



APEC BUSINESS ADVISORY COUNCIL

ABAC Recommendations to APEC Finance Ministers

Scaling Up the Market for Carbon Asset-Backed Securities (CABS):

A Structured Carbon Asset Monetization Framework for APEC Economies

ABAC / APFF Sustainable Finance Development Network (SFDN) | 2026

Introduction

The APEC Business Advisory Council (ABAC) presents these recommendations to APEC Finance Ministers and Senior Finance Officials on the scaling of Carbon Asset-Backed Securities (CABS) — regulated financial instruments backed by high-integrity, standardized carbon assets. These recommendations were developed with inputs from a dedicated APFF Sustainable Finance Development Network workshop (SFDN), co-organized with CAF — Development Bank of Latin America and the Caribbean, based on the perspectives of regulators, policymakers, multilateral institutions, independent experts and market practitioners.

These recommendations complement and build directly on ABAC's 2024 recommendations to APEC Finance Ministers on Interoperable Voluntary Carbon Markets (VCMs), which established the APEC Interoperable VCM Pathway Initiative in 2025. CABS recommendations extend that foundational work into structured finance, addressing the institutional and sovereign capital pools that traditional VCMs cannot reach. The two tracks are complementary and share a common underlying asset — the carbon credit — and are designed to be governed through a coordinated implementation structure.

Crucially, these structured products are only viable to the extent that committed demand exists to support them. Demand creation is the foundational condition upon which all product recommendations depend. Consequently, APEC economies must treat CABS development as a sequenced market-building agenda rather than solely a product-innovation exercise. Experience from capacity-building programmes in the UK and other leading jurisdictions demonstrate that investable carbon-backed instruments depend first on legal certainty, integrity standards, robust MRV-registry architecture, and clear supervisory treatment.

These recommendations therefore reflect a deliberate sequencing: APEC economies should prioritize building the enabling layer — legal certainty, integrity, data and registry infrastructure,

supervisory clarity, and demand-side policy signals that would then support scaling securitisation and sovereign Article 6 products. The tiered CABS portfolio framework, and the structured finance instruments it enables will achieve their full potential only once this foundational architecture is in place. Public-sector coordination should focus on legal certainty, integrity, interoperability, and demand-side policy, while public-private workstreams support pilot execution, market infrastructure design, and investment mobilisation.

The recommendations are organized into four Focus Areas with corresponding Building Blocks and Action Items.

Executive Summary

This report provides a comprehensive blueprint for finance ministries to transition carbon markets from fragmented voluntary venues into deep, liquid, institutional-grade financial systems. By sequencing the development of the underlying enabling layer ahead of product innovation, the framework ensures market credibility, mitigates systemic risk, and satisfies strict institutional investment mandates.

- Focus Area I: Legal, Regulatory, and Market Infrastructure: Establishes the core architecture by defining carbon assets under property law, clarifying regulatory oversight, integrating MRV-registry systems, and deploying targeted demand-side policies like blended finance.
 - Focus Area II: Carbon Market Integrity and Standards: Endorses the Core Carbon Principles (CCPs) as a baseline quality standard, creates robust corporate disclosure expectations, and leverages digital technologies to maximize market transparency.
 - Focus Area III: Holistic + Tiered CABS Framework Approach: Outlines a segmented menu of capital market instruments tailored to distinct buyer types, ranging from diversified portfolio procurement for corporate buyers to asset-backed securitization for institutional investors and Article 6 sovereign instruments.
 - Focus Area IV: Cross-Border Coordination and Interoperability: Configures inter-economy task forces, anti-fragmentation measures, and cross-border regulatory sandboxes to facilitate regional capital flows.
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FOCUS AREA I — Legal, Regulatory, and Market Infrastructure

Establishing the foundational legal and market architecture for carbon-backed instruments to attract institutional capital at scale

One of the most critical regulatory gaps for scaling carbon markets is legal certainty around the nature and treatment of carbon credits. Without clear property rights, insolvency treatment, netting rules, and collateralization frameworks, carbon markets cannot function as institutional asset classes. Scaling CABS is not only about mobilising capital — it is equally about allocating and mitigating risk. Risk management frameworks, insurance and guarantee instruments, anti-fraud controls, and market conduct standards must be embedded into the architecture of carbon-backed financial markets from inception. ABAC recommends that APEC Finance Ministers prioritize this foundational legal and market infrastructure work as a precondition for scaling all CABS tiers.

