Press release

GFMA and BCG report says pace of adoption and growth of emissions trading schemes is not sufficient to limit global warming to 1.5C

An accelerated scaling of aligned and interoperable carbon markets is needed globally to support more ambitious rates of decarbonization

A new report by the Global Financial Markets Association (GFMA) and Boston Consulting Group (BCG) titled, "**Unlocking the Potential of Carbon Markets to Achieve Global Net Zero**", finds that close to 80% of greenhouse gas emissions are not covered by regulated carbon pricing today. In order to meet the Paris Agreement goals, price levels need to increase to an estimated $50-150/tonne average by 2030 from the current global average of <$5/tonne.

To do this, the report highlights the role and importance of both compliance and voluntary carbon markets (a description of which can be found in the below graphic) to the low-carbon transition.

Steve Ashley, Nomura Head of Wholesale Division and Chairman of GFMA, said: "*Effective carbon pricing in the economy is one of the strongest tools to drive changed outcomes, treating GHG emissions as a time limited resource. Compliance and voluntary carbon markets can play a significant and complementary role and rapid action is required across policymakers, regulators, banks and capital markets participants to ensure the right incentives to economic decision making.*"

Kenneth E. Bentsen, Jr., CEO of GFMA and president and CEO of SIFMA, said: *"Greenhouse gas emissions have increased by 50% over the last 30 years, with the world having warmed by approximately 1°C and an increase of 1.5°C expected within the next few decades. To limit a further temperature rise, a rapid scaling of carbon markets is required in order to mobilize an estimated $100—150+ trillion investment needed across sectors and regions[1]."*

Roy Choudhury, Managing Director and Partner at BCG, said: *"With a 300–500 Gt of total carbon budget left, the next three decades must see a swift decline in emissions down from the current ~50 GtCO2e per annum to a global Net Zero on GHG emissions. Levers will need to be pulled, including a rapid scaling of carbon markets, both in geographic and sectoral coverage, and in ambition/rate of decarbonization."*

The report identifies key data and recommendations for policymakers, market participants, and other key stakeholders to scale deep and liquid carbon markets for improved global and regional pricing effectiveness to significantly accelerate carbon reduction.

The report also highlights the current challenges which the public and private sector need to overcome in order to prioritize the urgent action required to scale carbon markets in the near-term. These challenges include:

- **Further scaling and enhancement of regulated policy-driven carbon pricing mechanisms such as Emissions Trading Systems (ETSs).**
  Despite almost 200 countries having signed the Paris Agreement, the operationalization of this 1.5°C ambition into policy measures, such as ETS initiatives, is insufficient in terms of geographic scope, sectoral coverage, and decarbonization rates. Close to 80% of global greenhouse gas emissions are still not covered by regulated carbon pricing today. Price levels also need to capture true cost of emissions,

[1] As highlighted in GFMA and BCG's previous publication "Climate Finance Markets and the Real Economy https://www.gfma.org/policies-resources/gfma-and-bcg-report-on-climate-finance-markets-and-the-real-economy/

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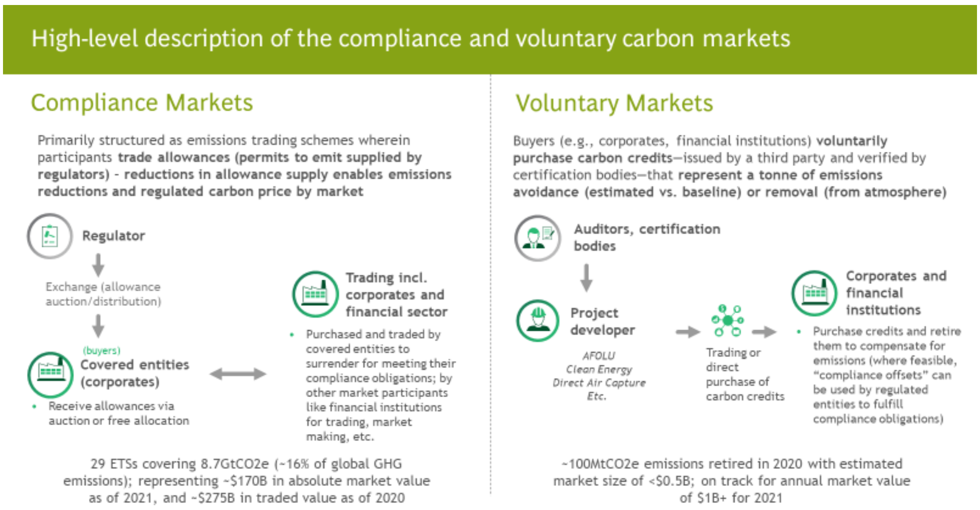
from the current global average of <$5/t$CO_2$ to an estimated $50–150/t$CO_2$ average by 2030. Conservative estimates suggest a need to scale ETSs from ~$170 bn today to $1 tn+ in absolute size before 2030 to achieve the 1.5°C ambition.

- **Developing clear role of the Voluntary Carbon Markets**
  (1) as a transitionary mechanism, until regulated mechanisms take over and ultimately scale down with reducing emissions,
  (2) as a long-term global marketplace for carbon removals for neutralizing residual emissions and pursuing negative emissions, and
  (3) as a complementary mechanism for entities to compensate for their emissions while they pursue decarbonization in their value chains.

  To strengthen trust in the voluntary carbon markets, and to enable it to grow from the current scale of <0.5% global emissions, it is critical to develop stringent and transparent baselining and Measurement, Reporting and Verification (MRV) standards to ensure verifiable "additional" emissions reductions; a regular process to make standards increasingly stringent to ensure that VCM projects maintain additionality.

- **Encouraging greater interoperability driven by the public sector**
  The interoperability between carbon markets is insufficient to meet the demands of investment required to address climate risks. Greater interoperability needs to be driven**:**
  (1) between ETSs where rates of decarbonization are aligned, and
  (2) between ETSs and the voluntary carbon markets through tightly controlled mechanisms—stringent MRV and limits on eligibility and quantity to ensure additionality—would serve to grow the carbon markets and drive additional co-benefits regionally and globally.

  At present carbon markets are very fragmented, which holds back the necessary market growth to meet the G7 and Paris Agreement objectives.



Source: World Bank, Ecosystem Marketplace

The report recommends that banking and capital markets firms can help develop carbon markets through capabilities and product offerings that help market participants in their compliance, decarbonization, risk management, and investment needs. Ultimately, the private sector's role complements the actions of the public sector in addressing the challenges identified within this report.

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About GFMA

GFMA represents the common interests of the world's leading financial and capital market participants to provide a collective voice on matters that support global capital markets. It also advocates on policies to address risks that have no borders, regional market developments that impact global capital markets, and policies that promote efficient cross-border capital flows to end users. GFMA efficiently connects savers and borrowers, thereby benefiting broader global economic growth. The Association for Financial Markets in Europe (AFME) located in London, Brussels, and Frankfurt; the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong; and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian, and North American members of GFMA**.**

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