

## **Voluntary Carbon Credit Trends (October-December 2024)**

### **Initiatives to Improve Credit Quality**

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#### **Introduction**

AlliedOffsets, which provides carbon market data for the voluntary carbon market, concluded in their report that “2024 was a year of focus on quality.”<sup>1</sup> For example, the Integrity Council for the Voluntary Carbon Market (ICVCM), an organization that sets and evaluates quality standards for voluntary carbon credits, announced the first carbon credit methodologies that meet the Core Carbon Principles (CCPs) on June 6, 2024.<sup>2</sup>

Trends to ensure credit quality were also observable in the fourth quarter of 2024, as shown by the following events: 1. The Verified Carbon Standard (VCS) updated the methodology for requantification, 2. International exchange regulators issued guidelines for the quality of credits, and 3. An interim report on transition credits for aiming at the early phase-out of coal-fired power plants was published. These trends are crucial for ensuring the high integrity and reliability of credits, which will lead to new demand.

#### **1. Verra released the VCS methodology change and requantification procedure<sup>3</sup>**

On October 16, 2024, Verra announced a Verified Carbon Standard (VCS) methodology update and permission for the requantification procedure.<sup>4</sup> Verra is a carbon credit registry that manages the VCS, which is the biggest standard in the carbon market and is based on market share. Verra is also responsible for reviewing and verifying projects developed and implemented by project developers under the VCS framework.

This update allows for the requantification of previously issued Verified Carbon Units (VCU) in accordance with the latest methodology. It also permits the retroactive application of updated methodologies to carbon reduction and removal figures that were originally calculated using previous methodologies during prior verification periods. Upon Verra’s approval of the requantification process, VCU holders will have the option to reconcile the number of credits previously issued with the quantity recalculated under the revised methodology.

The methodology update was driven by regulatory developments, environmental considerations,

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<sup>1</sup> AlliedOffsets. (2024). “VCM 2024 Review: Emerging Trends for 2025.”

<sup>2</sup> We also published a report on this topic: Kojima, Mai, Soichi Morimoto, and Keita Katayama. (2025). “Voluntary Carbon Credit Trends (April-June 2024): New Guiding Principles for Carbon Credit Market.” *IEEJ Energy Journal* 20 (1): 12-14.

<sup>3</sup> This part is mainly written by Yamada.

<sup>4</sup> VERRA. (2024, October 16). *Verra Releases Methodology Change and Requantification Procedure*. <https://verra.org/verra-releases-methodology-change-and-requantification-procedure/>.

and improvements in quantification techniques. This announcement enables the application of the updated methodology to VCUs issued under earlier standards. Doing so aligns project outcomes with current monitoring and verification practices, ensuring more accurate reporting of carbon reductions and removals. It is important to note that the application of these updates is optional and not required for all project proponents.

The requantification procedure is a significant advancement, as it enhances the transparency, reliability, and accuracy of carbon credit valuations. This change has been introduced for the following three reasons:<sup>5</sup>

- As mentioned above, the latest methodology is applied to the previously verified carbon reductions/removals.
- A project proponent must apply this change when they wish to apply the Integrity Council for Voluntary Carbon Markets (ICVCM) Core Carbon Principles (CCP) labels to previously issued VCUs.
- Projects with mixed carbon reductions and removals can be updated to the latest methodology so that carbon reductions and removals can be calculated separately.

The procedures for applying this change are as follows:エラー! ブックマークが定義されていません。

- i Notices from project proponents to Verra; the project proponents will notify Verra of their intention to make a requantification approval request by email
- ii Notices from Verra to VCUs owner; Verra will display the requantification form, project details, and vintage information on the Verra website, and Verra notices to the owners who have valid VCUs.
- iii Preparation for requantification; the project must conform with all the requirements of the new methodology and meet all applicability conditions when applying the new methodology. Based on the selected methodology, project proponents will re-evaluate baseline scenarios and validity (integrity, additionally, permanence, etc.), and requantify the amount of carbon reductions and removals. After the re-verification, the valid projects will be requantified and a report of the results will be issued.
- iv Evaluation by the validation/verification bodies (VVB<sup>6</sup>); VVB will evaluate the report issued at the former step.

