



August 18, 2023

Commodity Futures Trading Commission

1155 21st Street, NW

Washington, D.C., 20502

**RE: Request for Public Comment: Second Voluntary Carbon Markets Convening on July 19, 2023**

Dear CFTC Commissioners,

The International Emission Trading Association (IETA) and its members welcome the opportunity to provide supplemental information to the comments delivered by IETA during the Commodity Futures Trading Commission's (CFTC or "the Commission") Second Voluntary Carbon Markets Convening ("the convening") on July 19, 2023. We thank you for the invitation to IETA's President and CEO, Dirk Forrister, to participate in the convening. We also welcome the opportunity to meet with you and the Commission staff to discuss these topics in more detail.

Fostering quality and integrity in the voluntary carbon market (VCM) is foundational to IETA's mission. **IETA seeks to establish effective market-based trading systems for greenhouse gas (GHG) emissions and removals that are environmentally robust, fair, open, efficient, accountable, and consistent across national boundaries.** As such, quality and integrity must be a priority at every level of market design – from carbon credit generation and trading to related derivatives and financial products. Failure to achieve quality and integrity in the VCM runs counter to the second component of our mission: to empower businesses across the value chain to engage in climate action while advancing objectives of the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement as informed by Intergovernmental Panel on Climate Change (IPCC) science.

Importantly, IETA houses the International Carbon Reduction and Offset Alliance (ICROA), a non-profit initiative first established in 2008. Through [ICROA's Code of Best Practice and Accreditation Program](#), best practices in voluntary carbon management and offsetting are promoted in the market, enabling climate leadership of corporates and governments ahead of – and beyond – regulation. Categories, shown in Figure 1, are [tested](#) by third-party assessment as part of ICROA endorsement of high quality VCM Standards.

Submitted to the Commodity Futures Trading Commission

Together, IETA and ICROA stand for high integrity on both the supply and demand side of the VCM. This is foundational to our mission and vision as the world’s trusted business voice on market-based climate solutions.

IETA’s comments are structured around three (3) sections to provide supplemental information following IETA’s participation in the convening. Our input includes proposals for ways in which the Commission can contribute to GHG mitigation by advancing transparency and scale of the VCM.

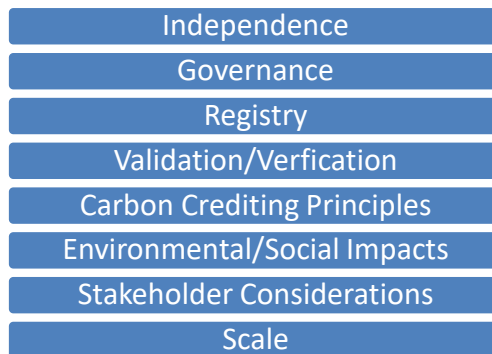


Figure 1: ICROA Assessment Categories

- **Section 1 – Core Principles & Features of the VCM:** broad discussion of the attributes and role that IETA sees the VCM playing domestically and internationally.
- **Section 2 – Current International VCM Integrity Initiatives:** underscores the relevant integrity initiatives ongoing in the VCM globally, which CFTC should take into consideration.
- **Section 3 – Recommendations:** recognizing the Commission’s jurisdiction and enforcement responsibilities, IETA provides recommendations for how the CFTC could best contribute to GHG mitigation through regulation and oversight.

## 1. Core Principles & Features of the VCM

The VCM in many ways is at an inflection point. Unlike previous years, the market now faces greater scrutiny alongside (both real and perceived) challenges on its integrity and role in helping to achieve net zero.<sup>1</sup> Several of the broad barriers affecting the entirety of the VCM are discussed in IETA’s 2023 Paper, “The Evolving Voluntary Carbon Market” (see Box 1).

### Box 1: IETA’s Evolving Voluntary Carbon Market Paper

For further information on the latest state and trends in the VCM see IETA’s [Evolving Carbon Market Paper](#), that sheds light on how the VCM is evolving. In the paper, a group of IETA members identify the issues and uncertainties that market players are experiencing due to the debate around the VCM and the ambitious role it can play. The Paper discusses a range of topics significantly impacting the market by dividing them into the following four sections:

**Section A:** Corporate Net-zero Guidance and Inclusion of Offsetting

**Section B:** The Relationship Between the VCM and Country Actions Under the Paris Agreement

**Section C:** Consolidation or Proliferation of Crediting Approaches

**Section D:** Governance and Increasing Regulation

<sup>1</sup> <https://www.weforum.org/whitepapers/the-voluntary-carbon-market-climate-finance-at-an-inflection-point/>

**Despite current challenges, it is imperative to recognize the efforts of the VCM (and domestic compliance carbon markets) to seek and achieve *iterative refinement*.** Advancements in quality are a constant and ongoing process in the market. Market participants, including the leading VCM standards, project developers, verifiers, etc., compete for market share by demonstrating, developing, and delivering on their ability to achieve more accurate results, better reporting, and more cost-effective outcomes from their competitors. Such competition is driven, in part, by companies looking to manage risks with their corporate claims and accounting for emissions.

