **Fund's** existing disclosure requirements, to aide transparency, it is proposed that content that is specific to the Voluntary Carbon Market is additionally required to be included in the **Fund's Prospectus**, **AIM** admission document or **Designation Circular**⁵ (as the case may be).
23. The additional content can be divided into items which are specific to the projects and the qualifying standards, which will be used to certify the projects, items which are specific to the **Fund Manager**, as well as details in relation to projected **Carbon Credits** (if known) and the mechanisms that will be used to distribute **Carbon Credits**.

*Question 4: From a **Fund Manager** perspective, are the additional disclosure requirements reasonably achievable?*

Question 5: From an investor perspective, is there any additional disclosure that would enhance transparency?

⁵ Where a **Fund** is applying for the Voluntary Carbon Market **designation** after admission, it must issue a **Designation Circular** to shareholders.

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VI. Continuing Obligations

Schedule 8, paragraphs 6-11

24. Ongoing disclosure requirements are essential for investor transparency.
25. **Funds** with the Voluntary Carbon Market **designation** will be complying with the ongoing disclosure requirements as set out in the **DTRs**, the **Listing Rules**, the AIM Rules for Companies and the **UK Market Abuse Regulation**, as relevant.
26. In addition, it is proposed that the **Fund** will also be required to provide ongoing disclosure which is specific to the Voluntary Carbon Market **designation**.
27. In particular, it is proposed that disclosure will be required in the **Fund's** audited annual report and financial statements on matters relevant to achieving **Carbon Credits**, such as updates on key project milestones and the target yield of **Carbon Credits** and the general status of investments into **Qualifying Projects** and **Proposed Projects**.

*Question 6: From a **Fund Manager** perspective, are the continuing obligations reasonably achievable?*

Question 7: From an investor perspective, are there any ongoing disclosures, in addition to the normal regulatory disclosure obligations, which would support transparency?

VII. Refusal, Removal or Conditions

Schedule 8, paragraphs 16-18

28. The integrity of the Voluntary Carbon Market is important to the reputation of the **Exchange**. Accordingly, it is proposed that the **Exchange** has powers to refuse or delay provision of, impose conditions to, or remove the Voluntary Carbon Market **designation**.

PART B: Other proposed changes

29. Further changes are being proposed to the **Standards** as follows:
 - the early notification process is being expanded to cover all new securities, not just equity and depositary receipt securities. In addition, the early notification date for certain issuers has been increased to 30 business days, and for debt issuers, five business days, prior to admission;
 - overarching confidentiality, refusal powers and jurisdiction provisions; and
 - administrative and corrective changes, in particular:

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- unless otherwise stated, there is a presumption that any dividends set out in a dividend announcement are gross;
- the timing in relation to the announcement, by an issuer, of an open offer;
- corporate action announcements need to comply with the issuer's regulatory disclosure obligations, including under the UK Market Abuse Regulation;
- corporate action announcements need to include the ISIN or the Tradable Instrument Display Mnemonics code (TIDM) of the affected securities; and
- a requirement that any correspondence submitted to the Corporate Actions Team in advance of any notification of the timetable for any proposed action affecting the rights of existing shareholders be complete, accurate and not misleading. This is already a general requirement under the Standards and is now included as a reminder in the context of corporate actions;
- certain corrections and simplification changes, including in relation to Shanghai-London Stock Connect, the Sustainable Bond Market; and
- general consistency references.

Consultation responses

30. a) Comments are invited to this consultation by close of business on **11 July 2022**. Responses should be sent by email to:
primarymarketregulation@lseg.com.
- b) The Exchange expects to confirm the final rules **on or around the end of September 2022**.

Nilam Statham
Co-Head of Market Regulation

This Stock Exchange Notice will be available on the website at:
<https://www.londonstockexchange.com/resources/london-stock-exchange-notices>

Calls to London Stock Exchange plc may be recorded to enable London Stock Exchange to carry out its regulatory responsibilities