IETA Response: CFTC Guidance Regarding the Listing for Trading of Voluntary Carbon Credit Derivative Contracts

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ABOUT IETA

IETA welcomes the opportunity to provide feedback on the proposed *Guidance Regarding the Listing for Trading of Voluntary Carbon Credit Derivative Contracts* published by the Commodity Futures Trading Commission (the "Commission" or CFTC).

For over 20 years, IETA has been the leading global business voice on robust market solutions to tackle climate change while driving clean finance at scale. IETA represents a broad and diverse group of stakeholders (300+ members worldwide) that includes carbon offset project developers, insurance providers, standards, investors, banks and financial institutions, law firms, funds, and businesses who are at the forefront of climate action. IETA's expertise is regularly called upon to inform carbon market solutions that deliver measurable climate outcomes, address economic competitiveness and carbon leakage concerns, balance efficiencies with social equity, and support a just transition.

IETA is the pre-eminent global organization dedicated to the promotion and maintenance of robust and sustainable carbon markets. IETA was the first international, multi-sectoral, purely business group devoted to pricing and trading greenhouse gas reductions. From the start, it had a strong focus on the Kyoto mechanisms and helped members using, hosting, and investing in Clean Development Mechanism (CDM) and Joint Implementation (JI) projects by disseminating policy and market information and promoting development and reform. In more recent years, IETA has also developed work streams on aviation, natural climate solutions, voluntary carbon markets, and carbon removals.

COMMENT ON PROPOSED GUIDELINES

IETA appreciates the CFTC's work on these proposed guidelines. IETA and the CFTC have common goals of enhancing trust in the VCM and elevating the use of high-quality carbon credits. Our comments on the proposed guidelines aim to clarify the role of DCMs, crediting programs, and multi-lateral initiatives in upholding quality of VCCs. We also discuss the convergence of the "voluntary" and "compliance" carbon markets and impacts to terminology in the market.

1) Role of a DCM

   Many of the issues which the Commission is trying to address in respect of the VCM are related to the underlying VCCs, rather than the derivatives market itself. In respect of this, it is important to note that DCMs are not ideally positioned to evaluate VCC quality. While DCMs have responsibility for preventing manipulation in their own market, they are not responsible for overseeing all activities in the physical market.

   The existing principle-based compliance obligations on DCMs, which follow from the statutory ''Core Principles'' that are set forth in the Commodities Exchange Act, as well as applicable CFTC rules and regulations applied, should suffice when listing derivatives contracts on VCCs.

In evaluating the appropriateness of listing a contract based on a VCC, DCMs should have discretion to make substantive determinations related to the crediting programs, methodologies, criteria (i.e., vintage), or credit labels they choose to include or exclude in VCC contracts.

2) Role of Carbon Crediting Programs

Given their deep expertise and foundational role in the market, crediting programs are the appropriate entities to address VCC quality. It is the responsibility of the crediting programs, together with project developers and VVBs to ensure there is no manipulation or fraudulent activity associated with the creation of VCCs that may be included in a derivative contract.

The crediting programs have extensive experience in assessing the complex issues on VCC quality, such as setting definitions for additionality, addressing permanence and reversal risks, and developing robust quantification methodologies. They provide massive amounts of information on rules, project approval status, credit issuance and specific project data that are published in the public domain and available to all interested parties.

3) Role of Multi-lateral Initiatives

The multi-lateral initiatives listed below can help identify high-integrity crediting programs. These initiatives are often focused on ensuring crediting programs have with good governance, robust registries, and other procedures to ensure the issuance of high-quality credits through endorsements or other recognition models.

The Commission should allow DCMs to rely on VCC certification from crediting programs recognized by multi-lateral initiatives, such as:

- ICROA (via the Carbon Crediting Program Endorsement Procedure)
- Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)
- Integrity Council for the Voluntary Carbon Market (ICVCM)
- IOSCO (Good Practices)
- Article 6.4 Supervisory Body of the Paris Agreement under the UNFCCC

IETA recognizes this is an evolving landscape and other quality standards may emerge, so this is not intended to represent a complete or fixed list of initiatives with benchmarks for quality. The critical factor is that DCMs are transparent about crediting programs that are eligible in their derivative contracts.

4) Convergence of Voluntary and Compliance Markets

IETA recognizes that the guidance is framed as being directed at the "voluntary" carbon market, but we would like to highlight the increasing convergence between the voluntary and compliance carbon markets.[1] Lines between voluntary carbon credits and compliance carbon credits are becoming less clear as credits issued by independent crediting programs may be authorized for use in national or international compliance regimes (i.e., CORSIA, California Air Resource Board). This means carbon credits may be used for either voluntary or compliance purposes and the use to which it is ultimately put becomes known only at the end stage when the credit is retired or cancelled for a specific purpose. Therefore, while IETA has used the term VCC in this response to mirror the language used by the Commission in the proposed guidelines, the term "carbon credit" would be more appropriate than "voluntary" carbon credit" in publications by the Commission going forward.

5) Conclusion

Once again, we appreciate this opportunity to record IETA's comments on the proposed guidelines. If you have any questions or further information about IETA's comments, please contact Amy Zell (**zell@ieta.org**).

[1] Compliance carbon markets are enforced through government legislation and/or regulation.