



February 5, 2024

Christopher Kirkpatrick, Secretary of the Commission
Commodity Futures Trading Commission
1155 21st Street, NW
Washington, DC 20581

RE: Request for Information [88 FR 89410](#) titled Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts; Request for Comment

Secretary Kirkpatrick:

Thank you to the Commodity Future Trading Commission (“CFTC”) for your leadership and request for comment on the Voluntary Carbon Market (“VCM”) and Voluntary Carbon Credits (“VCC”). Nori supports the CFTC’s efforts to advance standardization in the VCMs in a way that will foster transparency, liquidity, accurate VCC pricing, and market integrity. Nori develops carbon dioxide removal methodologies and works with suppliers who adopt these methodologies to create high-quality carbon removal credits and products that are sold through Nori’s platform to buyers. As such, Nori is a crediting program that functions as a registry and a marketplace and has been in operation since 2017. In order to achieve our mission¹, we have built a company specifically aimed to: 1) enable climate change reversal by focusing exclusively on the removal of excess carbon dioxide from the atmosphere; 2) grow carbon removal to gigatonne scale by making it affordable and simple for suppliers of carbon removal to get paid for credible carbon removal by buyers; and 3) ensure that projects are providing real and credible carbon removals using science-backed and innovative quantification methods, and methodology requirements, that enable buyers to confidently participate in the VCM. As of this submission Nori has quantified nearly 170,000 Regenerative Tonnes (Nori’s carbon removal credit) and generated over \$2 million of revenue for our suppliers which are made up of American farmers in Maryland, Iowa, Illinois, Kansas, Wisconsin, Tennessee, Nebraska and Missouri.

¹ Nori is on a mission to scale carbon removal, with the ultimate goal of reversing climate change. Its end-to-end approach to creating, managing and selling verified carbon removal is designed to increase transparency, liquidity, and confidence in the industry.



The VCM Today

VCMs have existed for decades² and encompass three distinct types of credits: carbon removals, carbon reductions, and carbon avoidances. Nori is exclusively focused on carbon removal credits. Over the past five years there has been a surging interest in the VCM, VCCs, and carbon removal credits in particular, as corporations become more actively interested in sustainability and climate change mitigation strategies and the use of carbon removal credits to offset emissions. As a result of this increased interest and a lack of authoritative definitions, multiple public and private standards bodies have arisen that attempt to define key quality measures for carbon removal crediting. The result of these efforts is that there are at least 11³ standards creating confusion for both credit creators and buyers. With no canonical standard to rely on, poorly measured and low-quality credits may be transacted. At best, the risk is that the credits do not mitigate climate change and help achieve the goals the buyer sought. At worst, the credits could lead to fraud and manipulation, unjustly enriching bad actors. In a market that is, by definition, voluntary, these risks create considerable disincentive for buyers such as corporations, and sellers like American farmers, to participate.

The VCM is projected to be a multi-billion to trillion-dollar industry by 2050⁴. However, today it is still a nascent marketplace with growth impeded by a lack of definitional clarity or consistent standards. The CFTC can help diminish impediments to these markets by providing guidance that gives Designated Contract Markets (“DCM”) clarity relating to setting standards for futures contracts on VCCs. This will help foster innovation and spur continued market growth.

² <https://vcmprimer.org/chapter-1-what-is-the-voluntary-carbon-market/> Most people consider the 1992 Kyoto Protocol as the genesis of VCMs.

³ These bodies include the EU’s effort to define carbon certification (CRCF), The Integrity Council for Voluntary Markets (ICVCM), International Carbon Reduction and Offset Alliance (ICROA), Reykjavik Protocol, Carbon Direct/Microsoft Criteria for High-Quality Carbon Removal, Carbon Offsetting and Reduction Scheme for International Aviation (CORSA), Science Based Target Initiatives (SBTi), Voluntary Carbon Markets Initiative (VCMI), Oxford Principles for Net Zero Accounting, Isometric, E-Liability Institute.