I.1 Legal Certainty — Defining the Carbon Credit as a Legal Asset

Context

The legal nature and treatment of the carbon credit itself — not just the contract around it — is one of the critical gaps. Each jurisdiction must answer foundational questions through legislation and regulation before downstream market development can proceed. This challenge extends beyond carbon credits to all environmental commodities (biodiversity credits, RECs), pointing to a systemic gap in environmental commodity law across most jurisdictions.

Action Items for Finance Ministers

- ▶ **Conduct a jurisdictional gap analysis** on legal certainty for carbon credits, explicitly addressing four distinct legal dimensions:
 - (i) Asset law: Defining what a carbon credit is as a matter of property rights, including its legal definition, ownership, and transferability;
 - (ii) Market law and regulation: Outlining who may issue, trade, hold, settle, retire, or securitise carbon units, and under what supervisory framework;
 - (iii) Claims and Disclosure Law: Governing what corporate actors can say regarding credit use, retirement, and climate impact, including corporate-use guidance, disclosure expectations, and permitted claims language to prevent greenwashing and ensure market conduct.
 - (iv) Insolvency, Collateral, and Netting Treatment: Establishing clear rules for structured finance, determining how carbon units are treated in insolvency proceedings, whether they can be netted as easily as other underlyings, and whether they can serve as collateral for financing and lending.
- This four-part framework should inform national legislative reform programmes and inter-ministerial working groups.

- ▶ **Engage with UNIDROIT's global legal standard-setting initiative:** Align domestic legal reforms with UNIDROIT's global standard-setting initiative and its emerging principles for environmental commodity transactions. UNIDROIT is currently developing approximately 25 principles for policymakers on local legal framework decisions regarding carbon credits — and incorporate relevant principles into national legislative and regulatory reforms.
- ▶ **Engage with IOSCO's voluntary carbon market regulatory framework** to adopt compatible regulatory classification and categorization approaches, ensuring APEC regulatory treatment is internationally coherent and avoids fragmentation.
- ▶ **Convene Inter-Ministerial Working Groups:** Bring together Ministries of finance, environment, energy, mining, and justice to harmonize cross-cutting legal updates (carbon credit legal reform) ensuring insolvency codes and property rights align seamlessly. Insolvency code amendments fall under justice ministries; commodity treatment under financial regulators; environmental asset classification under environment ministries — these ministries must be coordinated.
- ▶ **Develop cross-border contract standardization frameworks:** Support cross-border contract standardization frameworks for verified carbon credits and compliance units, drawing on existing market standards such as ISDA documentation, Transactions in verified carbon credits and compliance credits should be endorsed by the legal and regulatory underpinning of each participating jurisdiction.

1.2 Market Infrastructure — Registries, MRV, and Settlement

Context

Carbon market infrastructure must be developed to match the standards of mature financial markets. Current registries often lack interoperability, credibility, transparency, and market liquidity. MRV systems remain fragmented and built separately from registry infrastructure driving up transaction costs and inflating verification risks. Without integrated, auditable, institutional-grade infrastructure, investors spend excessive time determining whether they are comparing equivalent units, risks, and claims, which prevents them from scaling capital allocation with confidence.

Action Items for Finance Ministers

- ▶ **Integrate Registries and MRV Systems:** Mandate that registries and MRV architectures be built and integrated together, not separately, operating as a single, unified control system. This system must feature full auditability, clear unit status labels, and machine-readable data models capable of supporting transfer, retirement, assurance, disclosure, and structured-finance applications. Minimum data standards should cover methodologies, monitoring reports, verification systems, issuance records, and retirement evidence — with outputs accessible and verifiable by investors, regulators, and market participants alike.
- ▶ **Enforce Financial Market-Grade Legal Certainty:** Ensure registry systems provide absolute legal clarity on transfer finality, account holder identity, jurisdiction of transfer,

system-level rules, and institutional custody arrangements.

