

Abstract

Market mechanisms for carbon trading have been developed by nations around the world, and Indonesia launched its first licensed carbon exchange in September 2023. The Indonesia Carbon Exchange (IDXCARBON) regulates the carbon exchange through its 4 *Surat Keputusan (SK) Direksi* and 2 *Surat Edaran (SE)*. These 6 policy documents are analysed in order to unearth how the market system operates. All throughout the formation, enactment, and implementation of the policy, the Exchange and its Users are afflicted with costs that are incurred in the form of activities which require parties of a transaction to spend effort in the form of resources and time. This is referred to as transaction costs that are exerted as the market system operates. Qualitative information is investigated by conducting interviews with carbon market operators and carbon market users about their market activities, transaction characteristics, and transactor characteristics. In scrutinising the transaction costs, identifying the activities and reducing transaction costs by minimising efforts spent on the identified activities, ultimately making improvements to the policy and to the market system operations as the market fully matures. Discovering the existence of inevitable transaction costs which are activities that the Exchange considers as their best practices due to the nature of its surrounding institutional arrangements as a heavily regulated exchange. Lastly, the study provides recommendations for further improvements for the Indonesia Carbon Exchange.