⁴ <https://about.bnef.com/blog/carbon-offset-market-could-reach-1-trillion-with-right-rules/>



CFTC Role in the VCM

While the CFTC can play an important role in helping DCMs set standards for VCC futures contracts to ensure against fraud or manipulation, it is also important to allow the spot market flexibility to develop and experiment with various technologies, measurements, and new products.

Nori believes that the CFTC currently has commodity frameworks that can be applied to the VCM and VCCs. For traditional agricultural commodities, the grading standards for the commodity is set by a governing body and may also include a detailed description of the process by which the standard is assessed. For example, in the case of CME Corn Futures, the CME's rulebook indicates that the US Secretary of Agriculture sets the standard for delivery eligibility. For ICE Coffee Futures, a detailed delivery process is provided in the ICE Coffee "C"® Rules that requires coffee beans to obtain a Certificate of Grade to be eligible for delivery. From these rules, customary premiums or discounts can be applied based on the ultimate grade of a commodity. For a number of existing emissions-related contracts, the exchange Rulebook points to a commercial standard or methodology, state law, or a reference to a relevant governing body to define the commodity that will meet delivery standards. Any of these approaches could be permitted by the CFTC, so long as they comply with the Core Principles. However, DCMs should consider the quality of credits, crediting programs, and carbon removal projects as described below. Similarly, when listing futures contracts on VCCs, DCMs should designate a governmental governing body, a detailed process of commodity assessment, or delegation to a regional body in their Rulebooks to establish the standards VCCs must meet to be eligible for delivery.

DCMs Should Consider

Quality of Credits

The CFTC should ensure that DCM rules set disclosure requirements and delivery eligibility standards on par with other commodities.

To ensure that credits are scientifically rigorous and properly measured requires transparency in the creation of the credits, and measurement and quantification of carbon removal. This transparency begins at the time of VCC creation and must remain



throughout the lifecycle of the VCC. DCM rulebooks should include requirements for marketplace standards, methodologies, carbon quantification methods, and disclosures thereof. The VCM, crediting programs, and registries must implement the rulebook requirements for the VCCs to be eligible for delivery, including certifications or standards the VCC methodology meets, if any.

The defining characteristics of a VCC that must be available to determine delivery eligibility criteria include: boundaries of the VCC source project both temporally and spatially, detailed explanations of carbon measurement and measurement uncertainties, as well as carbon life-cycle assessments.

Quality of Crediting Programs

Crediting programs should disclose expected and/or contractual carbon sequestration duration so buyers can assess the appropriate use for the credit(s); for example, shorter duration sequestration may have environmental co-benefits while longer duration sequestration credits may be more appropriate for emissions offsetting. The Crediting program should make accessible the VCC product specification, crediting methodology, and other relevant documents, written in a non-technical manner.

Quality of VCC Projects

The rules establishing the VCCs eligible to underlie a futures contract have to establish that the source project the Crediting Program is generating the VCCs for is real and sufficiently disclosed for buyers/sellers and standard-setters to assess the validity of the VCC quality as discussed above. Projects underpinning Crediting Programs should also disclose business structures including holding companies or investors, any liabilities or guarantees owed to other third parties, permitting requirements, and reporting of bankruptcy or ownership changes and audits as well as their type, if any.

For projects involving emerging carbon removal technologies associated with an early Technical Readiness Level of six or below⁵, detailed information about technical readiness, transition from lab testing to prototype, and other material risks, should be provided.

⁵ <https://www.gao.gov/assets/gao-20-48g.pdf>



A VCC Data Repository

To prevent double-accounting and allow for accurate auditing and traceability, a VCC Data Registry (VDR) should be created and maintained by a non-interested third party whose sole purpose is to ensure that credits are properly recorded and tracked. This could be similar to a Swap Data Repository (SDR) where a private (CFTC registered/regulated) entity collects, records, and reports specific data fields relevant to VCCs and VCMs. Any participant in the VCC would be required to report transactions to the VDR. The VDR could be funded through data recording, management, and access fees.