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<sup>5</sup> VERRA. (2024). “VCS Methodology Change and Requantification Procedure.” <https://verra.org/wp-content/uploads/2024/10/VCS-Methodology-Change-and-Requantification-Procedure-v4.0-1.pdf>.

<sup>6</sup> VVB refers to a third-party validation and verification body accredited by Verra. VERRA. (n.d.). *VALIDATION and VERIFICATION*. <https://verra.org/validation-verification/>. Retrieved May 17, 2025.

- v Evaluation by Verra; Verra will evaluate the report and the results of the evaluation by VVB.
- vi Adjustment of the number of VCUs; if procedures are confirmed, Verra notifies the project proponents and VCUs holders, whose VCUs will be adjusted to the number of VCUs issued. (If VCUs holders hope to implement the CCP label, they must apply ICVCM.)

Even though the Verified Carbon Units (VCUs) have been validated in accordance with methodologies used in previous versions, these VCUs remain valid. Furthermore, VCU holders retain the right to reject the results of requantification, which may alter the number of credits held. Requantification results are valid for five years. However, VCUs that have already been retired are not subject to this process.

The author contemplates that these changes will enhance the credibility of the VCS and contribute to an increase in credit prices. As reported in the press,<sup>7</sup> the credibility of nature-based voluntary carbon credits has been questioned for several years, leading to a reduction in the issuance volume and a decline in credit prices. In this context, Verra's announcement of ICVCM's consistency with CCPs, as described in the article,<sup>8</sup> should lead to an improvement in the credibility of the VCS. On the other hand, the first period (2024-2026) of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which is a framework for carbon offsetting and reduction for international aviation, has also approved Verra's VCS for the first period (2024-2026), which will further support the credibility and market position of the standard.

## 2. Guidance for trading carbon credits<sup>9</sup>

In general, traders want to avoid the risk of funding carbon credits that will not reduce emissions. In response to such concerns about the quality of credits, the International Organization of Securities Commissions (IOSCO) published a report on the VCM. Moreover, the Commodity Futures Trading Commission (CFTC), the US commodity futures regulator, released final guidance on voluntary carbon credits around the same time.

The IOSCO is the international body that brings together the world's securities regulators and is recognized as the global standard setter for financial markets regulation.<sup>10</sup> They released the final

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<sup>7</sup> S&P Global. (2024, January 6). *Commodities 2024: Price slump in 2023 clouds outlook for voluntary carbon market*. <https://www.spglobal.com/commodity-insights/en/news-research/latest-news/energy-transition/010524-price-slump-in-2023-clouds-outlook-for-voluntary-carbon-market>.

<sup>8</sup> VERRA. (2024, October 30). *ICAO Approves Verra's VCS Program for CORSIA Eligibility*. <https://verra.org/icao-approves-verras-vcs-program-for-corsia-eligibility/>.

<sup>9</sup> This part is mainly written by Kojima.

<sup>10</sup> International Organization of Securities Commissions. (n.d.) "About IOSCO." Retrieved May 17, 2025.

report on the Voluntary Carbon Market on November 14, 2024.<sup>11</sup> They already published a report on protecting investors and developing a fair, efficient, and transparent market last year.<sup>12</sup> This new report proposes 21 Good Practices for voluntary markets. The Good Practices relate to the following: I. regulatory frameworks, II. primary market issuance, III. secondary market trading, and IV. use and disclosure of use of carbon credits

