This is a review of two diametrically opposed books, both of which have a perspective on the role of carbon pricing and financial markets in addressing the challenge of climate change. Frunza’s book examines, with a great deal of hyperbole, the VAT fraud\(^1\) that blighted the EU emission-trading scheme in 2009. This most recent iteration of carousel tax fraud is claimed to be the ‘crime of the century’ (in the prologue) and an exemplar of the new age of organized crime that could topple European governments. In contrast, Banking on Climate Change is a meticulously researched, interview-based, and forward-looking study on the motivation of major financial actors to respond voluntarily to the challenge of climate change. Bowman’s methodological approach and broad knowledge of the nested-ness of voluntary rule adoption\(^2\) by the finance sector makes her book a point of departure for future research into how private finance can be brought to bear on the great challenge of our age.

Fraud and Carbon Markets also has an empirical core. In Chapter 8, Frunza utilizes his trading background and econometric skills to draw a detailed picture of the impact of the VAT fraud on market prices and volumes. The evidence of artificially high volumes during early 2009 coincides with this review’s authors’ personal experience, for during this period the bullish demand for EUAs severely tested our Know Your Client procedures, and we referred several enquiring clients to the financial services division of the Finnish police. The breakdown of the structure of the EUA market during 2009 into VAT fraud volumes, compliance trading, and financial positions adds valuable flesh to the bones of our understanding of this often (negatively) cited period in the history of the EU ETS. However, the weakness of Fraud and Carbon Markets is the

\(^1\) “Carousel” or “Missing Trader” VAT fraud is the charging of VAT on an underlying trade by a malfeasant trader, often in a chain of such trades, with the intention of concealing and not remitting the VAT due to the national taxation authority.

\(^2\) E.g. the Equator Principles III, 2013, and similar initiatives, such as the Carbon Principles and the Climate Principles.
limited analysis of the subsequent iterative regulatory process that resulted in the prompt cessation of VAT fraud in the EU ETS. What are the lessons that can be drawn from a policy-design/response perspective for the wider challenge of seeking to utilize the transformational power of private capital in addressing climate change and the intersection of climate law and financial-market regulation? Frunza concludes that the EU ETS ‘failed to provide any significant results in fighting the emission reductions, and moreover brought another source of negative externalities: the criminal activities on the financial markets’ (p. 170). This conclusion may be challenged on two grounds. First, while the strength of the causal connection can be debated, there has been a significant and sustained lowering of EU emissions since the implementation of the EU ETS; second, Frunza fails to establish a link between the brief period of the EU ETS serving as just another context for VAT fraud and any failure of the European Commission’s policy goals of environmental certainty and cost-effective mitigation.

In addition to being well written, Banking on Climate Change is also very topical. The need for adaptation and mitigation finance dominated conversation in the tents of Le Bourget and Bab Ighli, and despite the wording of article 9 of the Paris Agreement, there is no doubt that the lack of finance remains a key issue in the UNFCCC negotiations. At the core of this debate is the insistence of most developed countries that the provision of finance from private capital is (i) *sine qua non* to any transition to a low-carbon world; and (ii) counted towards the target of US$100 billion per annum. In November 2016, the European Parliament approved a revision of the directive governing occupational pensions (the IOPR Directive), including a requirement for pension funds to take account of climate change and environmental and social risks related to holdings. This is an example of the kind of climate-related ‘nudging’ government regulation, which Bowman discusses in Chapter 7; it is a means to harness finance actors to reach the desired environmental outcomes, to be contrasted with direct and coercive finance regulation. By analysing the motivations of the private capital market, Bowman advances our understanding of how to unlock the financial facilitation process—the matching of capital and economic activity—to enable stabilization of greenhouse gases in the atmosphere at a level to prevent dangerous anthropogenic interference with

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