Material Changes to VCCs

DCMs should consider, before listing new VCC contracts, or new expiries for existing contracts, whether any modifications should be made to the futures contract as a result of any material change(s) to the underlying VCC as disclosed by the Crediting Program. Criteria that should be considered include the following: eligibility to participate in the crediting program, contractual obligations in creating, buying and selling the VCC and consequences for non-compliance, crediting type, use case(s) for VCCs, accounting, reporting and verification of VCCs, data ownership and requirements.

Delivery Procedures

The delivery process for physically-settled VCC futures should describe, in detail, the responsibilities of DCMs, clearinghouses, Futures Commission Merchants (FCMs), registries, Crediting Programs, and any other third party required to establish delivery eligibility and carry out the delivery process. Specific details should include, among other things:

- Any requirements related to the funding/posting of initial margin, maintenance margin, and additional margin cash and/or collateral (including VCCs) during the course of the contract duration up to and including expiry.
- Where and how such collateral will be held, maintained, and reported upon (including with Approved Depository Institutions).
- The role of FCMs in the foregoing, including how accounts holding customer VCCs will be segregated, e.g. as member property.
- Definition of qualifications for, and identification of, Eligible Delivery Members who are able to make/receive physical delivery.

- The process by which settlement will be determined, including relevant references for settlement price and quantity and last trading day and time.
- The process by which delivery will be effected including the specific steps, timeline, and parties involved.
- Prevention and/or resolution of delivery failures, including e.g. an Alternative Delivery Process.
- Any consequences relating to a delivery failure.
- The form of the record representing the physical VCC commodity, and ownership thereof, including for purposes of creating a “security entitlement” (as such term is defined in Section 8-102(a)(17) of the UCC) where, e.g. the VCC asset collateral is treated as a “financial asset” (as such term is defined in Section 8-102(a)(9) of the UCC) and where Clearing Members are treated as “entitlement holders” (as such term is defined in Section 8-102(a)(7) of the UCC).
- Where and how records are stored and maintained and by whom (including, for example, a VCC registry’s books & records or a public blockchain).
- Whether or not the owner of a VCC can take possession of the asset (for example in the instance of a non-fungible token created on a public blockchain), what information is captured as part of the asset record (e.g. price paid, volume, fees, purchaser/seller) and the degree of transparency related to such data.
- The establishment of a Board and its rights and obligations in the event of an Emergency in accordance with Emergency Rules.

Risk Mitigation Strategy Disclosures

Buyers need sufficient disclosure to decide how to price the risk. Insurance products, buffer pools, and any other risk management measures may be desirable to buyers and sellers by providing more certainty to both parties. A DCM should require disclosures by Crediting Programs relating to the programs’ measures to avoid or mitigate the risk of reversal and such disclosures should be included in the VCC specification.

Susceptibility to Manipulation

DCMs should consider various factors in assessing a VCC’s susceptibility to manipulation including, but not limited to:

- VCC unit supply that is available and unretired.
- VCC price volatility.
- VCC transaction volume.

- Diversity and number of market participants accessing the underlying VCC market.
- Distribution/concentration of ownership of the underlying VCCs.
- Notional value required to move the price of the VCC up/down as a function of price and bid/offer market depth.
- Transparency into VCC purchasers via information-sharing agreements between VCC crediting programs/registries/spot markets and DCMs for market surveillance purposes.
- Transparency about VCC prices and volume to the market broadly and ease of access and availability of such data, e.g. via market data vendors and API market data feeds.
- Verification of any positive co-benefits marketed (community impact, ecological impact, biodiversity impact, etc.).
- Fair access to the underlying VCC credits/market - both for purchase/sales and market data - in light of, for example, advanced market commitments (AMCs) and long-term off-take agreements where the VCC supply may be subject to exclusive supply agreements and/or pricing.

Outside the scope of DCMs

Credit Quality

Evaluating the robustness, conservativeness, and transparency of a quantification methodology or protocol goes beyond the scope of DCM and should be left to market participants and/or other regulators, policymakers, or industry groups.

