

TERMS OF REFERENCE

LSFI Voluntary Carbon Credits and Carbon Markets Taskforce in partnership with ALFI

1. Background and Rationale

Voluntary Carbon Markets (VCM) and voluntary carbon credits are gaining increasing attention globally, driven by corporate net-zero and climate transition commitments, growing investor interest in credible decarbonisation tools, and the need to mobilise private capital towards climate mitigation and nature-based solutions.

At the same time, VCM remain characterised by a high degree of complexity, fragmentation and evolving market practices, with several unresolved “grey zones”, notably from a legal, accounting and tax perspective, particularly when applied to investment fund structures and investment strategies.

Luxembourg, as a leading international hub for sustainable finance and investment fund structuring, is well positioned to play a catalytic role in facilitating the development of high-quality, high-integrity, credible and investable strategies linked to voluntary carbon credits, including dedicated funds and broader investment strategies explicitly linked to the VCM and voluntary carbon credits.

Against this backdrop, the Luxembourg Sustainable Finance Initiative (LSFI), in close cooperation with the Association of the Luxembourg Fund Industry (ALFI), proposes to establish a dedicated **Taskforce on Voluntary Carbon Markets and Voluntary Carbon Credits**.

2. General Mandate & Objectives

The general mandate of the Taskforce is to contribute to the creation of clear, robust and attractive framework conditions in Luxembourg to facilitate the launch and development of investment funds and strategies explicitly linked to Voluntary Carbon Markets (VCM) and voluntary carbon credits while positioning Luxembourg as a leader that actively promotes and safeguards high-quality, high-integrity voluntary carbon credits through framework conditions and market practices.

To fulfil this mandate, the Taskforce will work on the following objectives:

- **First objective** – Identify, analyse and clarify key issues related to:
 - the legal qualification of voluntary carbon credits and voluntary carbon-related instruments (e.g. qualification as commodities, intangible assets or contractual rights; implications for fund eligibility, transferability, ownership and enforceability within Luxembourg fund structures);
 - the accounting treatment of voluntary carbon credits at fund and investor level (e.g. recognition on the balance sheet, valuation approaches, treatment of unrealised gains/losses, accounting implications of credit retirement versus trading activities);
 - the tax treatment applicable to voluntary carbon credits and voluntary carbon-related strategies (e.g. VAT treatment, corporate income tax implications,

- withholding tax considerations, tax treatment of carbon credit income versus capital gains);
- interactions with existing EU and international regulatory frameworks (e.g. consistency with EU sustainable finance regulations, interaction with corporate sustainability reporting requirements, alignment with emerging international integrity frameworks for voluntary carbon markets).
- **Second objective** – Analyse how voluntary carbon credits can be integrated into Luxembourg fund structures, while reinforcing Luxembourg’s positioning as a leading jurisdiction for high-quality and high-integrity voluntary carbon credit investment strategies, including:
 - dedicated funds investing in voluntary carbon credits;
 - natural capital / origination strategies generating or receiving voluntary carbon credits;
 - investment funds and strategies integrating voluntary carbon credits as part of their investment or impact strategy (e.g. offsetting or carbon-credits related share classes, where relevant), including the definition and application of minimum quality and integrity criteria for eligible carbon credits;
 - key operational and structuring aspects related to voluntary carbon credits, including custody, benefit sharing schemes, valuation, risk management, disclosure and reporting considerations, with specific attention to safeguards against greenwashing, double counting, non-additionality and permanence risks).
 - **Third objective** – Contribute to the drafting of a practical guidance document aimed at asset managers and fund promoters, highlighting case studies and explaining how to:
 - set up and manage high quality and high integrity VCM and carbon credit strategies in Luxembourg;
 - in alignment with recognised international integrity frameworks and principles (e.g. ICVCM¹ Core Carbon Principles, VCMI² Claims Code of Practice, relevant ISO³ standards);
 - providing a definition of minimum eligibility criteria for carbon credits used in Luxembourg fund structures (e.g. additionality, permanence, robust MRV⁴, avoidance of double counting, social and biodiversity safeguards);
 - considering best practices for governance, due diligence, independent verification and ongoing monitoring of carbon credit portfolios at fund level;
 - considering fair benefit-sharing mechanisms with project developers and local communities, where relevant
 - navigate legal, tax and accounting requirements and considerations;
 - identify best practices and risk mitigation approaches, including quality screening, integrity risk management and transparent claims-making.
 - **Fourth objective** – Produce recommendations for the Government and the Ministry of Finance aimed at enhancing the current legal and tax framework in Luxembourg, including

¹ Integrity Council for the Voluntary Carbon Market (ICVCM)

² Voluntary Carbon Markets Integrity Initiative (VCMI)

³ International Organization for Standardization (ISO)

⁴ Monitoring, reporting and verification (MRV)

recommendations that support market integrity, transparency and credibility of voluntary carbon credit-related investment strategies.