Table: IOSCO's Good Practices

<b>I. Regulatory Frameworks</b>
<p>Good Practice 1 – Regulatory treatment</p> <ul style="list-style-type: none"> <li>➤ Consider ways to provide clarity regarding the legal and regulatory treatment of carbon credits.</li> </ul> <p>Good Practice 2 – Regulatory approach and scope</p> <ul style="list-style-type: none"> <li>➤ Consider ways to apply appropriate and effective regulation, supervision, and oversight to VCMs, covering, among other things, the issuance, trading, and retirement of carbon credits.</li> </ul> <p>Good Practice 3 – Domestic and international consistency and cooperation</p> <ul style="list-style-type: none"> <li>➤ Consider seeking both domestic and international consistency.</li> </ul> <p>Good Practice 4 – Participants' skill and competence</p> <ul style="list-style-type: none"> <li>➤ Consider promoting the need for financial and investment firms and senior management to have adequate skills and competence.</li> </ul>
<b>II. Primary Market Issuance</b>
<p>Good Practice 5 – Standardization</p> <ul style="list-style-type: none"> <li>➤ Consider standardizing a taxonomy of carbon credit attributes, strengthening verification methodologies, and streamlining verification processes.</li> </ul> <p>Good Practice 6 – Transparency</p> <ul style="list-style-type: none"> <li>➤ Consider appropriate ways to promote transparency around the creation of carbon credits.</li> </ul> <p>Good Practice 7 – Disclosure</p> <ul style="list-style-type: none"> <li>➤ Consider appropriate requirements to promote complete, accurate, and understandable disclosure of information related to the primary issuance of carbon credits, as well as the transparent disclosure of any associated risks.</li> </ul> <p>Good Practice 8 – Soundness and accuracy of registries</p> <ul style="list-style-type: none"> <li>➤ Consider appropriate requirements around registries, as custodians of carbon credits, to ensure they are accurate, complete, and current in order to serve as reliable sources of information regarding the attributes, issuance, ownership, transfer, and retirement and/or cancellation of carbon credits.</li> </ul> <p>Good Practice 9 – Due diligence</p> <ul style="list-style-type: none"> <li>➤ Consider appropriate requirements to ensure that carbon crediting programs adequately perform know-your-customer (KYC) and due diligence procedures to prevent the use of carbon credits for money laundering.</li> </ul>
<b>III. Secondary Market Trading</b>
<p>Good Practice 10 – Access to VCMs</p> <ul style="list-style-type: none"> <li>➤ Consider requirements or policies to foster open and fair access to secondary market trading on VCMs for interested market participants.</li> </ul>

<sup>11</sup> The Board of the International Organization of Securities Commissions. (2024). "Voluntary Carbon Markets: Final Report." <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD774.pdf>.

<sup>12</sup> The Board of the International Organization of Securities Commissions. (2023). "Compliance Carbon Markets: Final Report." <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD740.pdf>.