- ▶ **Adopt and promote Exchange Listing Models for carbon credits:** Promote carbon credit listing models on established venues that embed strict disclosure obligations, formal admission rules, and oversight mechanisms, recognition of qualifying standards bodies, and explicit disclosure of intended credit use, utilizing frameworks like the London Stock Exchange Voluntary Carbon Market designation as a benchmark.
- ▶ **Engage Securities Regulators and Stock Exchanges:** Position securities regulators and stock exchanges as active supervisors of carbon market transparency, market governance and ongoing admission standards.

1.3 Demand-Side Policy Architecture — Creating the Financial Rationale

Context

Demand is foundational: it creates the revenue stream that makes carbon projects financeable, which in turn enables quality supply. Current corporate demand is thin and inconsistent. The circular trap — where weak demand prevents financing, absent financing prevents quality supply, and absent supply reinforces weak demand — can only be broken by deliberate demand-side policy architecture. Policymakers possess direct tools to address this challenge.

Action Items for Finance Ministers

- ▶ **Where possible, link Voluntary Carbon Credits to Compliance Obligations:** Allow high-integrity voluntary carbon credits to fulfill a percentage of domestic compliance liabilities, following Singapore's precedent, to anchor a persistent financial rationale for carbon credit procurement grounded in compliance cost reduction rather than reputational benefit alone.
- ▶ **Establish Direct Government Procurement frameworks for carbon credits:** Deploy sovereign offtake agreements for authorized mitigation outcomes to signal market stability and provide bankable revenue lines for project developers.
- ▶ **Explore Buyers Club Models:** Aggregate corporate demand through shared procurement models that subsidize, provide seed capital to standardize MRV processes, lowering barriers to entry and scaling regional transactional volume.— reducing transaction costs for buyers and creating a critical mass of demand that justifies market infrastructure investment. Monitor the EU's current exploration of this model.
- ▶ **Anchor Institutional Buyers:** Guide public pension funds and sovereign wealth funds, where aligned with their fiduciary mandates, to incorporate carbon-backed securities into their asset allocations and to consider committing to carbon-backed instrument procurement, transforming the perceived and real risk profile of these markets.
- ▶ **Deploy Blended Finance and De-Risking Instruments:** Shift the risk-return equation for institutional capital by actively deploying public funds into first-loss positions in blended finance structures, guarantee structures, and risk-transfer facilities. Public, blended finance

resources should target early-stage project preparation, pipeline aggregation, and technical assistance for legal and MRV readiness, collaborating with MDBs where sovereign capital is unavailable, and provide risk-transfer facilities designed for investable pilots.. These should be seen as an interim measure (not permanent subsidy) to shift the risk calculation and unlock institutional financing.

FOCUS AREA II — Carbon Market Integrity and Standards

Building the integrity architecture that underpins confidence in carbon assets across all tiers

Integrity is not an optional compliance overlay — it is the foundation upon which all carbon-backed financial products depend. Without verifiable, science-based quality standards, carbon markets cannot achieve the fungibility, comparability, and risk-assessment capabilities required for institutional capital. ABAC recommends that APEC Finance Ministers take a clear, active role in endorsing and communicating high-integrity standards.

II.1 High-Integrity Standards — Endorsement of Core Carbon Principles (CCPs)

Context

The Core Carbon Principles (CCPs), administered by the Integrity Council for the Voluntary Carbon Market (ICVCM), provide a universal standard for high-integrity carbon credits. CCP-labeled credits already trade at a measurable price premium over non-aligned credits, and approximately 40% of new credits issued are now CCP-labeled — reflecting growing market recognition that quality matters for capital allocation decisions. Without CCP-equivalent standards, markets cannot achieve fungibility, comparability, or the risk assessment needed for institutional capital.