3. Deliverables

The Taskforce is expected to produce, subject to LSFI and ALFI validation:

- **A guidance document for asset managers on high-quality and high-integrity voluntary carbon credit fund strategies in Luxembourg** (addressing Objectives 1, 2 and 3), covering legal, accounting and tax considerations, fund structuring options, governance arrangements and operational aspects specific to voluntary carbon credit strategies;
- **A clear set of recommended quality and integrity criteria for voluntary carbon credits used in Luxembourg fund structures, referencing recognised international standards and best practices** (addressing Objectives 2 and 3), including minimum eligibility criteria such as additionality, permanence, robust MRV, avoidance of double counting, and social and biodiversity safeguards;
- **A practical due diligence and governance checklists for asset managers and fund boards** (addressing Objectives 2 and 3), covering carbon credit selection, independent verification, monitoring, benefit-sharing considerations, disclosure and ongoing oversight at fund level;
- **Targeted policy-oriented recommendations for the Government and the Ministry of Finance** (addressing Objective 4), aimed at enhancing the legal, tax and regulatory framework to support integrity, transparency and credibility of voluntary carbon credit-related investment strategies in Luxembourg;
- **Complementary supporting material where relevant** (slides, briefing notes, FAQs) (supporting all Objectives);
- **High-level conclusions and recommendations** to be presented to the LSFI Board and relevant stakeholders (supporting all Objectives), including policy-relevant insights on how Luxembourg can contribute to raising integrity standards in voluntary carbon markets.

4. Confidentiality

As long as the Taskforce's work is ongoing and not made public by the LSFI and ALFI, discussions, documents and data shared within the Taskforce shall be treated as confidential and under development.

Members may not use or disclose any information shared during the Taskforce without prior authorisation from the LSFI and ALFI.

5. Membership

The Taskforce will be composed of experts with recognised experience in areas such as:

- asset management and fund structuring;
- legal, tax and accounting advisory;
- carbon markets and carbon credits project development;
- regulation and supervision;
- market infrastructure, data and verification.

Members may include representatives from:

- asset managers and fund promoters;
- law firms and tax advisory firms;
- consulting firms and specialised advisors;
- public authorities and regulators;
- international and non for profit organisations with a focus on carbon credits.

Preferably, candidates should be based in Luxembourg to ensure regular attendance at the Taskforce meetings. However, a candidate based outside Luxembourg with proven vested interests within the Luxembourg financial industry and adequate expertise could also apply and be considered.

It must be noted that the Taskforce is not a marketing or advertising platform for any organisation.

5.1. Number of Members

To ensure efficient and focused discussions, the Taskforce will be limited to approximately 10–12 members.

5.2. Member Selection

Members will be selected by the LSFI, in cooperation with ALFI, and validated by the both entities' governance, based on:

- expertise and experience;
- relevance to the Taskforce's objectives;
- availability and commitment;
- balanced representation of stakeholder types.

5.3. Selection and Role of the Chair

The LSFI and ALFI will appoint a Chair (and if relevant a Vice-chair) based on expertise, commitment to the topic and availability.

The Chair will:

- propose agendas in coordination with the LSFI secretariat;
- steer discussions towards concrete and practical outcomes;
- report on progress and results to the LSFI and ALFI governance bodies.

6. Meetings

6.1. Meetings Calendar

The Taskforce is expected to start in March 2026. Considering its mandate and objectives, the Taskforce is expected to deliver its conclusions by October 2026.

Once the Taskforce members are appointed, they will, in light of their expertise, contribute to refining the work plan and the sequencing of activities in order to achieve the Taskforce's expected outputs and fulfill its objectives.

Under the guidance of the Chair (and Vice-Chair), the members will confirm whether the estimated timeline is sufficient to deliver the Taskforce objectives.

6.2. Meeting Duration & Frequency

The Taskforce is held regularly, and the meetings are expected to last 1.5 to 2 hours. The Taskforce will convene every 3/4 weeks (8 to 10 sessions approx.) to cover its objectives.

The meetings calendar will be confirmed during the Taskforce's first meeting.

6.3 Meeting Format

Ideally, the first and the decisional meetings will be held in person. Besides that, most meetings will be in hybrid format. However, if interaction with participants is needed, the chair (and Vice-chair) might require holding them in person. Overall, the LSFI secretariat will try to accommodate members' availability and preferences.

7. Required Attendance

The Taskforce members are required to ensure their availability. In case of persistent absence, Taskforce members can be excluded. 3 excused or non-excused unattendances will be considered as persistent absence⁵.

We recommend applicants carefully consider the meeting objectives and frequency when applying to ensure their availability.

⁵ Exceptions will be made only for absences related to health reasons.

8. **Secretariat**

The LSFI will hold the secretariat. The secretariat supports the Taskforce from an organisational and administrative point of view. Its role is also to ensure the alignment of the Taskforce with the objectives set out in the Terms of Reference.

In case you need additional information, please contact: info@lsfi.lu.

PROCESS TO BECOME A MEMBER

Please send an email to LSFI at info@lsfi.lu, attaching the filled-out **application form** available on the LSFI website.

Applications must be submitted by the 20 February 2026 at 7:00pm.

The call for members will be published on LSFI's website and promoted through the initiative's communication channels, as well as communicated by email to the LSFI Stakeholder.

The final list of the Taskforce members will be made public on LSFI's website once the members will have been selected.

Date of approval by LSFI's Board of Directors: 23 January 2026