THE LONDON STOCK EXCHANGE'S VOLUNTARY CARBON MARKET

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LSEG VCM - supporting the transition to a low carbon economy

The **London Stock Exchange's Voluntary Carbon Market (VCM)** is a designation that recognises companies and funds that have a focus on carbon reduction and/or removal projects.

At COP26

Nov 2021

The London Stock Exchange announced the intention to build the foundations for its Voluntary Carbon Market.

To deliver
2
key outcomes

1. Increase the flow of financing into activities that can reduce greenhouse gases in our atmosphere and increase the supply of carbon credits
2. Provide market access for investors and corporates seeking exposure to carbon credits

- The designation enables investors to identify funds and operating companies which have a focus on carbon reduction/removal projects, which are expected to yield carbon credits. In the case of
  - funds, this will be through the investments of its funds and cash equivalents.
  - operating companies, it will be through the financing of projects, either directly or indirectly.

- Funds or Operating Companies have a choice: issue carbon credits as a dividend in specie or offer a cash dividend.
- Can provide a solution for investors seeking a long term supply of carbon credits to augment their decarbonisation strategies. Investors may receive carbon credits as a dividend in specie or have the credits retired on their behalf.

- The relevant eligibility criteria and disclosure requirements were published in October 2022 and can be found in Schedule 8 of the Admission and Disclosure Standards.

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Creating the London Stock Exchange's Voluntary Carbon Market

Our Voluntary Carbon Market is a designation for a fund or operating company that is admitted to certain markets on the London Stock Exchange.

The issuer is also subject to existing public markets regulatory requirements and disclosure obligations.

LSE Funds Ecosystem

OR

LSE Operating Company Ecosystem

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The **International Carbon Reduction and 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 VCM's Core Carbon Principles (ICVCM CCPs), will also be accepted once finalised.

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The London Stock Exchange's VCM

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How the VCM designation supports the scaling of voluntary carbon markets

Transparency

- All issuers are subject to market disclosure obligations under MAR. In addition to these obligations, the VCM designation requires disclosure specific to the voluntary carbon markets– relating to projects and progression at admission and on an annual basis

Oversight

- Issuer approved via Main Market/AIM admission processes
- Recognised voluntary carbon market qualifying bodies – to support quality of carbon credits from projects

Investor Choice

Specific carbon credit disclosure requirements enabling investors to make decisions based on their needs. For example:

- The issuer will be required to set out its policy on whether it sell, retire or distribute carbon credits.
- The issuer will need to disclose the percentage of investment made into qualifying projects.

Sustainability Approach

- Funds/revenues not invested into climate mitigation projects must be mapped to the FTSE Green Revenues Classification System (Tier 1 and Tier 2 micro sectors)
- The issuer must invest in at least one climate mitigation project within two years of receiving the designation and maintain at least one project thereafter.