Action Items for Finance Ministers

- ▶ **Formally Endorse the Core Carbon Principles (CCPs):** Adopt the CCPs as the baseline quality standard for carbon credits within APEC jurisdictions, sending a clear and consistent signal as to what qualifies — through independent, science-based thresholds — as a high-integrity underlying carbon asset. The CCPs set a solid, rigorous floor for carbon asset quality from which companies could be encouraged and rewarded to compete on or above, scaling a competitive market dynamic.
- ▶ **Require Granular Disclosures:** Mandate full transparency and data consistency for traded or regulatory compliance credits, requiring clear disclosure of methodology, project type, vintage, co-benefits, and host-country authorization status for any carbon credit traded or used for regulatory compliance within APEC economies.
- ▶ **Enable Cross-Border Standards Interoperability:** Ensure that CCP-aligned credits from one APEC economy are recognized and accepted across others, preventing fragmentation and unlocking regional market depth.
- ▶ **Engage with ICVCM's Continuous Improvement Work Programs (CIWPs):** Participate actively in the ICVCM's Continuous Improvement Work Programs to help shape evolving global benchmarks on permanence, Paris Agreement alignment, and sustainable development — to ensure APEC economies benefit from and contribute to the evolution of best practices in carbon market standards.

II.2 Demand-Side Integrity — Moving from Reputational to Financial Rationale

Context

Corporate demand for carbon credits has shifted from primarily reputational motives toward business cases grounded in compliance cost reduction, science-based targets (SBTi), and regulatory hedging. Markets that rely solely on reputational benefits are structurally fragile and vulnerable to volatility (scandals and inconsistent in their signaling to project developers). Companies are seeking clear frameworks that codify the financial and strategic rationale for carbon asset utilization.

Action Items for Finance Ministers

- ▶ **Develop National Corporate Use Frameworks:** Provide (develop and consistently communicate) clear guidance on the permissible and encouraged use of carbon credits within corporate climate transition plans, establishing the regulatory predictability required to deploy capital without litigation risk.
- ▶ **Coordinate Regional Corporate-Use Guidance:** Align corporate disclosure expectations, corporate-use rules, and permitted climate claims language across APEC economies. Establishing regional convergence on what companies can claim regarding carbon assets eliminates the reputational and regulatory fragmentation that currently suppresses corporate demand.
Align corporate climate obligations with carbon market instruments: Explore how existing regulatory compliance frameworks can link to voluntary carbon credit use, following Singapore's precedent of linking voluntary credits to compliance obligations.
- ▶ **Issue Government Endorsements:** Create clear government validation mechanisms or "seals of approval" for qualifying carbon frameworks, giving companies the confidence to procure high-integrity credits as part of their corporate strategies.
- ▶ **Promote Inter-Ministerial Communication and Alignment:** Align finance ministries, environmental ministries, and financial regulators to ensure a cohesive domestic narrative and communication to markets, regarding the integration of carbon credits into broader decarbonization strategies.
Ministries should be speaking the same language on what carbon credit use means and how it relates to actual decarbonization commitments.
- ▶ **Coordinate explicitly on Corporate-use Guidance, Disclosure Expectations, and Permitted Claims Language** across APEC economies: Ensure that what companies can say about their use of carbon credits, how those credits must be disclosed, and what climate impact claims are permissible is coherent and consistent across the region. Regulatory fragmentation in this area creates reputational and legal uncertainty that suppresses corporate demand; convergence on common guidance frameworks strengthens market confidence and enables cross-border procurement.

II.3 Technology as a Force Multiplier for Integrity

Context

Technology is a force multiplier for market integrity. Continuous digital MRV technologies (satellite monitoring, soil sensors) enable SME access and provide the auditability that institutional investors and regulators require. Technology-enabled integrity should be integrated into market architecture from the outset, not added retroactively.

