
S&P Global

Commodity Insights

S&P Global Commodity Insights' Comments on the Commodity Futures Trading Commission's Second Voluntary Carbon Markets Convening

Introduction

S&P Global Commodity Insights welcomes the opportunity to provide comments on the Commodity Futures Trading Commission's (CFTC's) Second Voluntary Carbon Markets Convening.

About S&P Global Commodity Insights

S&P Global Commodity Insights (Commodity Insights) employs over 1,200 people in more than 19 offices worldwide located in global business and energy centers on five continents. From an original focus on petroleum, we now produce Platts price assessments, benchmarks, news and analytical coverage of oil, natural gas, LNG, electric power, coal, shipping, petrochemicals, metals, agriculture, and the energy transition, including carbon markets. Each day we publish news, commentary, fundamental market data and analytics, and our price reporting agency publishes thousands of daily price assessments that are widely used as benchmarks in the physical and futures markets.

Commodity Insights is an independent benchmark provider and supports the objective of fostering efficiency, transparency, and integrity in the financial and commodity markets. We are independent and separate from market participants, product providers, and government entities. We do not participate in the markets we measure and have no vested interest in the value of any of our price assessments or indices.

Our Role in Voluntary Carbon Markets

Price Reporting Agencies (PRAs) like Platts, part of Commodity Insights, offer a broad range of independent and impartial market and price information across commodity markets, including voluntary carbon markets. As independent publishing companies, PRAs provide market coverage that helps markets evolve and function with greater transparency and efficiency. PRAs seek to provide robust and transparent information on commodity market dynamics. We believe that the role of PRAs in carbon markets is complementary to the work that the CFTC is currently undertaking to improve the functioning of carbon markets.

Platts assesses the price of an array of different types of carbon credits and currently produces more than 20 price assessments including both current year delivery and delivery one year forward (Year 1) prices. Each price assessment reflects the most competitive credit that meets the methodology guidelines laid out for each credit category, based on bids, offers, trades reported in the brokered market, or on trading and exchange instruments.

Platts collects bid, offers, and trades for carbon credits that have been certified by the following standards: The Gold Standard, Climate Action Reserve (CAR), and Verified Carbon Standard (VCS), Architecture for REDD+ Transactions, and American Carbon Registry. We collect price indications directly from market participants during every trading day.

Commodity Insights produces four standalone prices:

- CORSIA eligible credits (CEC): The International Civil Aviation Organization created the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) to cap international aviation emissions from 2021. While airlines are expected to invest in other emissions-reducing options, the expectation is that most of this will be accomplished through the purchase of voluntary carbon credits. We publish a daily price for CORSIA-eligible credits in dollars per metric ton of carbon dioxide equivalent;
- Nature based credits (CNC): This price reflects nature-based solutions with a vintage of each of the past five years. This includes both avoidance and removal credits;
- The Renewable Energy Carbon credits price: This includes the vintage of each of the last three years; and
- The Methane Collection price: This price reflects credits generated by projects aimed at reducing methane emissions such as Landfill Gas Collection, Waste Gas, and Livestock Waste Management projects (vintage of each of the last three years).

How Commodity Insights Provides Accurate, Independent, and Transparent Price Assessments

Platts has adhered to the International Organization of Securities Commissions (IOSCO) Price Reporting Agencies Principles since 2013. While the PRA Principles apply to oil and other commodities, Commodity Insights looks to these principles in providing standards by which we assess carbon markets.

In adhering to the IOSCO PRA principles, Platts:

- Documents and discloses its criteria and procedures;
- Employs transparency by making its assessment methodologies public and engaging with market participants and stakeholders in the event of any changes;
- Makes public how it collects and employs input data and how judgment is exercised;
- Makes public the criteria employed that define who may submit input data and how the integrity of the reporting process is maintained;
- Ensures that our assessors are consistently qualified;
- Has internal controls to maintain the integrity and reliability of our assessments;

- Documents and retains the necessary information in reaching a price assessment for five years.
- Implements and enforces procedures to avoid commercial and personal conflicts of interest;
- Maintains a process for reviewing and investigating complaints about the assessment process;
- Commits to make available its audit trails and related documentation available to relevant market authorities; and
- Retains Ernst and Young to conduct an annual, independent assurance review of its compliance with IOSCO principles and publishes the results of the review.

Our Perspectives on the CFTC’s Forthcoming Proposed Guidance

As the CFTC moves forward in proposing guidance, Commodity Insights believes it should standardize principles for robust and high-quality carbon credit markets. The CFTC’s role could include a range of objectives, including but not limited to:

- Guidance on the classification of carbon credits as compared to other commodities. Commodity Insights believes that these credits are commodities rather than financial instruments;
- Looking to existing IOSCO principles for Price Reporting Agencies and considering how they may apply to carbon credits;
- Guidance on the principles, processes and governance of registries that maintain carbon credits;
- Guidance on the use of carbon credits within financial derivative contracts; and
- Guidance on the use of terms that reference Paris goals (*e.g.*, “carbon neutral” etc.) within commodity markets.

Commodity Insights, however, does not believe it is necessary for the CFTC to create a new benchmark and derivatives regulation over climatic variables. Rather, an IOSCO principles-based approach focused on commodities benchmarking and price reporting agencies would provide important transparency and improve quality while allowing for the fair and efficient functioning of voluntary carbon markets.

Conclusion

Commodity Insights appreciates the opportunity to provide comments in response to the CFTC’s Second Voluntary Carbon Credits Convening. If we can be of any further assistance, please do not hesitate to contact Sarah Morgan, Director of Government Affairs at sarah.morgan@spglobal.com.