

Nature markets – Overarching principles and framework – Specification

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Foreword

This BSI Flex was sponsored by the Department for Environment, Food & Rural Affairs (Defra). Its development was facilitated by BSI Standards Limited and it was released under licence from The British Standards Institution. It came into effect on 31 March 2025.

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The content in this version is part of an iterative process. It is likely to change from time to time with subsequent iterations.

Supersession

This version of BSI Flex 701 supersedes BSI Flex 701 v1.0:2024-03, which is withdrawn.

Relationship with other publications

BSI Flex 701 is part of the Nature Investment Standards Programme and is the foundational standard setting high-integrity requirements for UK nature markets. Further thematic and market standards are in development¹⁾ to provide additional requirements for specific nature markets. More information on additional standards is available from the BSI website²⁾/BSI Nature Investment Standards Navigation tool³⁾. These further standards are intended to cover a variety of nature markets contexts. Credits can be used for legal compliance or voluntary action. They can involve different scales spatially (from square metres to square kilometres) and temporally (from a few years to centuries). This variety means that, while BSI Flex 701 aims to support consistent requirements for governance, measurement, reporting and verification in UK nature markets, it is not necessarily a sufficient minimum for any specific market. The further standards will operationalize, and might expand on, the requirements in BSI Flex 701, to reflect the specific circumstances in the markets they cover.

Information about this document

This is Version 2 of BSI Flex 701, and is now released for market adoption. It will be reviewed and revised in accordance with BSI Flex 0⁴⁾ and parties are encouraged to check the BSI Nature Investment Standards Navigation tool³⁾ for further updates on this and other standards.

This is a full update of the document, and introduces the following principal changes.

- The Scope has been tightened around the processes to generate, trade and store nature market credits.
- Requirements relate to roles and functions in nature markets, rather than particular parties.
- More detail added related to timing, such as credit lifetimes.
- Some detailed content has been reduced, which will be developed in future thematic standards.

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Where websites and webpages have been cited, they are provided for ease of reference and are correct at the time of publication. The location of a webpage or website, or its contents, cannot be guaranteed.

¹⁾ BSI Flex 702 on biodiversity, BSI Flex 703 on carbon, BSI Flex 704 on nutrient outcomes, and BSI Flex 705 on community benefits.

²⁾ Available at <https://www.bsigroup.com/en-GB/>.

³⁾ Available at <https://nature-investment.bsigroup.com/standards-navigation-tool/navigation-tool/>.

⁴⁾ Available at <https://www.bsigroup.com/siteassets/pdf/en/insights-and-media/insights/brochures/bsi-flex-0-v2.0-2022-08.pdf>.

Presentational conventions

The provisions of this document are presented in roman (i.e. upright) type. Its requirements are expressed in sentences in which the principal auxiliary verb is "shall".

Commentary, explanation and general informative material is presented in smaller italic type, and does not constitute a normative element.

Where words have alternative spellings, the preferred spelling of the *Shorter Oxford English Dictionary* is used (e.g. "organization" rather than "organisation").

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0 Introduction

0.1 Background

Nature provides the critical resources that we need to live and upon which our economies and wellbeing depend. Our current economic system for resource allocation fails to recognize many of the benefits from nature, and conventional markets do not value them adequately. They therefore might not recognize damage to nature or incentivize actions to support nature, which as a result is overlooked or degraded by economic activity.

Various interventions are used at a national and local level by government, businesses and the voluntary sector to support nature and counter these market failures. To date, these have been insufficient in the UK, which is one of the most nature-depleted countries on Earth (see *Exploring lessons learned from biodiversity offsetting markets in other countries that could inform appraisal of options for delivering offsets in England* [1]). This BSI Flex has been developed in the context of existing policies, and ongoing policy developments, for the natural environment and biodiversity. These include UK commitments under the Global Biodiversity Framework, and devolved administration policies on biodiversity, such as the pledge to protect and effectively manage 30% of land and sea for nature by 2030, and a legally binding commitment to halt the decline in species abundance in England by 2030.

This BSI Flex does not constitute government policy, but is an articulation of the principles for how nature markets are to function if they are to be regarded as high integrity. Interactions between this BSI Flex and policy are expected to continue to evolve in both established and new markets. In the more established carbon markets, which include trading in non-nature-based credits which are outside the scope of this BSI Flex, government is developing policy on demand-side principles, and there are existing global integrity initiatives.

The existence of separate devolved country policies across the UK means this BSI Flex might not exactly reflect any one country's policies or policy terminology. However, it aims to align as far as possible with policies and policy thinking.