Blockchain/Distributed ledger technology (DLT) provides an immutable, transparent, and decentralized ledger for tracking the entire lifecycle of a carbon asset—from initial issuance through transfer to final retirement—preventing double-counting, minimizing fraud, and ensuring real-time settlement across interconnected registries

Action Items for Finance Ministers

- ▶ **Support continuous digital MRV technologies integration:** Incorporate digital technologies (including soil sensors, satellite monitoring, IoT, and real-time data platforms and feeds) directly into national carbon credit certification frameworks to complement and streamline costly periodic third-party verification.
 - ▶ **Recognize Tokenized Carbon Assets:** Provide clear digital asset classifications for blockchain-minted and tokenized carbon units within national regulatory frameworks, ensuring digital delivery does not create unintended barriers to high-integrity carbon market participation.
 - ▶ **Promote Interoperable Digital Carbon Registries:** Support the technical alignment of digital registries across APEC jurisdictions, ensuring smooth data translation and cross-border retirement tracking.
 - ▶ **Leverage Open-Access Data Technology Platforms to enable global transparency:** Utilize public technology platforms to ensure global transparency for measured carbon sequestration, allowing any ecosystem participant ecosystem (investor, buyer, regulator, or citizen) to independently verify carbon claims.
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FOCUS AREA III — Holistic + Tiered CABS Framework Approach

Establishing a comprehensive, tiered menu of carbon asset monetization alternatives for APEC jurisdictions

ABAC recommends that APEC Finance Ministers recognize and enable tiered approaches of Carbon Asset-Backed Securities frameworks, designed to mobilize distinct capital pools — sovereign, institutional, corporate, and supply-side — while complementing rather than replacing existing VCM and compliance market mechanisms.

Strategic Rationale

While the Interoperable VCM Pathway Initiative addresses Tier I corporate offsetting, it cannot bridge the multi-trillion-dollar climate finance gap alone. Global institutional and sovereign capital demands regulated financial assets — not offsets. A tiered approach is significantly more effective than any single market type, allowing jurisdictions to segment global capital and unlock the full spectrum of private and public finance for the climate transition.

III.1

Tier I Enhancement — Supply-Side Integrity and Corporate Offsetting – Diversified, managed portfolios.

Context

Traditional VCMs are hampered by fragmented, siloed infrastructure and inconsistent integrity. A diversified, managed portfolio model demonstrates how integrated, enterprise-grade platforms — with integrity built into the architecture from the outset — can provide curated, risk-adjusted portfolios of high-integrity carbon credits for large corporate buyers. Under this model, buyers are purchasing a diversified, managed portfolio of credits rather than individual credits from individual projects, and this diversification reduces risk and improves quality assurance in the same way an index fund reduces risk compared to picking individual stocks

Action Items for Finance Ministers

- ▶ **Support Portfolio-Based Approaches:** Formally recognize and support portfolio procurement approaches that at minimum meet recognized quality standards and in some cases apply additional systematic integrity frameworks across relevant dimensions such as climate impact, certification quality and principled durability, additionality, and future delivery risk.
- ▶ **Signal Credibility to Corporate Buyers:** Clarify that purchasing high-integrity, portfolio-based carbon assets — assessed against verifiable quality frameworks — constitutes a

credible and responsible climate transition strategy, that reduces regulatory and reputational exposure.

- ▶ **Enable Enterprise-Grade Ecosystems:** Support the development of enabling ecosystems for enterprise-grade carbon platforms within APEC jurisdictions. Provide clear guidance from financial regulators on the treatment of curated, portfolio-based carbon products within corporate accounting and financial systems and products.

III.2 Tier I-B — SME Monetization and Supply-Side Integrity and Access

Context

Small and medium-sized enterprises — particularly in agriculture — are largely excluded from carbon markets due to high verification costs, opaque ex-ante estimation methods, and the absence of accessible platforms. Solutions to address SME challenges include aggregation platforms that pool many smallholders under a single verification, simplified methodologies with lower documentation requirement, reduced verification frequency for low-risk project types, as well the use of real-time CO₂ measurement technology and blockchain that convert realized carbon absorption into high-integrity, tokenized digital assets at a cost point accessible to SMEs.

