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

Dear Mr. Kirkpatrick,

For more than 20 years, The Nature Conservancy (TNC) has engaged with key voluntary carbon market (VCM) stakeholders to advocate for comprehensive quality improvements and innovations. Through this experience, we recognize the need for and significance of CFTC's involvement in the regulation of voluntary carbon credit derivative contracts to reduce the risk of fraud and increase market integrity.

TNC welcomes and supports the initial alignment of CFTC's guidance with the carbon credit quality principles established by the Integrity Council for the Voluntary Carbon Market (ICVCM). Having the CFTC adapt its guidance to the standards and terminology used by ICVCM will help address the pressing VCM fragmentation that is harming market confidence. TNC particularly applauds CFTC's recommendations that suggest DCMs to evaluate whether crediting programs have sufficient procedures in place to ensure that the underlying credits are robustly quantified, additional, and permanent. Bringing these quality principles onto regulated exchanges will certainly increase market integrity.

However, TNC recommends that the CFTC further align its recommendations with ICVCM's by also including in its guidance principles on Social and Environmental Safeguards and Net Zero Alignment. TNC also recommends that the CFTC should clarify expectations for DCMs by adding more requirement specificity through closer alignment with ICVCM's Assessment Framework guidance and upcoming results from its crediting program and methodology assessments. Further robustness and clarity on the alignment will simplify and consolidate the credit integrity expectations from the market.

- **Missing CFTC principles:** ICVCM's standard contains two principles that are missing from the CFTC's guidance: (1) asking crediting programs to evaluate whether their approved projects protect their communities and ecosystems and (2) whether projects help our economies stay on track to reach net-zero by 2050. TNC would like the CFTC to recognize the relevance of these principles by including them in their recommendations to DCMs.
- **More specificity in CFTC guidance:** In its latest Assessment Procedure, ICVCM lays out certain considerations that crediting programs should have when developing their methodologies and when assessing projects to ensure additionality, permanence, and robust quantification. TNC would like to see those more detailed considerations be suggested to DCMs for their crediting program evaluations. TNC also recognizes that credit quality requirements can look significantly different depending on the project type

in question, so DCMs should consider whether crediting programs adhere to the broadly supported quality thresholds for each mitigation activity.

We have also responded to several specific questions posed by the CFTC where we detail how it can further align with ICVCM guidance:

Question 2: *Are there standards for VCCs recognized by private sector or multilateral initiatives that a DCM should incorporate into the terms and conditions of a VCC derivative contract, to ensure the underlying VCCs meet or exceed certain attributes expected for a high-integrity carbon credit?*

TNC believes that DCMs should incorporate ICVCM's credit quality principles and upcoming labels to better communicate if the underlying credits meet the expected high-quality criteria by buyers. The world's leading crediting programs announced a collaboration that will support the independent assurance of the programs by ICVCM, and ICVCM also recently partnered with leading decarbonization guidance bodies to build an end-to-end framework for corporates. These developments show broad support and expectations for the credit quality laid out by ICVCM's principles and requirements, that CFTC should fully align with.

Question 8: *In this proposed guidance, the Commission recognizes credits as additional where they are credited for projects or activities that would not have been developed and implemented in the absence of the added monetary incentive created by the revenue from carbon credits. Is this the appropriate way to characterize additionality for purposes of this guidance, or would another characterization be more appropriate? For example, should additionality be recognized as the reduction or removal of GHG emissions resulting from projects or activities that are not already required by law, regulation, or any other legally binding mandate applicable in the project's or activity's jurisdiction?*

TNC believes that DCMs should consider whether a crediting program has measures to not only evaluate the financial additionality of crediting projects but also whether the projects' emission reductions exceed those enforced by law. Following ICVCM's standard, DCMs should also consider whether a crediting program requires investment, barrier, or market penetration analyses to prove financial additionality.

Question 9: *Are there particular criteria or actors that DCMs should take into account when considering, and/or addressing in a VCC derivative contract's terms and conditions, a crediting program's measures to avoid or mitigate the risk of reversal, particularly where the underlying VCC is sourced from nature-based projects or activities such as agriculture, forestry or other land use initiatives?*

TNC believes that DCMs should consider whether crediting programs have measures in place to ensure that crediting projects monitor and compensate for reversals for at least 100 years from the first crediting period. TNC supports the existing suggestion of having DCMs consider whether crediting programs have pooled reserves to compensate for reversals.

Question 11: *Are there particular criteria or factors that a DCM should take into account when considering, and/or addressing in a contract's terms and conditions, whether a crediting program applies a quantification methodology or protocol for calculating the level of GHG reductions or removals associated with credited projects or activities that is robust, conservative and transparent?*

Echoing the ICVCM Assessment Framework's requirements, TNC believes that DCMs should consider whether crediting programs quantify emission reductions or removals that have already happened (ex-post) instead of quantifying intended emission reductions or removals (ex-ante). They should also consider whether the quantification methodologies use baselines that are periodically reviewed and that incorporate legal requirements, rebound effects, and perverse incentives. The quantification methodologies should also account for and compensate for leakage and should use boundaries that incorporate the emission sources and sinks.

Question 16: *Certain private sector and multilateral initiatives recognize the implementation by a crediting program of measures to help ensure that credited mitigation projects or activities meet or exceed best practices on social and environmental safeguards, as a characteristic that helps to inform the integrity of VCCs issued by the crediting program. When designing a VCC derivative contract, should a DCM consider whether a crediting program has implemented such measures?*

TNC believes that DCMs should consider whether a crediting program has measures that ensure that carbon projects exceed practices on social and environmental safeguards. DCMs should evaluate whether crediting programs have procedures that follow the recommendations of CORSIA's safeguard requirements and whether they require projects to generate net positive social and environmental outcomes. These suggested requirements include free prior and informed consent for affected communities, clear and transparent terms and conditions, assessment and minimization of environmental impacts, consistency between the project's and the host country's sustainability goals, and many others.
Safeguards can significantly influence contract pricing, as projects infringing on the rights of local communities or adversely damaging ecosystems will be shunned by market stakeholders. Including requirements such as those proposed by ICVCM on safeguards is a great opportunity for the CFTC to protect groups and natural systems from project developer malpractices.

Question 17: *Certain private sector and multilateral initiatives recognize the implementation by a crediting program of measures to help ensure that credited mitigation projects or activities would avoid locking in levels of GHG emissions, technologies or carbon intensive practices that are incompatible with the objective of achieving net zero GHG emissions by 2050, as a characteristic that helps to inform the integrity of VCCs issued by the crediting program. When designing a VCC derivative contract, should a DCM consider whether a crediting program has implemented such measures?*

TNC believes that DCMs should consider whether a crediting program has measures that ensure that carbon projects avoid locking in practices that are incompatible with global net zero emissions by 2050. TNC suggests that DCMs should evaluate whether crediting programs have procedures in place to assess the compatibility of credited methodologies with a Net-Zero transition. Certain mitigation activities that have been found by ICVCM to not be compatible include activities that increase the extraction of fossil fuels, fossil-fuel electricity generation, and fossil-fuel road transport.