**Outside this competitive sphere, a large body of research is continuously growing.** The VCM works tirelessly to ensure that the latest science informs the actions undertaken to generate carbon credits and the best practices implemented to ensure the longevity of the reductions in the market. At a higher level, the VCM has been actively self-reflective, with several bodies – composed of multi-sector experts and a broad range of market participants – are tirelessly working towards establishing the quality development and use of carbon credits (further discussed in Section 2 below).

In recent years, the VCM has taken on increased importance with the acceleration of corporate commitments in line with the Paris Climate Agreement. This is partly due to new or growing investor and customer pressures on businesses to help deliver the United States’ Nationally Determined Contribution (NDC) of 50-52% reduction from 2005 GHG levels by 2030. For many companies, the VCM offers a way to support additional, high-integrity reductions and removals beyond reducing their own emissions.<sup>2</sup> The VCM near and longer-term success should play a key role in helping contribute to the US’ efforts in achieving its NDC – a reality that is reflected in recent economic modeling work co-authored by IETA and the University of Maryland.<sup>3</sup>

**The CFTC can help restore public confidence in the broad use of the VCM, provided the Commission can tailor its regulatory oversight to its areas of expertise on futures and options, all while leveraging independent initiatives to drive trust in the market.**

IETA prefers government-oriented compliance systems to voluntary approaches, given that regulated programs carry the force of law. However, in the absence of a US Federal government compliance system, we recognize that the VCM can help fill a stark “action gap” while helping to prepare for mandatory policy.

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<sup>2</sup> IETA supports the emissions reductions hierarchy of reduce, avoid and compensate (offset).

<sup>3</sup> IETA has worked with the University of Maryland on [economic analysis](#) of the market potential of Article 6 of the Paris Agreement, which requires proper market reporting to avoid double counting. The studies show that the Paris climate goals can be met more quickly and cost effectively if international markets are allowed to work efficiently. By cooperating, the participating countries can cut the costs in half and facilitate opportunities to double their level of ambition. But if businesses are not encouraged to work together across international borders with high integrity markets, large amounts of mitigation potential in developing countries will be stranded without investment.

Identified below are some main features to consider across the leading VCM crediting standards which are endorsed by ICROA:

- **The VCM crediting standards cover their costs with private philanthropic donations and/or user fees.** They do not receive governmental funding for standard setting. The user fee model has been deemed appropriate, because it is the same funding model that the participating countries used in the UN compliance systems, such as the Kyoto Protocol's Clean Development Mechanism (CDM) and Joint Implementation programs. As a result, user fees are the main funding source for VCM crediting programs.
- **The VCM crediting organizations develop standards that are based on the best science available at the time.** They use independent experts on methodology development, drawing from a wide array of views from academia, think tanks, business, NGOs and technology firms. In addition, they put their proposed methodologies out for public consultation to take account of broader stakeholder views prior to final approval.
- **Continuous improvements; constantly evolving.** The leading VCM crediting organizations update their standards and methodologies regularly, to take account of new scientific developments, technology changes or market practices that impact project methodologies.
- **Independent, Third-Party Involvement.** Before credits are issued, the VCM standards require that a qualified third-party firm must conduct a verification audit to assure that all of the methodological criteria have been met.
- **Third party validation and verification bodies must be qualified to perform their duties.** Historically, the UN CDM created a process for approving of validation and verification firms as the [designated operational entities](#) (DOEs). The ICAO CORSIA program also runs an accreditation for acceptable verification companies, which are listed [here](#). In a similar fashion, the VCM crediting standards developed a qualification requirement for validation and verification bodies (VVBs), building on the CDM DOE qualification approach. Currently, the independent standards require that VVBs must meet ISO 14065 requirements as assured by the International Accreditation Forum.

## 2. Current VCM Integrity Initiatives

In addition to the frameworks in place to ensure Standards are operating at a high level of rigor and transparency, there are several ongoing global initiatives being made to improve the robustness of the overall market. Some of the most notable developments and initiatives are summarized below.

- **Standardized Market Trading Documentation** has been developed, which helps to build market integrity with commonly accepted practices. IETA and ISDA have produced model trading agreements to help harmonize the legal structures for trading carbon credits. IETA's model Carbon Reduction and Removal Trading Documentation is provided for transactions in the primary market. The International

Swaps and Derivatives Association's (ISDA) [Verified Carbon Credit \(VCC\) Transactions Definitions](#) provide market participants with standardized documents for the secondary market trading of VCCs. These documents help to facilitate liquidity in the market as it allows market participants to transact with confidence by providing clearly defined provisions for business-as-usual execution and settlement, outlining mechanisms to resolve asset and market related risk scenarios.

