DRAFT DECREE ON DOMESTIC CARBON TRADE EXCHANGE: NOTABLE NEW REGULATIONS

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In an effort to fulfill international commitments on climate change, particularly the goal of achieving net-zero emissions by 2050, Vietnam is gradually developing and improving its legal framework for the domestic carbon market. The initial legal foundation was established through the Law on Environmental Protection 2020, which outlines the organization and development of the carbon market in Article 139. Subsequently, preliminary regulations on the carbon market were provided in Decree 06/2022/ND-CP on Greenhouse Gas emission reduction and ozone layer protection. To further specify the roadmap for the carbon market's development, the Prime Minister issued Decision 232/QD-TTg on January 24, 2025, approving the Scheme for Developing the Carbon Market in Vietnam. Based on these foundational legal documents, the Ministry of Finance (**MOF**) has drafted the Decree on domestic carbon trade exchange (**Draft Decree**), which includes the following key points related to carbon trade exchange:

Firstly, *regarding tradable commodities*, in accordance with the Law on Environmental Protection 2020, Decree 06/2022/ND-CP, and Decision 232/QD-TTg, the Draft Decree classifies two types of tradable commodities on the carbon trade exchange, including:

(i) Greenhouse Gas Emission Quotas (Quota). According to the Law on Environmental Protection 2020, "Quota" is defined as "*the amount of greenhouse gases that a country, organization, or individual is allowed to emit within a specified period, measured in tons of carbon dioxide (CO2) or tons of CO2 equivalent (CO2e).*"
(ii) Carbon Credits (defined as "*certificates that can be traded and represent the right to emit one ton of carbon dioxide (CO2) or one ton of CO2 equivalent (CO2e)*"), including:

- Carbon credits obtained from domestic programs or projects under the Carbon Credit exchange or offset mechanisms according to legal regulations;
- Carbon credits obtained from international programs or projects under the Carbon Credit exchange or offset mechanisms, which are expected to include, for example, credits from the Clean Development Mechanism (CDM) and Carbon Credits under Article 6 of the Paris Agreement.

To ensure the validity of these commodities on the exchange and the consistency of ownership data for trading, depository, and transaction settlement, the Draft Decree requires that these two types of commodities must be verified and recorded by the Ministry of Agriculture and Environment (**MAE**) in the National Registry System before being included in the carbon trading system by Hanoi Stock Exchange (**HNX**). Additionally, the MOF proposes regulations for removing Quotas and Carbon Credits from the carbon trading system in specific cases, namely:

- Expiry (when the commodities become invalid);
- Other cases as regulated by MAE (e.g., when forests under Carbon Credit projects are burned, organizations voluntarily use Carbon Credits to offset emissions).

Secondly, *regarding trading participants*: the Draft Decree specifies the participants eligible to engage in trading on the carbon trade exchange, depending on the type of commodities on the basis of inheriting and further elaborating the entities listed in Article 16 of Decree 06/2022/ND-CP, including:

(i) For Quotas: Entities in the List of sectors and entities emitting greenhouse gases that must conduct greenhouse gas inventories issued by the Prime Minister, which are allocated with Quotas.

(ii) For Carbon Credits:

- Entities in the List of sectors and entities emitting greenhouse gases that must conduct greenhouse gas inventories issued by the Prime Minister, which are allocated with Quotas.
- Organizations implementing programs or projects under the domestic Carbon Credit exchange and offset mechanism, or implementing programs or projects under international Carbon Credit exchange and offset mechanisms, in accordance with the provisions of Vietnamese law and international treaties to which the Socialist Republic of Viet Nam is a party.
- Organizations and individuals that are eligible to invest in and trade Carbon Credits under environmental law.

Thirdly, *regarding the organizational, management, and operational systems to serve the domestic carbon trade exchange*: The Draft Decree outlines a carbon market operational structure based on three principal systems, with a relatively clear allocation of responsibilities among relevant authorities and organizations. This structure lays a critical foundation for Vietnam to develop a transparent, efficient, and sustainable carbon market, comprising:

(i) National Registry System for Quotas and Carbon Credits: a system managed and operated by MAE to serve the purposes of managing, operating, updating, and extracting information on Quotas and Carbon Credits; and handling the borrowing, returning, transferring, and offsetting activities of Quotas.

(ii) Carbon Trading System: infrastructure system, technological platform organized and operated by HNX to facilitate the trading of Quotas and Carbon Credits.

(iii) Carbon Trading Settlement System: an infrastructure system, technological platform organized and operated by the Vietnam Securities Depository and Clearing Corporation (**VSD**) in coordination with payment banks, to process the settlement of transactions involving Quotas and Carbon Credits.

Fourthly, *regarding the execution of transactions of Quotas and Carbon Credits by trading participants*:

- According to the Draft Decree, Quotas and Carbon Credits must be deposited centrally at VSD **before** trading on the domestic carbon trade exchange. Trading participants will not directly deposit with VSD but will open depository accounts to deposit Quotas and Carbon Credits with Depository Members (securities companies approved by VSD as Depository Members). VSD will receive deposits from Depository Members. In addition, trading participants may request other services such as withdrawal/transfer of Quotas and Carbon Credits.
- To trade Quotas and Carbon Credits, participants must open trading accounts with Trading Members (securities companies approved by HNX) to conduct transactions.
- Transactions will be conducted based on agreements on the carbon trading system, where parties involved in the transaction mutually agree on relevant terms. There are two forms of transaction method by agreement:
  1. *Electronic agreement*: A trading method where participants input buy or sell orders with a binding commitment in the system or select matching orders already entered into the system for execution;
  2. *Standard agreement*: A trading method where buyers and sellers mutually agree on the transaction terms in advance and report the results to the carbon trading system to establish the transaction.
- Transaction settlement: According to the Draft

Decree, transactions on the carbon trade exchange will be settled via the Carbon Trading Settlement System operated by VSD and payment banks. The settlement method will be real-time for each transaction, which means that the payment and transfer of Quotas and Carbon Credits will occur almost simultaneously once the transaction is confirmed. As an important point to be noted, the Draft Decree clearly confirms not to apply the central counterparty clearing mechanism to these transactions. VSD will issue detailed Settlement Regulations for further guidance.
- The service fees on the carbon trade exchange applied at VSD and HNX will be determined by the MOF.

With groundbreaking new provisions, the Draft Decree has laid the foundation for managing and trading Carbon Credits, while aligning with global trends in reducing greenhouse gas emissions, contributing to the realization of Vietnam's sustainable development goals. Currently, the Draft Decree is in the process of seeking feedback from competent state agencies, organizations, businesses, and relevant individuals, and it is expected that it will be finalized for issuance and implementation from June 1, 2025. Therefore, businesses, organizations, and individuals need to actively monitor the development of the Draft Decree for effective participation in the carbon trade exchange once the Decree comes into force.