<p>Good Practice 11 – Integrity of trading</p> <ul style="list-style-type: none"> <li>➤ Consider requirements to ensure that VCM participants observe high standards of integrity and fair dealing with respect to business activities relating to carbon credits.</li> </ul> <p>Good Practice 12 – Public reports</p> <ul style="list-style-type: none"> <li>➤ Consider requiring trading venues and registries to make public reports that disclose, on an equal basis to all market participants, relevant data regarding trading, including pre- and post-trade price transparency, trading volume, bid-ask spreads, and deliveries of carbon credits.</li> </ul> <p>Good Practice 13 – Pre- and post-trade disclosure</p> <ul style="list-style-type: none"> <li>➤ Consider requiring an entity operating a VCM derivatives exchange or an intermediary, to provide pre- and post-trade disclosures in a form and manner that is the same.</li> </ul> <p>Good Practice 14 – Derivatives standards</p> <ul style="list-style-type: none"> <li>➤ Consider ways to ensure that contract specifications for carbon credit derivatives include sufficient details on the standards by which the underlying credits were certified, the applicable delivery requirements, and procedures for market participants.</li> </ul> <p>Good Practice 15 – Governance framework</p> <ul style="list-style-type: none"> <li>➤ Consider requiring VCM participants to have a comprehensive governance framework with clear lines of responsibility and accountability for the functions and activities they are conducting.</li> </ul> <p>Good Practice 16 – Risk management</p> <ul style="list-style-type: none"> <li>➤ Consider requiring carbon credit intermediaries, marketplaces, and exchanges to have effective enterprise risk management frameworks in place to address any potential operational or technological risks associated with the trading of or provision of services relating to carbon credits.</li> </ul> <p>Good Practice 17 – Conflicts of interest rules</p> <ul style="list-style-type: none"> <li>➤ Consider whether laws and applicable rules within their remit and jurisdiction appropriately address conflicts of interest raised by the issuance, verification, certification, transfer, and retirement of carbon credits.</li> </ul> <p>Good Practice 18 – Enforcement actions</p> <ul style="list-style-type: none"> <li>➤ Consider bringing enforcement actions if there are fraudulent or abusive practices in VCMs, such as false or misleading statements regarding the attributes of carbon credits.</li> </ul> <p>Good Practice 19 – Market surveillance and monitoring of trading</p> <ul style="list-style-type: none"> <li>➤ Consider appropriate ways to conduct market surveillance and trade monitoring to identify fraud, manipulation, price distortion, and/or other market disruptions.</li> </ul> <p>Good Practice 20 – Trading venue resources</p> <ul style="list-style-type: none"> <li>➤ Consider ensuring that trading venues maintain adequate resources to detect and investigate fraudulent or manipulative practices, including, where appropriate, personnel to perform the functions of a Chief Compliance Officer and Chief Regulatory Officer.</li> </ul>
IV. Use, Disclosure of Use and Retirement of Carbon Credits
<p>Good Practice 21 – Disclosure of Carbon Credits Use</p> <ul style="list-style-type: none"> <li>➤ Consider encouraging or requiring disclosures regarding an entity's use of carbon credits to achieve any net GHG emission targets.</li> </ul>

The IOSCO identifies several key vulnerabilities in this report, such as the quality of carbon credits and availability of information, lack of transparency, conflicts of interest across the value chain, and the lack of standardization. With regard to carbon credit quality in particular, the report

shows that multiple stakeholders are concerned at the project level regarding environmental integrity. There has been growing attention on credit quality not only for rating agencies but also for credit buyers. Credit quality standards are expected to be discussed more in the future.

In the United States, the CFTC published the final guidance on the listing of voluntary carbon credit (VCC) derivative contracts.<sup>13</sup> This guidance aims at promoting transparency and liquidity, and the scaling of high-integrity voluntary carbon markets. The CFTC stipulates that designated contract markets (DCMs)<sup>14</sup> should meet the following three conditions relevant to the listing for trading of voluntary carbon credit derivative contracts:

A. A DCM shall only list derivative contracts that are not readily susceptible to manipulation

To make VCC derivatives contracts less susceptible to manipulation, guidance is needed on quality standards (transparency, additionality, permanence and accounting for the risk of reversal, and robust quantification), delivery procedures (governance, tracking, and no double-counting), and inspection provisions (third-party validation and verification).

B. A DCM shall monitor a derivative contract's terms and conditions as they relate to the underlying commodity market

A DCM is responsible for monitoring the integrity of VCC derivative contracts, which must comply with the latest certification standards. Through such monitoring mechanisms, it is possible to detect and prevent price manipulation or distortion.

C. A DCM must satisfy the product submission requirements

A DCM needs to submit certain information regarding VCC derivative contracts, including the terms and conditions of those contracts, to the CFTC.

This guidance does not impose new regulations but rather clarifies the CFTC's expectations on how DCMs should supervise VCC contracts. However, then-Chairman Rostin Behnam announced his resignation after the inauguration of the Trump administration.<sup>15</sup> Some reports indicate that this guidance may be reviewed or even revoked if the CFTC approves final guidance.<sup>16</sup>

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<sup>13</sup> Commodity Futures Trading Commission. (2024). "Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts." <https://www.cftc.gov/sites/default/files/2024/10/2024-23105a.pdf>.

