

LABUAN FINANCIAL SERVICES AUTHORITY
(LEMBAGA PERKHIDMATAN KEWANGAN LABUAN)

Circular No. : 321/2025/ALL

Date : 9 May 2025

CIRCULAR ON GUIDANCE FOR CARBON CREDIT TRADING AND RELATED ACTIVITIES IN LABUAN IBFC

Labuan Financial Services Authority (Labuan FSA) issues this Circular to provide guidance on the conduct of carbon credit trading and related activities within Labuan International Business and Financial Centre (Labuan IBFC).

2. The Circular forms part of Labuan FSA's ongoing initiative to support Malaysia's sustainability agenda and align the development of Labuan IBFC with international carbon finance developments. It is intended to guide stakeholders on the possible structures and services available within Labuan IBFC for undertaking carbon credit trading and related activities. The Circular welcomes both regional and international participants to leverage Labuan IBFC's business structures and financial solutions in supporting carbon finance initiatives and contributing to the global transition towards carbon neutrality.

Background

3. Carbon markets have emerged as a key mechanism in the global response to climate change, offering entities a structured approach to reduce emissions and contribute to broader sustainability objectives. Aligned with international frameworks such as the Paris Agreement and the United Nations Sustainable Development Goals (SDGs), and guided by globally recognised standards like the Verified Carbon Standard (VCS) and the Gold Standard, these markets continue to gain credibility and momentum.

Labuan International Business and Financial Centre Sustainability Taxonomy (LiST)

4. To support this global transition, Labuan FSA issued the Labuan IBFC Sustainability Taxonomy (LiST) in July 2024, providing a framework for classifying economic activities based on their environmental and social impact. The taxonomy serves as a foundational reference for Labuan entities to align with sustainability goals and participate effectively in carbon-related activities. In further support of this agenda, Labuan FSA has also established the 'Labuan IBFC for ESG' (LiFE) Joint Working Group (JWG) as a regulator-industry platform to coordinate ESG initiatives under Labuan IBFC.

Leveraging Labuan IBFC's Products and Services as a Supporting Solution for Carbon-Related Activities

5. Labuan IBFC is uniquely positioned to complement global carbon finance initiatives by offering innovative financial solutions designed to support various carbon-related activities. Its tailored solutions cater to the unique needs of diverse stakeholders, enabling global and regional players to align with international sustainability goals while leveraging Labuan IBFC's dynamic ecosystem. Depending on the type of activity, entities may find suitable financial structures or services within Labuan IBFC's framework. Stakeholders are encouraged to explore, but are not limited to, the following potential avenues of opportunity:

- a) **Carbon Credit Trading:** Facilitating transactions involving carbon credits, including over-the-counter trades and project-based credit sales, using Labuan International Trading Companies (LITCs) for efficient, cross-border market participation.
- b) **Carbon Project Financing or Investments:** Entities may leverage on the existing Labuan fund structures, such as Private Funds, Public Funds, or Protected Cell Companies (PCCs) for mutual funds, as financing vehicles for carbon credit-related projects. These structures may be used to mobilise capital for project development, including activities related to carbon credit verification and certification. They can also be applied to finance renewable energy, conservation, and other carbon reduction projects.
- c) **Risk Management Solutions:** Entities involved in carbon credit projects or related services, such as project developers, trading platforms, and carbon registries, may consider appropriate risk management measures. This may

include setting up specialised insurance solutions, including captive insurance, to manage unique risks including delays in verification or certification, failure to deliver carbon credits, and unexpected events like natural disasters or climate-related disruptions. Additionally, platform providers that may be exposed to cyber threats, system failures, or transaction errors can consider tailored insurance solutions to manage these risks.

- d) **Digital Innovation:** Engage in the tokenisation or blockchain-based trading of carbon credits to facilitate secure digital transactions backed by proper regulatory standards and asset integrity.

