February 16, 2024

Mr. Christopher Kirkpatrick

Secretary

Three Lafayette Center

1155 21st Street, N.W.

Washington, DC 20581

Re: Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivatives Contracts; Request for Comment; RIN 3038-AF40

Dear Mr. Kirkpatrick:

The Integrity Council for the Voluntary Carbon Market (**Integrity Council** or **ICVCM**) appreciates the opportunity to submit its comments regarding the Commodity Futures Trading Commission’s (**CFTC** or **Commission**) proposed guidance[[1]](#footnote-2) (**Proposed Guidance**) for the listing of voluntary carbon credit derivative contracts published in the Federal Register on December 27, 2023.[[2]](#footnote-3)

The Integrity Council supports the Commission’s efforts to enhance the quality of voluntary carbon credits (**VCCs**) and bring integrity to voluntary carbon markets (**VCMs**). Integrity is the North Star of the Integrity Council. It is essential not only to ensure that VCCs genuinely reduce or remove greenhouse gas emissions, but also to provide a firm foundation for a more robust, liquid and transparent VCM that can meaningfully accelerate the transition to net zero. As described in greater detail below, the Integrity Council’s program to address the urgent need to bring integrity to the VCM is well underway. Accordingly, we believe that the Commission should recognize and rely upon the ICVCM framework as a key component of its regulatory oversight role.

1. The Integrity Council’s Standard-Setting for VCCs and the VCM

The Integrity Council is an independent governance body for the VCM established in 2021. The mission of the Integrity Council is to ensure that carbon credits are of consistently high integrity to enable the voluntary carbon market to meet its full potential as a key complementary tool to reduce and remove greenhouse gas emissions. The Integrity Council is an outgrowth, and follows on the work of, its predecessor entity, The Task Force on Scaling Voluntary Carbon Markets (**TSVCM**). The TSVCM was a year long international effort that brought together over 450 individuals and 250 organizations from across the ecosystem to create a blueprint to build a high integrity carbon market that could meaningfully scale to meet urgent net zero goals.

Following on the TSVCM’s blueprint work, the Integrity Council was formed with a governing board of 24 members. Eighteen governing board members are independent, three are members of Indigenous Peoples and Local Communities. The remaining three board members are market representatives, who bring their expertise to the Integrity Council’s work but who do not have a vote on standard setting issues. The work of the Integrity Council is greatly enhanced and informed by an Expert Panel, consisting of twelve individuals renowned for their climate expertise, as well as 11 subject matter experts. Several of our governing board members who have deep knowledge of and experience in carbon markets serve on a committee of the board, known as the Standards Oversight Committee (**SOC**).

Based on inputs from our Expert Panel and SOC, as well as comments received through a public consultation process, the Integrity Council established its Core Carbon Principles (**CCPs**) in March 2023, which set a global benchmark for high integrity and published its full Assessment Framework in July 2023.[[3]](#footnote-4) The CCPs are ten fundamental principles for high-quality carbon credits that create real, verifiable climate impact, based on the latest science and best practice. The CCP label is designed to build trust and unlock investment by making it easy for buyers to identify a high-integrity credit no matter which carbon-crediting program issued it, what kind of credit it is, or where it is generated. The CCPs apply to both products—i.e., VCCs—as well as the carbon crediting programs that issue them.

Equally important, the Integrity Council issued an Assessment Framework to accompany the CCPs. The Assessment Framework provides detailed criteria that will be applied to determine whether the CCPs are being met. The Integrity Council also issued an Assessment Procedure to provide guidance on how it will undertake its work.

In a broad sense the CCPs are akin to both intermediary regulation and listing standards. As intermediary regulation, they provide detailed governance rules that carbon crediting programs must meet to ensure that the credits they issue satisfy key integrity requirements. These governance rules that apply to carbon crediting programs contain detailed requirements not only relating to internal governance of the programs, but also integrity and transparency requirements relating to the developers of the projects that underly the VCC. As listing standards, the CCPs define which categories of carbon credits deliver genuine climate impact and thus qualify for the CCP label. In order for a carbon credit to trade with the CCP label, it must be both issued by a carbon crediting program that has been granted the CCP label, and must be a VCC from a CCP-approved carbon category.

In all of its work the Integrity Council has sought to operate as if it were a fully recognized and regulated self-regulatory organization. The Integrity Council has embraced regulatory practices, including adopting a full notice and comment process for our CCPs, Assessment Framework and Assessment Procedure. We have also been fully transparent concerning the entities that have applied for the CCP label and the processes we are undertaking to grant the CCP label to particular carbon categories. It is particularly noteworthy that carbon crediting programs representing over 98 percent of the current market (based on retirements in 2023) have applied for the CCP label, evidencing the tremendous buy-in and support that the Integrity Council work has generated. The Integrity Council is currently assessing the carbon crediting programs as well as over 100 methodologies, sorted into categories, to determine compliance with the CCP requirements. We are conducting our assessments methodically, both employing Integrity Council independent experts and staff as well as Multi-Stakeholder Working Groups (**MSWGs**) in the case of categories of credits that could benefit from broader expertise and perspectives. The recommendations of the independent experts, Integrity Council staff and the MSWGs will be considered by the SOC and ultimately determined by the Governing Board of the Integrity Council.