Prescribing Risk Mitigation Strategies

The specific measures adopted by any program - such as insurance products, buffer pools, or other measures - should be left up to the crediting program. The degree to which such measures adequately mitigate reversal risks should be left up to the VCC and/or VCC futures contract buyers to determine.

The sellers and buyers of VCC futures contracts, as with other commodities futures contracts, may have obligations to make/take delivery of VCCs for physically settled contracts. The risks that a seller will be unable to meet its obligations as a result of a reversal, as with other commodities that can suffer impairment, should be managed through conventional futures clearing mechanisms designed to manage settlement and



delivery risk such as customer and FCM collateral, settlement and delivery processes and procedures, and default financial resources.

Net-Zero Requirements

DCMs should neither consider whether Crediting Programs have implemented net-zero requirements nor require Crediting Programs to implement net-zero requirements. Net zero applicability is defined according to reference standards and is currently the responsibility of the VCC buyer to assess.

Additionality

Additionality is not necessary for quality *removal* VCCs. The concept of additionality arose in the context of carbon avoidance and reduction credits. Good faith buyers of avoidance or reduction carbon credits expect their purchases to reduce the concentration of CO₂ in the atmosphere by avoiding emissions in the first place. To establish additionality for avoidance credits, proof is required that a regulatory obligation or the incentive of being paid to avoid emissions would prevent credit suppliers from emitting carbon that would otherwise have been emitted. Additionality was developed to create a proxy, projecting the counterfactual of the avoided hypothetical action.

Carbon removal credits are, by definition, the result of taking the positive action of removing a quantifiable amount of carbon from the atmosphere. To generate a carbon removal credit an act must be taken to remove emitted carbon from the atmosphere and the quantity removed must be properly measured and verified. Once measured and verified a permanent carbon removal credit can be paired with a carbon emission to balance the books. Such an approach aligns well with conventional asset/liability double-entry accounting that can be tracked under current accounting standards and does not require the concept of additionality.

Additionality also has the effect of impeding the growth of the VCM by, for example, making the VCM unattractive to farmers who have already adopted regenerative agricultural practices. If farmers cannot get credit for being early adopters by benefiting from some reasonable look-back period for carbon sequestered in their soil, they may opt not to participate in the VCM.

This obstacle was cited by the USDA in Section 6.1.4 Early Adopters in its *Report to Congress: A General Assessment of the Role of Agriculture and Forestry in U.S. Carbon Markets*:



Additionality requirements of most protocols disallow crediting activities that were implemented in years prior to the eligible start date in carbon offset protocols. While this ensures that carbon credits represent new GHG reductions, it may also exclude early adopters of practices. A majority of farmers surveyed by Trust in Food indicated that they felt pre-existing practices are not fairly compensated by carbon markets (Trust in Food, 2022).

Besides being unnecessary for removals, additionality can create troubling incentives and situations that are subject to manipulation. As an example of how additionality can be misapplied, imagine a forestry crediting program where a credit issuer generates credits because landowners are paid to not cut down trees that would otherwise have been harvested. To calculate what percentage of the trees would have been cut down “but for” the financial incentive of the crediting program, an adjacent forest is used to create a baseline reference. The number of trees harvested in the reference forest forms the baseline to compare to the program forest. Comparing how many trees were not cut down in the crediting program forest to the number of trees cut down in the baseline forest achieves the accounting abstraction [of additionality], i.e. the “additional” carbon captured by the trees that were not cut down. The perverse incentive becomes clear: if the creditor wants to maximize the economic benefits of the carbon credit project they can manipulate the baseline by cutting down trees in the reference forest that would otherwise have remained standing (and benefiting the environment) to create an artificially high crediting volume for the “protected forest.”

Conclusion

The CFTC has an opportunity to provide much-needed guidance for DCMs that plan to offer VCC futures that will, in turn, benefit the VCM more broadly. Nori looks forward to the continued guidance as to what DCMs must consider in their rulebooks when listing VCCs futures contracts. Such guidance can help develop an efficient and effective voluntary carbon marketplace. Thank you for the invitation to submit our response.

Sincerely,

/s/ Matthew Trudeau
Matthew Trudeau
CEO, Nori