

# Carbon Credits Enter the Market: India's First Regulatory Framework for Exchange-Traded Carbon Credit Certificate

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A carbon credit is a tradeable certificate representing the reduction, removal, or avoidance of one tonne of carbon dioxide equivalent (tCO<sub>2</sub>e) of greenhouse gas emissions.

The concept emerged from international climate architecture - first under the Kyoto Protocol, 1997, which introduced market-based mechanisms such as the Clean Development Mechanism, allowing developed countries to offset emissions by investing in reduction projects in developing nations, and subsequently under the Paris Agreement, 2015, which commits signatory nations to achieving their self-declared Nationally Determined Contributions (NDCs) towards limiting global temperature rise.

India is a signatory to both the instruments. Under its updated NDC submitted to the United Nations Framework Convention on Climate Change in 2022, India has committed to reducing the emissions intensity of its gross domestic product (GDP) by 45% by 2030 from 2005 levels, and to achieving approximately 50% of its cumulative electric power installed capacity from non-fossil fuel-based energy resources. A domestic carbon market is central to delivering these commitments cost-effectively, allowing entities that can reduce emissions cheaply to sell credits to those for whom reductions are more costly, achieving aggregate targets at a lower overall economic cost.

## The Indian Legislative Journey

India's domestic carbon market has been built incrementally. The Energy Conservation Act, 2001 (EC Act) laid the initial groundwork for energy efficiency regulation. The landmark Energy Conservation (Amendment) Act, 2022 then inserted Section 14A into the EC Act, expressly empowering the Central Government to establish a Carbon Credit Trading Scheme.

Acting on this mandate, the Ministry of Power notified the Carbon Credit Trading Scheme, 2023 (CCTS), which defined the institutional architecture: the Bureau of Energy Efficiency (BEE) as the Administrator, the Grid Controller of India (GRID-INDIA) as the Registry, and the Central Electricity Regulatory Commission (CERC) as the market regulator for trading activities.

CERC is a statutory body constituted under the Electricity Act, 2003 (EA 2003) and under Section 66 of EA 2003, CERC is empowered to promote the development of a market in power. Through the CCTS, CERC was bestowed with an additional and significant function viz. the development of India's carbon market, including regulation of all matters relating to the trading of Carbon Credit Certificates (CCCs). The CCTS, however, remained a framework instrument, defining structure and assigning responsibilities while deferring detailed trading rules to CERC.

## The CCC Regulations: India's First of Their Kind

On 27 February 2026, CERC notified the CERC (Terms and Conditions for Purchase and Sale of Carbon Credit Certificates) Regulations, 2026 (CCC Regulations), published in the Official Gazette on 03 March 2026, under Section 178 read with Section 66 of the EA 2003.

The CCC Regulations are the first comprehensive regulatory framework for exchange-traded carbon credits in India, translating the CCTS's structural design into enforceable trading rules, institutional obligations, and

market safeguards. Each CCC represents the reduction, removal, or avoidance of emissions equivalent to one tonne of CO<sub>2</sub>e, issued by BEE upon Central Government approval and credited to Registry accounts maintained by GRID-INDIA.

The CCC Regulations distribute responsibilities across three institutions. BEE serves as the operational hub, formulating the Detailed Procedure (subject to CERC approval) governing CCC transactions, registration of entities, and dealing with matters relating to transfer of CCCs, while monitoring compliance and reporting non-compliance to CERC. GRID-INDIA functions as the Registry, maintaining accounts for all participating entities, crediting and debiting CCCs upon completed transactions, cross-checking sale bids against available holdings across all power exchanges, and publishing the list of defaulting entities monthly. CERC retains overarching market oversight, the power to approve Floor (minimum) and Forbearance (maximum) Prices, and reserve powers to intervene in cases of abnormal price movements or sudden volatility.

## Two Markets, Key Provisions, and Safeguards

The CCC Regulations establish two structurally distinct markets. The Compliance Market is for the Obligated Entities i.e., large industrial consumers in energy-intensive sectors (power generation, steel, cement, aluminium, fertilisers, etc.) with mandatory emissions reduction targets. The Offset Market is for Non-Obligated Entities i.e., the voluntary participants such as renewable energy generators and forestry project developers whose activities generate measurable emissions reductions.

Trading is mandatory on power exchanges on a monthly basis and power exchanges are required to obtain CERC's prior approval of their Rules, Business Rules, and Bye-Laws before commencing CCC trading. Pricing operates within a price-band framework viz. a Floor Price (minimum) and Forbearance Price (maximum) approved by CERC on a proposal by BEE, with market-discovered pricing within that band.

Market integrity is protected through three safeguards: entities may not place sale bids exceeding their Registry holdings, GRID-INDIA cross-checks cumulative bids across all exchanges and notifies exchanges of any breach, rendering excess bids void, and entities recording more than three defaults in a quarter are barred from dealing in CCCs for the following six months, without prejudice to any separate penalty under the EC Act.

## Conclusion

The CCC Regulations establish a credible and long-awaited regulatory platform for India's domestic carbon market - for the first time, exchange-traded CCCs have a clear legal basis, an institutional framework, and enforceable trading rules.

That said, the framework raises open questions that practitioners must monitor closely. Foremost among them is the double-counting risk: a renewable energy generator could, in principle, claim both RECs (under the existing Renewable Purchase Obligation/Renewable Consumption Obligation framework) and CCCs (under the Offset Mechanism) for the same unit of generation, monetising the same emissions reduction twice. The CCC Regulations are entirely silent on this.

A further complexity arises from the International REC (I-REC) standard - the same generation could simultaneously qualify for I-RECs, domestic RECs, and CCCs, with the same reduction potentially claimed three times across three distinct systems. BEE's forthcoming Detailed Procedure must address both risks with precision.

For renewable energy generators, the threshold question is whether to register under the Offset Mechanism, maintain the existing REC route, or defer pending the Detailed Procedure - a structuring choice with significant legal and commercial consequences. For Obligated Entities, monitoring REC supply dynamics and auditing emissions profiles for CCC compliance exposure should begin now.

The CCC Regulations mark the start of India's carbon market, not its completion. Whether the market delivers genuine, additional, and verifiable emissions reductions or generates instruments that interact imperfectly with an already complex environmental certificate ecosystem, will depend on the quality of operational decisions made in the months immediately ahead.

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