Aligning Finance and Sustainability: The Role of Investment Funds in Brazil's Carbon Market

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In 2021, inspired by COP26, we published an article on the carbon credit market and investment funds in Brazil.

Since then, the regulatory landscape in Brazil has advanced significantly, most notably with CVM Resolution 175 in 2022 (RCVM 175), which formally recognizes carbon credits and decarbonization credits (CBIO) as eligible assets for two categories of investment funds.

Under Annex I to the Resolution, Financial Investment Funds (FIFs)—which cover equity, currency, multimarket, and fixed income funds—can invest in carbon credits and CBIOs, provided certain requirements are met.

Carbon credits are defined as securities representing the right to emit greenhouse gases, originating from activities that reduce or remove carbon dioxide from the atmosphere. To be traded in Brazil, credits must be authorized by a government authority, either domestic or foreign, and registered with a central securities depository system approved by the CVM or BACEN, or traded on an authorized organized market.

To support access to international markets, RCVM 175 waives registration and deposit requirements for carbon credits issued outside Brazil. These credits, however, must be traded on a regulated market overseen by a recognized local regulator, and the fund's custodian is responsible for verifying the credits' existence, integrity, and ownership.

Investment limits for carbon credits depend on the type of investor. For funds opened to the general public, carbon credits can make up to 10% of the portfolio's net assets. Qualified investors have a higher threshold of 20%, while professional investors may invest without restriction.

Annex VI to RCVM 175 recognizes agribusiness carbon credits as eligible assets for Agribusiness Production Chain Investment Funds (FIAGROs). These securities, which represent the actual reduction or removal of greenhouse gases from the atmosphere, must comply with specific legislation and regulations and be originated from activities that are part of the agribusiness production chain.

If a FIAGRO fund's name references "carbon" or the reduction or removal of greenhouse gases, its investment policy must clearly explain how it contributes to achieving the reduction or removal. This requirement ensures that funds marketed as "green" or "sustainable" have a documented strategy for meeting their stated goals.

The fund's bylaws must also set limits on carbon credit holdings and specify how the fund administrator will assert ownership and control over the credits—either directly or through a specialized service provider. Failing to maintain control over the credits is a serious regulatory violation.

It is up to the fund investment manager to decide on the methodologies for certifying the actual reduction or removal of greenhouse gases in projects that generate credits eligible for the FIAGRO's portfolio. These methodologies must comply with recognized market standards for verification, measurement, and reporting. To ensure independence and credibility, the certifier of the credits cannot be affiliated with the manager and must have the technical and operational capacity required for the role.

Additionally, the investment manager is responsible for verifying the existence, integrity, and ownership of agribusiness carbon credits at the time of acquisition. This requirement underlines the need for robust due diligence and governance processes to ensure the legitimacy and value of the credits included in the fund's portfolio.

By clearly defining and regulating investments in carbon credits, CVM has brought greater transparency and legal certainty to the inclusion of these assets in FIF and FIAGRO portfolios, helping investment funds in Brazil to play a growing role in supporting decarbonization projects and expanding the carbon market. As COP30 approaches, Brazil is better positioned than ever to align financial interests with environmental sustainability, paving the way for the continued growth of carbon-focused investment funds.

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