Action Items for Finance Ministers

- ▶ **Address Cost-Related Barriers:** Back aggregators and financing mechanisms designed to minimize the upfront costs and registration hurdles unique to SMEs.
- ▶ **Adopt Measurement-Based Digital Frameworks:** Support carbon credit protocols that substitute costly ex-ante estimates with continuous digital MRV (soil sensors, satellite monitoring), reducing the structural compliance burden for SME and agricultural participants.
- ▶ **Enable Monetization of Realized Sequestration:** Adjust domestic policies and regulatory frameworks to allow SMEs and agribusinesses to monetize verified carbon absorption, creating recurring revenue streams that bolster rural economic resilience and which could finance and support their transition to sustainable practices.
- ▶ **Engage Multilateral Development Banks (MDBs):** Coordinate with MDBs and organizations like the IFC SME Finance Forum to implement targeted carbon asset monetization framework pilot programs that channel carbon asset finance directly to agricultural SMEs in APEC Economies.
- ▶ **Utilize Blockchain Transparency:** Leverage ledger technologies to maintain full auditability, real-time tracking, and cross-border compatibility and interoperability with national regulatory registries.

Context

Institutional investors — pension funds, asset managers, and sovereign wealth funds — require regulated, balance-sheet-eligible financial instruments. Since they can only allocate to regulated financial instruments, carbon credits need to be packed into securities that meet those requirements. Existing models demonstrate a pathway from voluntary carbon markets to regulated securities, converting carbon credits into CUSIP/ISIN-eligible instruments through a structured finance architecture. Attributes driving institutional demand for securitization include capital markets integration, legal standing and authorization, environmental integrity, transparency and enforcement, SPV structure, and compliance and accounting readiness.

Action Items for Finance Ministers

- ▶ **Establish Regulatory Pathways for Securitization:** Authorize clear legal avenues for packaging carbon credits into standardized, balance-sheet-eligible carbon-backed notes within APEC jurisdictions
- ▶ **Set Clear Listing and Disclosure Requirements:** Work with securities regulators and stock exchanges, in line with IOSCO guidelines (voluntary carbon market regulatory recommendations paper), to define market listing rules for regulated carbon-backed securities, ensuring explicit disclosures on whether underlying credits will be sold, retired, or distributed.
- ▶ **Endorse Special Purpose Vehicle (SPV) Frameworks:** Formulate standardized SPV frameworks for carbon asset securitization that ensure bankruptcy-remote protection, repeatable legal issuance, and definitive tax classification under applicable national regimes.
- ▶ **Provide Definitive Accounting Treatment:** Issue explicit accounting, reporting and auditing guidance and treatment under the applicable framework in each jurisdiction so institutional investors can classify, value, and report carbon-backed securities with confidence, enabling balance-sheet treatment of carbon-backed securities and seamless integration into sustainability-linked finance portfolios.
- ▶ **Align the Four Core Regulatory Areas:** Harmonize the legal architecture across four targeted areas of legal and regulatory alignment to unlock CABS issuance:
 - (1) Property Rights of Carbon Outcomes: legal recognition of carbon outcomes as transferable property rights;
 - (2) Sovereign NDC Registry Integration; streamlined sovereign authorization infrastructure and registry integration with NDC accounting;
 - (3) Institutional Custody and Settlement Rules: financial market access eligibility for institutional issuance, custody and settlement
 - (4) SPV Tax Treatment: definitive tax and accounting certainty for SPV structures.

Context

Developing economies have significant natural carbon assets and climate commitments but lack the financing to deliver on them. Article 6 allows governments to convert those commitments into tradeable sovereign securities that attract international investment, allowing them to attract foreign direct investment and channel development finance, without requiring traditional sovereign debt. At the sovereign level, a new asset class is emerging around Internationally Transferred Mitigation Outcomes (ITMOs) — Article 6-authorized mitigation outcomes that already command price premiums. Existing models provide data integrity and the Article 6 financial wrappers for governments seeking to transform national environmental assets and NDC ambition into such tradeable sovereign securities.

