



October 4, 2022

Chairman Rostin Behnam
Commodity Futures Trading Commission
1155 21st Street, NW
Washington, DC 20581
Submitted via CFTC.gov

RE: Request for Information [87 FR 34856](#) titled Climate-Related Financial Risk

Dear Chairman Behnam:

Thank you to you and the Commodity Futures Trading Commission for your leadership on climate-related financial risk. The Carbon Business Council, a nonprofit trade association of more than 65 carbon management startups, appreciates your invitation to respond to the request for information as CFTC works to promote responsible innovation, ensure the financial integrity of all transactions subject to the Commodity Exchange Act, and avoid systemic risk.

The Carbon Business Council is specifically responding to questions 22-24 in the RFI, focused on voluntary carbon markets (VCM). We applaud CFTC for wanting to collect input on VCMs, which are a critical way to help reach net zero targets and scale carbon management solutions.

How can VCMs help to foster climate solutions, while also ensuring there is rigor, accuracy, and accountability in the amount of carbon being removed from the atmosphere? This is a crucial question that the Carbon Business Council is actively engaging in, including a [policy white paper](#) that we have recently published. We draw from our white paper to help answer CFTC's questions about VCMs.

We are specifically focused on the ways that VCM's can help to scale carbon dioxide removal. Carbon removal restores the climate by removing legacy emissions from the atmosphere. Responding to global scientific consensus that gigatons of removal will be needed to restore the climate and stop the worst impacts of climate change, a new generation of companies is rising to the challenge, creating a multitude of promising carbon removal solutions. Many companies are looking toward marketplaces to buy and sell carbon removals, which can expedite the growth of the industry and help fulfill net zero targets.

Question 22: Are there ways in which the Commission could enhance the integrity of voluntary carbon markets and foster transparency, fairness, and liquidity in those markets?

VCMs, which are projected to grow to a \$50 billion market in the next eight years, provide an important pathway to achieve net-zero climate targets. Where carbon was once traded under cap-and-trade and compliance marketplaces, VCMs are growing globally as both governments and corporations seek to combat climate change. Despite high growth in the

past decade, there are open questions to address around additionality, leakage, verification, permanence, retirements, and other policy considerations.

With all of these open questions, CFTC can play an important role in issuing definitions for key terms in carbon markets. Doing so will boost the integrity, transparency, fairness, and liquidity of VCMs. While there are a wide range of durable carbon removal solutions and as many as possible should be brought to market, having CFTC establish a minimum threshold for entry will help to establish a baseline for durable CDR. Establishing this minimum quality will also help further differentiate between offsets and CDR.

Question 23: Are there aspects of the voluntary carbon markets that are susceptible to fraud and manipulation and/or merit enhanced Commission oversight?

Every time a carbon removal credit is traded, an additional unit of carbon should be removed from the atmosphere and sequestered. This seems self-evident as the goal of VCMs is to incentivize decarbonization. However, today carbon credits can be traded between organizations and countries and be used as offsets for all groups involved in the trading chain, i.e. one unit of carbon can be claimed on multiple carbon accounts. Besides these basic accounting inaccuracies, there are challenges with accounting for carbon credits when used for insetting (the use of these credits to offset supply chain scope 3 emissions within value chains) and their use in offsetting and VCMs. There is not currently an easy system that allows an individual or corporation to track if a carbon credit has been used for insetting. Therefore, it is plausible the same carbon credit can be both traded multiple times and used for both insetting and offsetting but only a single ton has been actually sequestered, though for accounting and reporting purposes, it will appear that multiple tonnes of CO₂ were drawn down. A strengthened system for accountability determined by a leader like CFTC could be helpful in combating miscounting of credits across value chains. This would help ensure the financial integrity of all transactions.

There are currently multiple definitions for additionality, permanence, and measurement in VCMs. A common set of definitions and enhanced oversight from the CFTC will help to ensure the integrity of VCMs.

Question 24: Should the Commission consider creating some form of registration framework for any market participants within the voluntary carbon markets to enhance the integrity of the voluntary carbon markets? If so, what would a regulation framework entail?

