



## Executive Summary

In its capacity as the Code Administrator, the Carbon Market Institute (CMI) is pleased to present the Administrator's response to the Independent Review (the Review) of the Australian Carbon Industry Code of Conduct (the Code). This includes the Administrator's response to the Review's recommendations and a high-level overview of the main recommendations.

## Background: The Independent Review

On 1 July 2018, the Carbon Market Institute (CMI) commenced one of the world's first voluntary domestic Carbon Industry Codes of Conduct, designed to promote market integrity, assure consumer protection, and increase accountability for industry practitioners and service providers across Australia. The Code has been implemented in stages, commencing with the initial Foundation Stage on 1 July 2018. Since 1 July 2020, the Code has been operational, which includes annual self-audit reporting.

The Code has 45 Signatories and 3 Government Partners that have confirmed their support (NSW, Queensland and Western Australia Governments). CMI has continued to strengthen the integrity and transparency of the Australian carbon market and carbon industry. As required by the Code, CMI appointed Vicki Mullen of Finity Consulting, to conduct the second independent review of the Code, and to make recommendations about its future direction and scope.

## Guiding Principles & Assessment Framework

This second Review of the Code was undertaken according to the requirements of the Code and the Terms of Reference for the Review. It reflected legislative or policy changes and evolving industry concerns. This Review aimed to ensure the code remains relevant and consistent with current best practices. The Review sought feedback on a wide range of matters, namely:

- The current scope of the Code and specific Code requirements.
- The administration of the Code, including the Code's auditing, breach handling, governance, and operational procedures.
- The operation and effectiveness of the Code Review Panel.
- The operation and effectiveness of the Code Administrator.
- Strategic issues for the Code, including the role of the Code considering Recommendation 12 of the Chubb Review, the provisions of the Code concerning engagement with indigenous stakeholders, Code facilitation of co-benefits, the interaction of the Code with other standards for carbon markets and regulatory requirements.

The Independent Reviewer undertook 19 formal meetings with stakeholders and received eight formal submissions. The final independent review report was provided to the CMI in May 2024.



## Key Themes from the Independent Review Recommendations

The stakeholder feedback and submissions for this Review highlighted several key themes and issues crucial for advancing the Code. The Review found that the Code's reach has expanded and is being widely incorporated in benchmarking best practices within Australian carbon markets.

A key finding from the Review was the continual evaluation and maturity of the carbon market, which has seen new entrants into domestic carbon markets. From this, the CMI is exploring options to redefine signatory categories to better cater to current and future market participants. This includes examining demand side participants and their relationship with the Code.

The Review found that Signatories and other stakeholders operated concurrently under different crediting schemes. From this, the CMI will incorporate these schemes into a future edition of the Code to better cater to these participants and ensure integrity standards apply across the broader market.

The Review found that terms and definitions in the ACI Code could be improved. The CMI is working to clarify these terms and definitions to ensure better alignment to evolutions in the carbon market. Additionally, the Review provided recommendations to foster transparency, fair bargaining processes, and supporting compliance through education and accreditation schemes.

An overview of each recommendation has been collated into ten themes and is attached to this overview.

## Keystone Reform – Structural separation of Code administration from the CMI

Several stakeholders – including representatives of the CMI Board and the Code Review Panel, support the structural separation of the body responsible for administering the Code from the CMI. Submissions and representations provided as part of the Review noted that this approach will ensure that the administration and governance of the Code are independent and free from any potential conflicts of interest with the CMI and its members. In this regard, a stakeholder raised the need to ensure that confidential/commercially sensitive information provided by Signatories is not inadvertently shared between the Code Administrator and the CMI. Further, structural separation is consistent with arrangements under established industry codes, particularly in the financial services sector, such as the General Insurance Code of Practice and associated Code Governance Committee.

The CMI is pleased to announce that this keystone reform has progressed, including drafting a company constitution for the entity responsible for administering the Code. CMI believes that separating the new Code body from the CMI will enhance market and consumer confidence and ensure that the Code's operations are independent and transparent.

Coupled with the company constitution, the CMI is developing strategies to implement appropriate financial, legal, and resourcing structures to accommodate the Code's continual expansion and establish its relationship with the CMI. This will include engaging with Signatories and other stakeholders on amendments to the Code and governance arrangements for the subsidiary entity. An amended version of the Code and subsidiary entity is expected to launch at this financial year's end.



## Attachment – Overview of Key Recommendations

The Independent Review recommendations have been synthesized below.

### 1. **Enhancing Integrity of Carbon Credits:**

- i) Align where appropriate with leading international standards such as the VCMI Claims Code and Core Carbon Principles for the Voluntary Carbon Market.
- ii) Emphasise integrity standards across all industry participants, irrespective of involvement in specific schemes.

### 2. **Redrafting and Applicability:**

- i) Examine uniform application of core principles and conduct standards to Australian carbon industry participants.
- ii) Redraft to complement legislative reforms, establishing principles alongside regulatory requirements.

### 3. **Adaptability and Consultation:**

- i) Grant discretion for ongoing adjustments to the Code in response to legislative changes, consulting stakeholders without complete reviews.

### 4. **Expanding Scope and Compliance:**

- i) Redraft Section 1.5 to encompass broader services.
- ii) Clarify distinctions between project and advisory services.
- iii) Develop clear compliance guidance for various signatory categories and sectors.

### 5. **Consumer Protection and Engagement:**

- i) Enhance consumer protection standards, particularly for supply-side participants.
- ii) Ensure consistency in obligations across different crediting schemes.
- iii) Review and update specific obligations post-governmental reforms.

### 6. **Administrative Framework:**

- i) Expedite the structural separation of Code administration from industry associations.
- ii) Develop new code body operations guidelines, including legal structure and administrative and financial arrangements.
- iii) Establish streamlined compliance processes, annual attestation requirements, and transparent reporting mechanisms.



## 7. Promoting Compliance and Oversight:

- i) Implement effective compliance monitoring mechanisms, including desktop audits and inquiries.
- ii) Clarify the new Code body's role in handling complaints and referring serious breaches to regulators.
- iii) Develop an annual compliance strategy and publicly disclose complaint data and investigation outcomes.

## 8. Supporting New Entrants and Market Development:

- i) Develop a revised fee framework considering signatory categories and business sizes.
- ii) Provide startup funding and financial assistance for the new Code body.
- iii) Encourage Code adoption among industry members and provide necessary compliance resources.

## 9. Engagement with Regulatory Developments:

- i) Engage with governmental bodies and stakeholders to align Code revisions with regulatory changes.
- ii) Establish clear obligations regarding Free, Prior, and Informed Consent (FPIC), ensuring robust engagement with First Nations people.

## 10. Stakeholder Consultation and Transparency:

- i) Consult extensively with signatories and stakeholders on Code revisions and incorporate relevant principles from regulatory guidelines.
- ii) Prioritise transparent engagement with landholders and stakeholders throughout project negotiations.