The London Stock Exchange's Voluntary Carbon Market

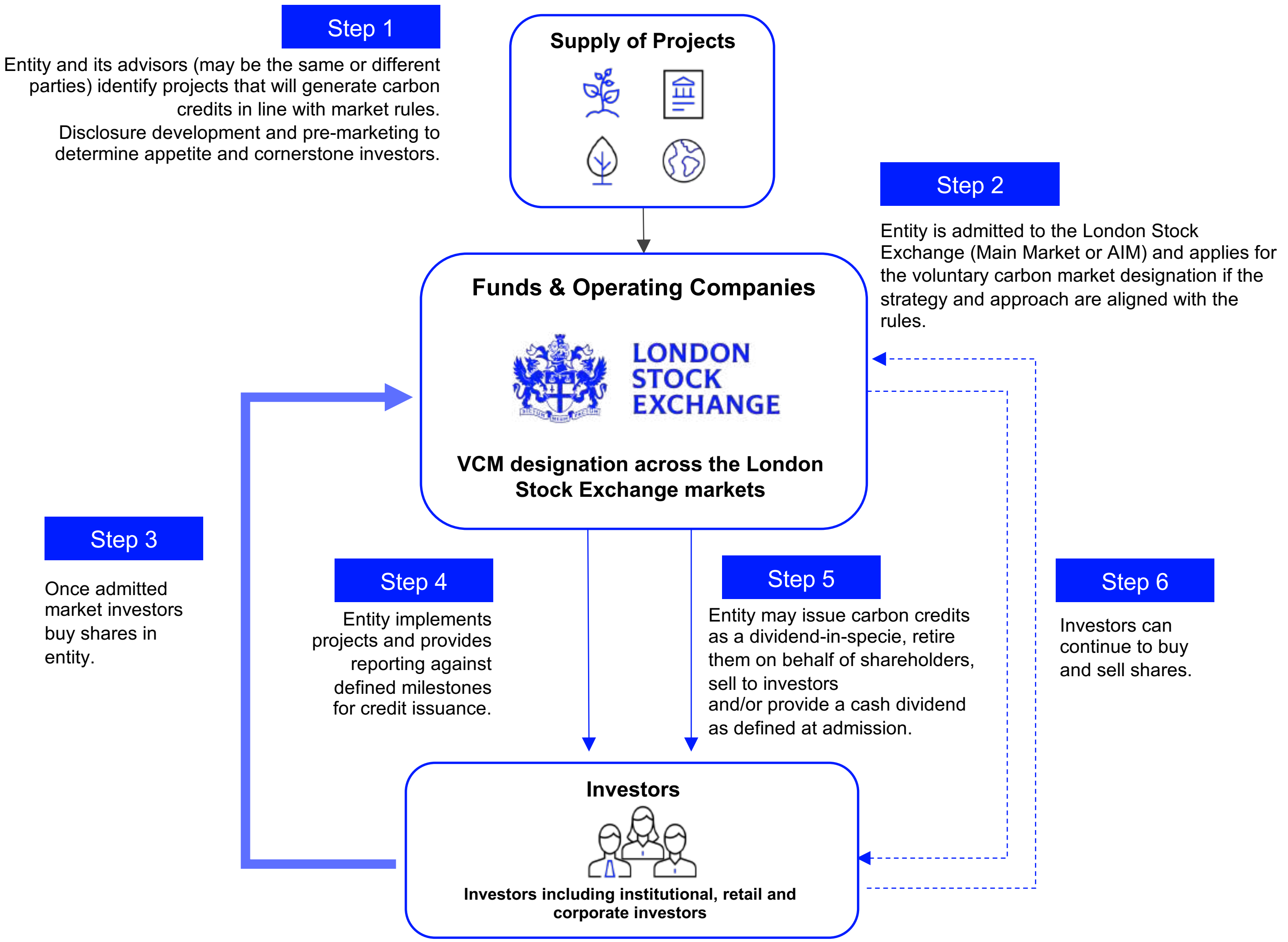
Benefits

Fund managers/project developers

- Potential to scale projects with new sources of funding
- New and diverse pools of capital from institutional and corporate investors

To Investors

- Additional procurement option for carbon credits
- Transparency on project progress and performance
- Where carbon credits are received, investors have 3 options:
  1. Retire against residual carbon footprint (i.e. after operational reductions)
  2. Sell through traditional OTC methods or carbon exchanges
  3. Hold to sell or retire at a later date



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Key benefits for corporates investing into funds or operating companies that dividend out carbon credits

Current challenge for carbon credit buyers	Benefit of the LSE's Voluntary Carbon Market
Market access	Existing voluntary carbon market is fragmented, hard to navigate, costly, and largely OTC. This makes it hard for corporates to procure carbon credits with confidence. Enabling procurement via a listed entity could help to address this.
Opaque markets	Disclosure around project development & performance: Issuers will also be admitted to market under the existing public market framework with MAR disclosure and VCM designation specific disclosure.
Cost	Early stage investment can enable lower – and known – cost, closer to the cost of production.
Procurement, hedging and disclosure	Simplify the procurement process for offsets for corporates. Previously companies have relied on brokers to help procure offsets which are largely traded OTC, and the procurement decisions often sit within marketing or sustainability or procurement functions, but buying shares in an entity with the VCM designation shifts the responsibility to the finance function. The investment will sit on the corporate balance sheet making it more visible as a financial material aspect of climate risk management and net zero alignment, relevant to TCFD reporting.

Legal Disclaimer

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