*Refer to **Appendix** for detailed information and practical guidance on leveraging Labuan IBFC's products and services for carbon-related activities.*

Incentives for Islamic Digital Solutions Engaging in Carbon Credit Trading and Related Activities

6. Entities undertaking Islamic digital financial activities such as Islamic banking, Islamic digital exchanges, Shariah-compliant fund management services, and Islamic digital token issuances that are involved in carbon credit trading and related activities in Labuan IBFC may be eligible for income tax exemption under the *Labuan Business Activity Tax (Exemption) Order 2024 [P.U. (A) 127]*. This exemption applies for a period of five (5) years, from the Year of Assessment 2024 to 2028, provided that the activities undertaken fall within the definition of *qualifying activities* as specified in *P.U. (A) 127*.

Disclaimer and Consultation

7. The areas of opportunity outlined under the Circular are illustrative and should not be interpreted as an exhaustive or definitive list of permissible activities. Entities are encouraged to engage with Labuan FSA to discuss proposals or innovative approaches covered within this Circular and beyond. Labuan FSA welcomes dialogue and remains committed to providing clarity, guidance, and support for initiatives that align with regulatory requirements and sustainability objectives. For the avoidance of doubt, the Circular does not impose any new licensing requirements. It is intended solely to provide guidance on the conduct of carbon credit trading and related activities within the scope of existing legal and regulatory frameworks.

8. The Circular can be accessed on the Labuan FSA website at www.labuanfsa.gov.my. Any further details or clarification may be directed to the following contact details:

Department/ Unit	Email Address
Business Policy	bpu@labuanfsa.gov.my
Islamic Business Development	ifpu@labuanfsa.gov.my
Authorisation and Licensing	bplicensing@labuanfsa.gov.my

Thank you.

For and on behalf of
Labuan Financial Services Authority



Jaffree Ismail
Deputy Director-General
Market Development and Operations

Guidance on Structuring Labuan IBFC Structures for Carbon-Related Activities

Activity	Overview	Regulatory Guidance	Examples
Carbon Credit Trading	Facilitates cross-border trading of carbon credits, including over-the-counter trading and project-specific sales.	Trading of carbon credits can be conducted by a Labuan international Commodity Trading Company (LITC), to acquire and sell carbon credits as a commodity via over-the-counter purchases or from project developers.	<ul style="list-style-type: none"> a) Cross-Border Credit Transactions: An LITC facilitates the purchase of carbon credits from reforestation projects in Southeast Asia by a European energy company aiming to meet its carbon neutrality targets. The entity operates as an intermediary, ensuring compliance with international standards and efficient credit delivery. b) International Carbon Market Participation: A Labuan company partners with Climate Impact X (Singapore) to trade high-quality carbon credits verified by global standards. This collaboration enables the entity to connect with buyers and sellers across Asia, Europe, and the Americas. c) Aggregated Carbon Credit Sales: A Labuan company aggregates carbon credits from various renewable energy projects in Africa and Latin America and sells them to corporations in North

			America through over-the-counter agreements, providing a seamless trading experience.
Carbon Financing Investment	Project or	Supports the financing of carbon reduction initiatives and the establishment of funds for large-scale sustainability projects.	<p>a) Financing carbon projects can be facilitated through Labuan mutual funds (public or private) or a Protected Cell Company (PCC) for mutual funds to structure carbon-focused projects or investment vehicles.</p> <p>b) These structures allow pooling of capital for large-scale initiatives while ensuring risk segregation and compliance with Labuan FSA's guidelines.</p> <p>c) PCCs are particularly effective for managing multiple projects under a single umbrella, offering flexibility and robust asset protection.</p>
			<p>a) Financing Renewable Energy Projects: A Labuan fund pools investments from international investors to fund wind farm projects in India and Vietnam. These projects generate carbon credits that are sold globally, offering returns to investors while supporting emission reduction goals.</p> <p>b) Nature-Based Solutions Fund: A PCC for mutual fund establishes separate cells to finance reforestation projects in the Amazon, mangrove restoration in Southeast Asia, and biodiversity conservation in Africa. Each cell caters to specific investor groups and project types, ensuring tailored financial management.</p> <p>c) Biodiversity and Conservation Fund: A Labuan PCC establishes individual cells dedicated to biodiversity-focused projects, such as coral reef restoration in Southeast Asia, mangrove conservation in the Philippines, and wildlife habitat preservation in Africa. This structure allows investors to allocate resources to specific regions</p>

