



## CMIA/ICROA/IETA Position Statement:

### Statement on the suitability of Carbon Credits for investment by the General Public

#### Purpose of this document

This statement is jointly issued by The Climate Markets and Investment Association (CMIA) and The International Carbon Reduction and Offset Alliance (ICROA) & International Emissions Trading Association (IETA). Reducing greenhouse gas emissions by channelling finance to energy efficiency, renewable power, ecosystem protection and other climate mitigation opportunities is critical to maintaining a stable climate. However the associations caution individual investors against using emissions trading instruments, specifically carbon credits, unless they are experienced enough and knowledgeable enough to fully understand the significant risks they face by doing so, and are able to bear the financial losses (which could be the total of sums invested) that could arise if they do elect to invest.

CMIA, ICROA & IETA are industry associations which were created and exist to promote emissions trading as an effective means for business to control pollution at least cost. They represent the interests of over 165 business organisations, spanning the globe, which are involved in market-based programmes to control environmental impacts.

#### Why we are concerned

This statement<sup>1</sup> is issued against the backdrop of a growing number of reports in the press and media of individuals (specifically, 'Unsophisticated Investors') who have lost significant sums of money by investing in carbon credits without fully understanding the risks, and in circumstances where they have not been able to withstand the resulting losses. They may have done so, for example:

- by investing in carbon credits within government-backed programmes such as the UK's Self-investment Pension Plan which accept a wide variety instruments, not all of which are regulated for investment purposes.
- under pressure from so called 'boiler-rooms' -- unscrupulous financial advisors that use high-pressure sales tactics on unsophisticated investors unable to understand or bear the risks of the investment; or,
- by falling prey to fraudulent activities involving spurious carbon investment schemes promising 'sure-fire' returns ("if it sounds too good to be true, it probably is too good to be true").

#### Common misconceptions about the suitability of carbon credits for investment

1. **Misconception:** Carbon credits which are certified or verified by credible third-parties -- such as ICROA endorsed standards including the United Nations Clean Development Mechanism Credits as well as professional and independent organisations such as the American Carbon Registry ,the

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*Climate Action Reserve, the Gold Standard and the Verified Carbon Standard for use by organisations buying and retiring carbon credits to voluntarily offset unavoidable emissions – means they are suitable instruments for investment.*

**Reality:** The certification or verification of carbon credits assures that a real emission reduction has taken place, and that legal title over that reduction can be established so the credit can be retired, transferred or traded between one legal entity and another. It provides no information about the investment quality of the credit.

2. **Misconception:** *The fact that professional financial advisors are not prohibited from offering carbon credits to individuals as investments means that carbon credits are regulated investments and are therefore covered by Government programmes to protect individual investors if and when they are exposed to misleading advice.*

**Reality:** Carbon credits are generally not classed as regulated investments, and losses arising from misleading advice will most likely not be covered by government-backed compensation schemes.

3. **Misconception:** *The fact that carbon credits are used to finance renewable energy and to solve climate change means that their value will increase over time as economic growth causes more pollution and the need to transition to a low-carbon economy intensifies.*

**Reality:** The price of Allowances and Credits are subject to the usual market dynamics of supply and demand, and as a result they can and do rise and fall. For example, in an economic down-turn, emissions drop due to lower production and growth. In such times, political and corporate ambition to lower greenhouse gas emissions may be weakened. These factors can suppress demand for credits, and the price of these instruments can drop – sometimes substantially and rapidly.

4. **Misconception:** *Carbon credits should never be used for investment purposes because they are risky.*

**Reality:** ‘Sophisticated Investors’ – those individual investors who understand the risks and rewards, and who can withstand potential losses have a crucial role to play in providing capital for low carbon projects and channelling finance to enable a transition to a green economy and stable climate.

5. **Misconception:** *If investing in carbon credits is risky, then carbon offsetting is risky and should be avoided.*

**Reality:** Purchasing a carbon offset – “a unit of carbon dioxide-equivalent (CO<sub>2</sub>e) that is reduced, avoided, or sequestered to compensate for emissions occurring elsewhere”<sup>2</sup> - is an appropriate and proper way to use carbon credits to reduce carbon emissions. It means that credits are bought and then retired or cancelled to compensate for an unavoidable greenhouse gas emission.

6. **Misconception:** *The Carbon Market has grown rapidly, and was valued at around US\$175bn in 2011. Therefore, it should be easy to buy and sell carbon credits.*

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<sup>2</sup> <http://www.wri.org/publication/bottom-line-offsets>

**Reality:** Like energy and commodity markets, Carbon Markets have proven to be highly volatile at times, meaning that prices have fluctuated substantially under changing supply and demand. Buying and selling carbon credits designed specifically for non-compliance purposes (also known as voluntary carbon offsetting) can be difficult and sometimes not possible. Both these factors make carbon credits a high risk investment.

### **IETA and CMIA position on sale of carbon credits as investments to the general public**

Our members deem that the sale of carbon credits to individuals for investment who are not qualified to understand and bear the risks of investment should not be allowed.

CMIA and IETA discourage & safeguard against such activities:

1. Our members use 'know your customer' processes to ensure that no member sells carbon credits for investment to unqualified investors, or knowingly works with, sells to, buys from, or enables the transaction of carbon credits for investment purposes to unqualified investors.
2. We report all suspected instances of the above to the appropriate international, national or local police, and national financial regulatory authorities.

The International Carbon Reduction and Offset Alliance (ICROA), a self-regulating body housed within IETA, administers a Code of Best Practice for the voluntary use of carbon credits by businesses and individuals who choose to meet self-imposed reduction targets by purchasing and retiring carbon credits. The Code requires each ICROA member to pledge that it adheres to point (1) above. Each ICROA member is audited annually for compliance against the Code by a qualified audit body. This has been in place since 2008.

### **Where to go for more information**

If you require more information about whether carbon credits are regulated for retail investment in your country -- contact your National Financial Regulator (UK Financial Conduct Authority: 0044 (0)800 111 6768; US Securities and Exchange Commission: 001 212 336 9080); or [click here](#) to receive further advice from the UK's FCA on using carbon credits as an investment product.

If you wish to check the credentials of a financial advisor (UK Financial Conduct Authority: 0044 (0)800 111 6768; US Securities and Exchange Commission: 001 212 336 9080);

If you suspect you have implicated in a fraudulent carbon credits transaction contact your national police or national fraud reporting service e.g. call Action Fraud (the UK's national fraud reporting service) on 0044 (0)300 123 2040.

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