<sup>14</sup> DCMs are CFTC-regulated exchanges and must comply with statutory "Core Principles" that are set forth in the Commodity Exchange Act (CEA) as well as applicable CFTC rules and regulations.

<sup>15</sup> Commodity Futures Trading Commission. (2025, January 7). *Chairman Rostin Behnam Announces Departure from CFTC*. <https://www.cftc.gov/PressRoom/SpeechesTestimony/behnamstatement010725>. The position of the chairman is still vacant.

<sup>16</sup> For example: Malyshev, Peter. (2025, January 16). CFTC Under Trump Administration Will Focus More on Existing Laws. *Bloomberg Law*. <https://news.bloomberglaw.com/us-law-week/cftc-under-trump-administration-will-focus-more-on-existing-laws>. Szabo, Mike. (2025, February 4). Republican senators seek to block US CFTC oversight of voluntary carbon market. *Carbon Pulse*. <https://carbon-pulse.com/365031/>.

### 3. An interim report on coal-free transition credits<sup>17</sup>

As coal-fired power generation produces carbon dioxide, transition credits for the early retirement of coal power stations are gaining more attention. The Transition Credits Coalition (TRACTION) was established by the Monetary Authority of Singapore (MAS) at COP28 (2023), and it recently published an interim report on transition credits.<sup>18</sup> The report clarifies the challenges and opportunities of transition credits from the perspectives of (a) supply, (b) risk analysis, and (c) demand.

(a) Supply: multiple transition credit methodologies have emerged globally. Existing transition credit methodologies adopt either a project-based approach (which credits emissions reductions from the early retirement of individual coal-fired power plants) or a sectoral approach (which credits emissions reductions across the power sector at the national or sub-national level). Both approaches have high integrity standards and guidelines for a just transition. The TRACTION will identify common factors that would increase integrity from different approaches and use them to expand the transition credits in the future.

(b) Risk analysis: the use of transition credits is complex and entails multiple risks. Despite the need for urgent financing, there is a frequent timing mismatch when cash flow from the sales of transition credits is only generated after the verification of emissions reductions. This mismatch is particularly significant in Asia, where coal-fired power plants are young in terms of operational life. To avoid such risks, the report proposed combining conventional financing instruments (e.g., debt and/or equity) and innovative financing instruments (e.g., carbon credits insurance and advance market commitments).

(c) Demand: high integrity and the credible use of transition credits are prioritized by all buyers. Moreover, transition credits generated from projects related to the buyer's businesses will be more appealing to voluntary buyers. Some companies acquire credits before regulations are introduced, which implies that there is great demand for high integrity credits. The TRACTION will continue to identify relevant market schemes to increase interest from potential buyers. They will also incorporate elements of high integrity and risk mitigation tools to secure demand from buyers.

The report shows a case study of ACEN Corporation (the Ayala Group), which implemented the world's first Energy Transition Mechanism (ETM). The company is involved in many renewable energy power generation projects in the Philippines. The project aims to quickly phase out a 246MW coal-fired power plant owned by South Luzon Thermal Energy Corporation (SLTEC),

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<sup>17</sup> This part is mainly written by Kojima.

<sup>18</sup> Monetary Authority of Singapore. (2024). "Transition Credits Coalition (TRACTION): An Interim Report on the Application of Transition Credits for Accelerated Coal Retirement." <https://www.mas.gov.sg/-/media/mas-media-library/development/sustainable-finance/traction---interim-report---final.pdf>.

one of the ACEN subsidiaries.

The final report of the TRACTION will be released at COP30 in 2025. It will be necessary to monitor the progress of the actual projects. Further updates should be carefully examined.

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