Action Items for Finance Ministers

- ▶ **Deploy Article 6 as a Strategic Policy Lever:** Treat Article 6 authorization as a crucial macroeconomic mechanism that dictates domestic asset valuation, introduces sovereign backing, secures international compliance eligibility and provides a clear international accounting framework. Treating Article 6 authorization not merely as an accounting step but as a strategic policy lever allows to clearly determine who captures value from national carbon assets and at what price.
- ▶ **Optimize Bilateral vs. Centralized Pathways:** Tailor national strategy, distinguishing between Article 6.2 and 6.4 pathways, and developing economy-specific strategies accordingly, using Article 6.2 bilateral agreements to provide structural flexibility, and Article 6.4 centralized frameworks to enable and maximize liquidity and market scale.
- ▶ **Build Supply-Economy Readiness:** Build Article 6 readiness systematically. Utilize project preparation instruments, such as the IDB's NDC Pipeline Accelerator, to conduct feasibility studies, to build standardized project design, sound project finance structures, and robust private-sector capacity for Article 6 participation.
- ▶ **Anchor Buyer-Economy Demand:** Develop sovereign procurement frameworks for authorized mitigation outcomes, and bilateral cooperation agreements with supply economies to establish predictable, bankable demand signals that anchor long-term market credibility.
- ▶ **Embed Carbon Value into Concessional Finance:** Explore mechanisms that link carbon asset performance directly to the cost of capital in concessional loans, mirroring transition models utilized in Chile (coal phase-out) and the Dominican Republic (coal transition investment plan).
- ▶ **Support Programmatic Article 6.4 Approaches:** Aggregate multiple disparate carbon mitigation activities under unified rulebooks (shared rules) to drive down transaction costs, create predictable issuance profiles and the portfolio-level scale required by institutional capital — which demands portfolio-level engagement, not one-off projects.

FOCUS AREA IV — Cross-Border Coordination and Interoperability

Building the inter-jurisdictional architecture for articulating a scalable, liquid, and interoperable APEC carbon market

Carbon markets cannot achieve scale, liquidity, or fungibility within individual jurisdictions alone. Fragmented legal systems, divergent standards, and disconnected registry infrastructure make credits difficult to compare, pool, and trade across borders. ABAC recommends that APEC Finance Ministers prioritize cross-border coordination as a strategic imperative — building the enabling environment that allows the articulation of high-integrity carbon assets to flow across the region.

IV.1 Inter-Ministerial and Inter-Economy Coordination

Action Items for Finance Ministers

- ▶ **Establish Joint Policy Task Forces:** Create formal working linkages between finance and environmental ministries to ensure that demand-side economic policies align tightly with climate goals, positioning finance ministries as active market co-architects — not passive observers — in carbon market policy..
Establishing joint task forces between both ministries ensures coherent consistent signaling and communication to markets.
- ▶ **Deploy Public-Sector Stakeholder Networks:** Form cross-economy networks across APEC Economies with designated local focal points to coordinate implementation of ABAC recommendations, leveraging platforms such as the APEC FMP Sustainable Finance Initiative for capacity building and experience sharing.
Local focal points are to participate in public/private collaboration programs articulating ABAC recommendations, ensuring fluid communication and promoting cross-jurisdictional consistency.
- ▶ **Enforce Consistent Inter-Agency Language:** Maintain structured communication between internal financial regulators, central banks, and environmental agencies to present a unified regulatory stance to the marketplace.
Promoting inter-ministerial communication and alignment specific to carbon market strategy, ensures that finance ministries, environment ministries, and financial regulators speak the same language — on standards, product treatment, and policy direction — before communicating to markets.
- ▶ **Conduct a Policy approach Stocktake:** Complete a structured categorization of existing domestic compliance frameworks, offset models and carbon pricing mechanisms (e.g., Colombia's domestic offset framework) to identify best practices and uncover opportunities for regional convergence.

IV.2 Regional Interoperability and Anti-Fragmentation Measures

Context

Today, each piece of carbon market infrastructure works reasonably well in isolation — but there are few meaningful connections across jurisdictions. Credits issued under different standards, verified under different methodologies, governed under different legal systems, and registered in disconnected registry systems cannot be pooled, compared, or traded efficiently. This is the interoperability bottleneck.