- **Market Data Infrastructure** is also improving to provide more transparency on credits available from the VCM and government programs. On December 7, 2022, the World Bank, IETA and the Government of Singapore launched the [Climate Action Data \(CAD\) Trust](#), a decentralized meta data platform that links, aggregates, and harmonizes all major carbon credit registry data to enhance transparent accounting in line with Article 6 of the Paris Agreement. Using blockchain technology to create a decentralized record of carbon market activity, the CAD Trust aims to avoid double counting, increase trust in carbon credit data, and build confidence in markets through improved transparency.
- **Approval for Government Compliance:** Some of the VCM carbon crediting programs have been approved for governmental compliance programs, such as the state of California's carbon trading system (ACR, CAR and VERRA are approved for certifying credits under a defined set of carbon crediting standards) and the International [Civil Aviation Organization's Carbon Offset and Reduction Scheme for International Aviation](#) (CORSIA).
- **On the Supply Side** the [Integrity Council for the Voluntary Carbon Market](#) (ICVCM) on 27 July 2023 issued its full criteria for assessing categories of carbon credits and methodologies, complete with an Assessment Framework for deciding which types of units meet the Core Carbon Principles (CCPs) issued earlier this year. The ICVCM aims to raise the bar on quality of carbon credits produced for the VCM and to assist in continuous improvement of the market over time. The ICVCM's CCPs will now provide market players with a credible, rigorous, and readily accessible means of identifying high-quality carbon credits that create real, additional, and verifiable climate impact with high environmental and social integrity by establishing a definitive and consistent benchmark for high-integrity carbon credits, based on solid science and best practice; assessing crediting programs and credit types against that benchmark; and clearly identifying those that meet it.
- **On the Demand Side** third party endorsement for claims about offsets have been made available and are forthcoming in the market. The [VCM Integrity Initiative](#) issued a new Claims Code of Practice on 28 June 2023 offering a tiered structure for making claims on the use of carbon credits. Other standards are still evolving like ISO 14068, expected to be published later this year.

### 3. Recommendations

Regarding the underlying primary (or "spot") market, the Commission has full authority to enforce against instances of market manipulation and fraud. More generally, the Commission **should be judicious about their engagement** as there are several other checks and balances in the VCM that are coming together, as outlined above, to effectively govern the spot market. The Commission is in a fortunate position to

leverage the evolving work of existing initiatives to support the drive for quality and integrity in the VCM. In particular, the ICVCM potentially offers a path for the CFTC to use external governance to move expeditiously in providing clear guidance to the market. It is appropriate and most efficient to build on the ICVCM, given the extensive independent review of market standards and practices that this group has conducted to date. ICVCM has also led an incredibly extensive series of public consultations to develop tools for assessing supply side quality and integrity. The Commission should consider referencing and leveraging this work rather than attempting to recreate or duplicate.

**IETA would welcome the CFTC’s oversight of the futures, options and derivatives market that are traded on regulated exchanges, areas within the Commission’s jurisdiction that have garnered less attention by ongoing initiatives in the VCM.** Admittedly, the futures and options markets are nascent for carbon credits, but they are expected to grow significantly as companies align to the Paris Climate goals. The Commission could offer early guidance on how market participants should anticipate that these vital markets will be overseen alongside the existing oversight mechanisms for energy, environmental and agricultural commodities markets.

**IETA strongly recommends the CFTC take a coordinated approach to the Federal Trade Commission (FTC) and the Security Exchange Commission (SEC) in their individual efforts to regulate the VCM.** IETA has shared comments with both the SEC and FTC on their enforcement of their statutes and regulation related to the VCM.<sup>4</sup> In addition to coordination and use of the efforts of non-government organizations, cross governmental collaboration is essential to build out the law and regulation related to environmental markets and their derivatives. Considering the nascent and evolving nature of the VCM, if regulatory structures and oversight of the CFTC become overly cumbersome, it could hinder investment at the very time it should be encouraged.

**Finally, IETA urges the CFTC to consider the important example it could set for market regulators in other jurisdictions worldwide.** The carbon market needs encouragement to grow stronger, and regulators abroad could benefit from a model of effective and efficient regulatory oversight. The VCM is a crucial tool to mobilize funding from the private sector and achieve mitigation potential that is available in developing countries.<sup>5</sup>

Once again, IETA thanks the CFTC for welcoming our President and CEO, Dirk Forrister, to participate in the convening, and we appreciate this opportunity to share further insights and recommendations. IETA welcomes the opportunity to meet with you and Commission staff to discuss these topics in more detail.

For any questions or concerns related to our feedback and input please reach out to Tom ([lawler@ieta.org](mailto:lawler@ieta.org)) or Erin ([eforrister@ieta.org](mailto:eforrister@ieta.org)).

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<sup>4</sup> See our comments shared with the FTC on the Green Guides [here](#) and with the Security Exchange Commission [here](#)

<sup>5</sup> [https://www.ieta.org/resources/Documents/IETA\\_A6%20Report%20Final.pdf](https://www.ieta.org/resources/Documents/IETA_A6%20Report%20Final.pdf)