Establishing a framework to ensure quality and permanence can help to boost the integrity and impact of VCMs. But private markets have an important role to play in developing which VCMs will ultimately be most successful for buyers and sellers, and it is important to avoid impeding innovation. A VCM built on quality will help lead to greater climate action. A high-bar for carbon credit certification must be met with an equivalently high-bar for



carbon credit usage and emissions disclosure. When properly implemented, carbon markets have the potential to drive effective climate change prevention and remediation at a global scale.

However, as carbon removal continues to scale, it is important that CDR project developers are supported to enter VCMs. Some VCMs already offer support for CDR companies and identifying and addressing additional needs will help catalyze more high-quality CDR solutions. Barriers to entry should therefore be recognized and addressed.

An effective VCM must measure offsets and removals by quality and performance. Carbon markets originated as a way to spread the cost of reducing emissions. VCMs and registries trade data – digital credit for a physical action – which inevitably risks a project’s quality. This has continued to affect the introduction of removals credits in the market. Restructuring VCMs with stronger quality metrics around additionality, permanence, leakage, and MRV would incite tangible, efficacious carbon offsetting and removal.

A registration framework by the CFTC could be key. VCMs using removals credits currently operate in a vacuum where credits are assessed by registries but under presuppositions of offsets standards. As removals are uniquely different, verification mechanisms and standards for them as well as for VCMs are needed to fill this gap amid divergence from compliance markets. New mechanisms for accounting and MRV could be designed by the CFTC and strengthened under Scope 3 emissions standards. Stronger MRV standards in partnership with continued mitigation policies will help strengthen and evolve VCMs.

VCMs have a significant opportunity to evolve in a manner that helps bring durable and promising carbon removal solutions to market. We are sharing a summary of our white paper’s policy and market recommendations below:

Distinguish offsets and carbon removal credits. Traditional offset and removal credits can coexist in VCMs, but these two credit types are different and should be treated as such. Clarity in names and definitions will build greater transparency into net-zero commitments and the markets themselves.

Align definitions. Clearly defined VCM terms will help establish understanding and a common set of principles across markets. These definitions likely need to be developed by a government body or third party and will benefit from broad stakeholder buy-in and community input. An improved definition is particularly needed for *additionality*, which is interpreted, determined, and weighted differently across players and markets.



Establish a minimum quality to enter VCM markets. A wide range of durable carbon removal solutions exists, and as many as possible that meet minimum durability and quality standards should be brought to market. Establishing minimum entry thresholds for durability and quality, along with tools like a quality grading rubric, will help strengthen VCMs and establish broader baselines for CDR. Transparency and context around any quality rubric will be crucial to its success.

Streamline VCM verification. Verifying CDR approaches for removal credits helps build a stronger, more confident market that delivers climate benefits. At the same time, given the short time frame remaining to avert the worst effects of climate change, VCM verification systems will benefit from being agile and efficient to avoid years-long delays in verifying CDR to enter markets.

Price to reflect permanence. Each CDR solution presents unique benefits along with a series of trade-offs, ranging from the permanence of the removal method to the potential removal capacity of the relevant CDR technology. Along with other factors, the durability of a given CDR approach should be factored into VCM pricing, meaning solutions with longer permanence are priced and valued accordingly.

Increase transparency in emissions data and net-zero pledges. There are currently gaps in publicly disclosed data on carbon emissions and offsets in companies' net-zero pledges. Improved transparency in this regard will offer new insight into how many credits CDR buyers will likely require, providing a positive signal for investment and development of CDR projects in VCMs.

Ensure CDR Project Developers are Supported to Enter VCMs. Some VCMs already offer support for CDR companies and identifying and addressing additional needs will help catalyze more high-quality CDR solutions. This may include, for example, credit to support CDR in early-stage research and development and/or during the verification process.

Based on the challenges and constraints in today's markets, the recommendations above can help grow VCMs, scale carbon removal, and provide a greater menu of options for purchasers. We appreciate CFTC's climate leadership and thank you for the invitation to submit our response.

Sincerely,

Benjamin Rubin

Ben Rubin, Executive Director
Carbon Business Council