0.2 Benefits of nature markets

Nature markets are one of a range of interventions being used to address the market failures described above. All markets have rules and standards that create the conditions in which they can operate. New nature markets require interventions to establish the necessary market conditions to trade credits representing benefits from nature. This can happen through either compliance markets to meet mandatory targets, or voluntary markets. Global experience shows that if these interventions are unclear or weak, net environmental benefits might not be generated or maximized, confidence can be eroded in the integrity of markets⁵⁾, and as a result investment falls. Thus, integrity is a vital precondition to achieve the best outcomes for nature by supporting the maximum possible scale of investment in actions that deliver additional benefits.

Nature markets are a potential route to increasing finance towards achieving nature objectives. They enable suppliers to sell benefits from nature to individuals or organizations. These sales provide resources for, and an incentive to protect and enhance, nature. It is widely agreed that more resources are needed to meet targets for nature across the UK. The Green Finance Institute (see *The finance gap for UK nature* [2]) estimates that the annual funding gap of resources required to restore nature in the UK, beyond current commitments, is more than £6 000 million per year until 2030. However, the development and operation of nature markets also involves some specific sensitivities and challenges. Some of these challenges are inherent in markets – all markets face risks of fraud and manipulation, while other challenges relate to the characteristics of nature markets.

⁵⁾ For more information, see <https://naturalengland.blog.gov.uk/2023/09/29/state-of-nature>

0.3 Characteristics of nature markets

The benefits from nature have characteristics which are important to the integrity of nature markets. Each part of the environment contributes to multiple benefits, so they are overlapping and connected. When the state of the environment declines, benefits are lost. When thresholds are crossed, the loss of nature can be rapid, and irreversible and/or hard to replace, making the loss of benefits significant. Furthermore, different benefits from nature can be private and/or common goods, but nature also has an intrinsic value in and of itself.

Failures within environmental management can be hard to correct. If interventions to create conditions for nature markets fail, they have the potential for permanent loss of nature. This results in a requirement to establish high standards of integrity for nature markets from the outset, and ensure long-term market confidence. Trust and confidence in markets comes primarily from their transparency, fairness and efficiency.

These characteristics create potential uncertainty and conflict over who has rights to different benefits. Where there are multiple sellers and buyers in nature markets, this can lead to confusion about any claims or reports that buyers might make.

Nature markets have been aided by, and are dependent upon, recent improvements in the measurement of benefits from nature. Trading needs transparency and consistently defined credits with specified timescales. The credits traded in nature markets represent an estimate of a real activity or outcome (i.e. management actions to enhance a specific aspect of the environment). As a result, nature markets establish new currencies in the credits traded, such as tonnes of carbon dioxide equivalents (CO₂e) for greenhouse gases (GHGs), or biodiversity units (BUs) for biodiversity in England. These credits involve transfer of an ownership right that has to be taken on trust, so their value is dependent on their integrity, as well as the benefit they represent, what they can be used for, contractual terms such as duration, and the robustness of the processes to generate, trade and store them.

0.4 Integrity

This BSI Flex aims to establish principles which underpin the integrity of the processes in nature markets. Integrity is defined through the fairness, honesty and other characteristics that contribute to trust in a market. The aim is for this BSI Flex to contribute to a sound governance framework that will increase confidence and participation in nature markets, unlocking their potential to facilitate higher investment flows for nature recovery and sustainable farming.

The scope of this BSI Flex covers processes to generate, trade and store nature credits. This is centred on the concept of a market being a voluntary exchange of goods or services between a buyer and seller. Therefore, this standard covers both the supply side (sellers) and the demand side (buyers) in relation to this trading process. Within this standard, the market trading process is further broken down into a series of functions: supplying, selling, purchasing, using registries and trading.

A key part of integrity is transparency. This is important for markets, because markets work better when information is available to buyers and sellers. It is also important for accountability, to articulate to market stakeholders the basis on which decisions are made. However, any transparency requirement involves a time and resource cost to the party providing the information required. Throughout this BSI Flex, a balance needs to be struck between the costs of complying with the requirements, and the benefits they bring to the market, market stakeholders and nature.

0.5 Assurance

This BSI Flex aims to establish a framework through which nature market intermediaries can gain recognition as being “high integrity” by other market participants. To support this, BSI has worked on options for how assurance can be applied in future to the suite of standards that this standard is part of. For more information on assurance, visit the BSI Nature Investment Standards Hub⁶⁾.

⁶⁾ Available at <https://www.bsigroup.com/en-GB/products-and-services/standards-services/the-nature-investment-standards-programme/>.