			<p>or projects, providing flexibility and legal separation for risk management.</p> <p>d) Cross-Border Green Energy Transition Fund: A Labuan private fund partners with renewable energy developers in India, Brazil, and Kenya to finance wind and solar installations. The fund facilitates access to international green financing and enables the sale of generated carbon credits to corporate buyers in Europe and North America.</p>
Risk Management Solutions	Addresses unique risks associated with carbon markets, such as project underperformance or market volatility.	Labuan captive (re)insurance companies or (re)insurance companies may be established to underwrite risks associated with carbon credit projects, such as project underperformance or validation risks, ensuring financial stability and tailored solutions for stakeholders.	<p>a) Carbon Project Performance Guarantee Captive: A multinational corporation establishes a Labuan captive insurance company to manage risks of underperformance in renewable energy projects across Asia and Africa. The captive issues performance guarantees for the carbon credits expected to be generated by these projects. In cases where the projects fail to meet anticipated carbon credit output due to technical, operational, or regulatory challenges, the captive compensates the corporation, ensuring financial protection and risk mitigation for its cross-border operations.</p>

			<p>b) Insurance for Renewable Energy Project Delays:</p> <p>A Labuan captive insurance company is established to provide coverage against project delays in solar energy developments in Africa. The insurance policy mitigates risks arising from supply chain disruptions, regulatory approvals, or unforeseen circumstances, protecting investors by covering potential financial losses and enabling the project to proceed with minimal interruptions.</p> <p>c) Reinsurance for Carbon Credit Validation Risks:</p> <p>A Labuan reinsurance company offers reinsurance coverage to insurance company that underwrites risks faced by carbon credit developers related to non-compliance with international validation standards such as the Gold Standard or Verified Carbon Standard (VCS). By underwriting these risks, the reinsurance entity ensures that developers and investors are protected from financial losses if their credit fails to achieve certification or meet market requirements.</p>
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			<p>d) Natural Disaster Risk Mitigation for Carbon Projects:</p> <p>A Labuan insurance company provides tailored coverage for companies undertaking reforestation projects in South America to safeguard against natural disasters such as wildfires, floods, or hurricanes. This insurance ensures that project developers and stakeholders are financially protected in the event of catastrophic losses, thereby enhancing the resilience and attractiveness of these projects to global investors.</p> <p>e) Captive Insurance for Carbon Market Platforms:</p> <p>A digital platform facilitating carbon credit trading may be exposed to various risks, including cyberattacks, system outages, data breaches, and transactional errors such as failed settlements or incorrect credit transfers. These risks can lead to financial loss, reputational damage, and regulatory concerns. Where commercial insurance is unavailable or too costly, the platform may consider establishing a Labuan captive</p>
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			insurance company to provide customised coverage for such exposures.
Digital Innovation	Leverages blockchain technology to tokenize carbon credits, enhancing transparency and efficiency in carbon finance.	Stakeholders intending to engage in tokenisation or blockchain-based carbon credit trading may refer to the applicable guidelines relating to issuance of securities or non-securities token in Labuan IBFC.	<p>a) Tokenisation of Carbon Credits: A Labuan company tokenises verified carbon credits from renewable energy projects in Southeast Asia, converting them into blockchain-backed digital assets. These tokens are listed on international platforms like Toucan Protocol and traded globally, providing transparency and liquidity for investors and credit holders.</p> <p>b) Smart Contract-Based Carbon Credit Validation: Issuance of a Labuan securities token backed by carbon credits generated from African reforestation projects, leveraging smart contracts to automate validation and retirement processes. This ensures that credits are accurately tracked and retired upon sale, enhancing the credibility and efficiency of the carbon market.</p>