Action Items for Finance Ministers

- ▶ **Align with the Coalition to Grow Carbon Markets:** Partner with the CGCM, launched by Kenya, Singapore, and the UK, using the APFF SFDN and APEC FMP Sustainable Finance Initiative (convened by Peru's Ministry of Economy and Finance) as connective platforms to bridge demand-side policies and enabling environment measures.
- ▶ **Promote Mutual Recognition of Standards:** Enact regulatory agreements that recognize CCP-aligned high-integrity carbon credits across APEC economies, drastically reducing duplicate due diligence for cross-border transactions. Promote alignment to international high-quality standards across jurisdictions.
- ▶ **Build on Existing Regional Frameworks:** Leverage established structures like the ASEAN Common Carbon Framework (ACCF) as foundational blocks for a broader APEC interoperability architecture, to avoid duplicating parallel or competing regional architectures.
- ▶ **Embed IOSCO Regulatory Best Practices:** Incorporate IOSCO's voluntary carbon market recommendations into domestic frameworks to achieve oversight consistency and avoid conflicting regional mandates and competing or incompatible oversight regimes.
- ▶ **Establish Pilot Cross-Border Corridors:** Form target trade corridors featuring pre-agreed rules: digital MRV parameters, linked data registries, clear title transfer and retirement rules, and standardized risk-mitigation toolkits— creating jurisdictions where the rules are known and transparent for all participants.

IV.3 Pilots, Sandboxes, and Proof-of-Concept Transactions

Context

Moving from policy ambition to market execution requires demonstrable proof-of-concept transactions. Each completed pilot reduces perceived risk, generates replicable investment documentation, builds institutional capability, and signals to global investors that the market is real. A small number of well-governed pilot transactions, producing standardized investment packs, is more valuable than broad but shallow market development.

Action Items for Finance Ministers

- ▶ **Launch Target Sandboxes and Pilots:** Initialize a focused set of regulatory sandboxes for carbon-backed financial instruments. Every pilot must produce a comprehensive, **standardized investment pack** that explicitly details: the methodology pathway, the digital MRV plan, expected issuance profiles, risk mitigants, standardized contract structures, due diligence tools, and integrated risk-transfer instruments. Cross-border pilots for regulated carbon-backed instruments allow moving from high-level ambition to well-governed transactions.
- ▶ **Replicate Advanced Sandbox Models:** Look to established models like the UK Financial Conduct Authority (FCA) sandbox to design cross-border regulatory testbeds for structured carbon assets and carbon-backed instruments.
- ▶ **Design APFF-Supported Tier Pilots:** Collaborate with institutional tier providers to execute localized, capital-tier-segmented portfolio offerings per participating jurisdiction, developing local proofs-of-concept and working toward a structured, capital tier-segmented portfolio offering per jurisdiction.
- ▶ **Generate Demonstration Effect Data:** Mandate that all pilot executions publish feasibility and impact data to lower perceived risk profiles, smoothing the pathway from local exchange listing to global institutional investor liquidity and eventual index inclusion. Ensure pilots generate demonstration effect and replicability data,
- ▶ **Integrate with the VCM Pathway Initiative:** Share underlying infrastructure and coordinate through a single, unified secretariat to prevent duplication and maximize institutional efficiency.

Conclusion

Carbon markets are at an inflection point. The policy, standards, and financial architecture needed to scale high-integrity carbon assets is converging — but execution requires deliberate, coordinated action by finance ministers and their counterparts across government, markets, and multilateral institutions.

These recommendations define a strategic pathway through which APEC economies can collectively position themselves as global leaders in next-generation carbon finance — offering a complete carbon finance ecosystem that mobilizes sovereign, institutional, corporate, and supply-side capital into the climate transition.

By acting on these recommendations, APEC Finance Ministers will not only unlock the climate finance potential of their own economies — they will also provide the foundational market

infrastructure that makes every tier of carbon-backed financial instrument credible, investable, and scalable at regional and global level. Implementation should be structured as a **phased market-development programme** rather than a single standard-setting exercise: building legal certainty and integrity foundations first, developing registry and MRV infrastructure in parallel, and scaling structured finance instruments and sovereign Article 6 products as the enabling architecture matures. This work, in turn, will provide greater visibility, traction, momentum, and support the existing initiatives, such as the Coalition to Grow Carbon Markets and ABAC Interoperable VCM Pathway Initiative and contribute to their ultimate goals.

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