1 Scope

This BSI Flex specifies requirements for the design and operation of high-integrity nature markets, including processes to generate, trade and store nature credits.

This BSI Flex is intended to:

- a) establish an overarching framework to drive actions to create the conditions for consistency and high integrity across all nature markets;
- b) support high integrity of credits traded in nature markets;
- c) support nature markets to deliver positive environmental outcomes;
- d) protect against the risks of activity in nature markets leading to negative, unintended consequences for the environment;
- e) act as a specification, and/or a basis for standards on specific aspects of nature markets, against which market participants can seek conformity assessment to signal their high integrity; and
- f) support the provision of information from nature markets that deters, and/or helps detect, greenwashing.

***NOTE** Greenwashing is a form of mis-selling/fraud, and as such can be regulated under advertising standards. However, new policies are emerging with specific definitions related to the natural environment that aim to help regulate it.*

This BSI Flex is intended for use in the UK. It might inform nature market activity in other parts of the world, but does not explicitly take into account non-UK environmental, governance and other contexts. It is also relevant to nature credits from suppliers in the UK traded in non-UK markets.

This BSI Flex aims to provide an overarching framework to develop high-integrity nature markets, including through further standards that develop requirements for specific nature markets or nature market issues. This BSI Flex does not determine, and might be overridden by, specific market processes, policies or other government actions at a UK scale and within the devolved country administrations, several of which are being developed in parallel to the work on this standard.

This BSI Flex does not cover:

- 1) specific requirements for the delivery of different types of nature-based projects or trading in different nature markets (e.g. for CO₂e or biodiversity);
- 2) measurement of environmental outcomes from specific types of nature-based projects;
- 3) all uses of purchased credits or activities of buyers (outside markets);
- 4) inseting, although clauses in the standard might be relevant to organizations' inseting activity; or
- 5) any organization's or individual's reporting obligations.

Activities that can be related to nature markets, such as claims of net environmental impacts from the use of nature credits, either by suppliers (e.g. through inseting) or buyers (e.g. net impact claims) are not included. This is because they do not relate directly to the process of exchange in markets, and involve other practices (e.g. use of the mitigation hierarchy) which have their own definitions and standards. Nevertheless, many aspects of this BSI Flex are relevant and useful to these types of activities.

This BSI Flex is intended for use by:

- i) market participants;
- ii) market intermediaries, including the different codes/standards/schemes that are needed for this overarching standard to be met;
- iii) registries; and
- iv) other stakeholders in nature markets or in the environmental outcomes of trading nature credits.

2 Normative references

There are no normative references in this document.⁷⁾

⁷⁾ Documents that are referred to solely in an informative manner are listed in the Bibliography.

3 Terms, definitions and abbreviated terms

3.1 Terms and definitions

For the purposes of this document, the following terms and definitions apply.

3.1.1 additionality

change that would not have occurred in the absence of management actions, measured relative to the baseline

NOTE 1 In markets, credits result from environmental improvements that would not have happened otherwise in absence of the actions to supply the credits.

NOTE 2 In nature markets, tests can be used to assess whether credits are additional (see 5.2.3).

3.1.2 baseline

description of the state of supply area in the absence of the actions to supply credits to nature market(s)

NOTE 1 A baseline can take into account change in the state of the supply area during the lifetime of the credits it supplies.

NOTE 2 The baseline can be evidenced by the state of similar areas [i.e. of the same geography, habitat or ecosystem type(s) and environmental management], and where the actions to supply credits to nature market(s) could be used to generate the same type of nature credits, but those actions have not taken place.

NOTE 3 To enable measurement of additional nature credits, the baseline needs to describe a state of the environment and outcome for the credits that is predicted or assumed to occur in the absence of the actions to supply credits to nature market(s), while holding all other factors constant.

NOTE 4 See guidance on baselines in The Green Book [3] and The Magenta Book [4], and additionality (3.1.1).

3.1.3 baseline scenario

estimate of the state of the supply area, in the absence of the actions to supply credits to nature market(s), over a time period that is at least as long as the lifetime of the credits it supplies

3.1.4 bundling

sale of more than one type of environmental outcome from the same supply area, collectively in one nature credit transaction

NOTE Bundling can be:

- a) *implicit: when the outcomes delivered are not quantified, but are nonetheless represented by and sold in one nature credit transaction;*
- b) *explicit: when the outcomes delivered are quantified and sold together in one nature credit transaction; or*
- c) *partial: when an outcome delivered is quantified and sold in a nature credit transaction that is linked to one or more additional environmental outcomes.*

3.1.5 buyer

party who is registered to buy nature credits in a nature market registry