Further, in line with traditional self-regulatory organizations, the Integrity Council will periodically examine the carbon crediting programs for adherence to the CCPs and will take action in the event of non compliance. The Integrity Council will also take stock of any information brought to its attention concerning adherence to the CCPs as they relate to carbon crediting programs or carbon categories. Finally, the Integrity Council will continuously curate and update the CCPs and Assessment Framework based on best practices and best science. We anticipate this updating process will occur every two to three years. The process of improving the framework is already underway, with Continuous Improvement Work Programs (**CIWPs)** having been formed to consider such matters as Paris Alignment; Sustainable Development Benefits and Social Safeguards; Permanence; Digital Measurement, Reporting and Validation; and Market Transparency, Standardization and Scalability. Other CIWPs will be formed over time.

2. Recognition of the Integrity Council’s CCPs

Governments establishing VCMs have been looking to the CCPs as an international standard that can be incorporated into their frameworks. The U.K. government has announced that it intends to consult on endorsement of the CCPs and consider how to reflect them in policy, regulation, and guidance. The African Carbon Markets Initiative has said it requires project developers to adhere to the CCPs and the Monetary Authority of Singapore is exploring how to align its transition credits with the CCPs.

We believe this reliance on the Integrity Council’s work is well placed. It is a recognition of the robust, transparent, and regulated-like process we have undertaken. It is also a recognition of the palpable benefits of employing a public-private partnership to address one of the most existential challenges of our time: climate change. The private sector has devoted considerable resources and expertise that is not available in the public sector - at least not in the timeframe required - to establish international standards for VCCs and the VCM. But working alongside and in cooperation with governments, we believe the Integrity Council makes urgently needed progress.

After a careful review of the criteria specified in the Proposed Guidance that designate contract markets (**DCMs**) would be required to address when evaluating VCCs and carbon crediting programs, we are confident that the Commission’s criteria are fully satisfied by the CCPs. That said, the CCPs and the Assessment Framework together with the expertise that is being brought to bear to implement the framework, provide a much deeper analysis of the criteria, and do so in a manner that would not overly burden DCMs. We believe the Integrity Council’s assessment process would be superior to that conducted by the DCMs and understandably so, since DCMs cannot be expected to bring a level of expertise comparable to that of the Integrity Council. Thus we believe that in cases where a derivative is offered on a DCM in which the underlying VCC has the CCP label, the Commission’s final Guidance should provide that DCMs will be deemed to have satisfied the Commission’s integrity requirements.

3. Further Comments.

We have provided more detailed comments in response to the Commission’s questions in the attached Table 1. Further, we note specifically that the Integrity Council believes that there are strong arguments linked to price formation and alignment with international climate policy that would argue in favor of including sustainability impacts and safeguards, as well as contribution toward net zero emissions by mid-century, to the list of Core Principle compliance considerations in the final Guidance. These criteria received wide recognition and endorsement at COP28 and thus are being recognized as international standards. The Integrity Council’s CCPs include these VCC criteria in addition to the eight Core Principles identified in the Proposed Guidance. Please refer to questions 1, 16 and 17 in Table 1 for a more detailed discussion of these requirements.

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The Integrity Council welcomes the Commission’s focus on VCCs and the VCM and we are grateful for the thoughtful manner in which the Commission has approached this critical sector of the market. We would be pleased to discuss this letter in greater detail and to provide any assistance if needed. We can be reached at [annette.nazareth@icvcm.org](mailto:annette.nazareth@icvcm.org) or amy.merrill@icvcm.org.

Very truly yours,

Annette L. Nazareth

Chair of the Governing Board

Table 1: Tabulated comments

Please note that ‘terms and conditions’ will be referred to as **T&C** throughout the table.

| area | Request for comment (shorthand questions)[[4]](#footnote-5) | COMMENT |
| --- | --- | --- |
| General | 1. Other relevant/ Non-relevant characteristics informing the integrity of carbon credits  2. Recognized standards that a DCM should incorporate into VCC derivative contracts’ T&C  3. Other criteria a DCM should consider for monitoring the continual appropriateness of VCC derivative contracts’ T&C  4. Other factors to consider by DCM in analysis of contract susceptibility to manipulation  5. Relevance of these VCC derivative contract characteristics for submissions made by a registered foreign board of trade | 1. All the VCC commodity characteristics identified in this Proposal are relevant. Other relevant characteristics are: sustainable development and safeguards (including quantified SDG impacts), contribution to net zero emissions, host country authorization under Article 6 of the Paris Agreement,[[5]](#footnote-6) and share of proceeds for adaptation finance. The ICVCM has explored these characteristics and required CCP-eligible credits to comply with sustainable development and safeguards requirements, and provide a contribution to net zero transition. Host country authorization under Article 6, share of proceeds for adaptation finance and quantified positive SDG impacts are optional attributes to be added to the CCP tag where relevant. See comments to questions 16 and 17 for more detail.  In general, correlations between quality and price have strengthened over the last 18 months, so analysts appear to be relatively confident the CCPs will trade at a premium. Ecosystem Marketplace’s State of VCM 2023 report[[6]](#footnote-7) indicates VCC prices are at their peak with nature based credits taking the biggest market share and showing a 78% price premium when associated with certified environmental and social co-benefits.  Also, research indicates buyers prefer newer credits (recent vintages) featuring more robust methodologies, and the market is looking for new high quality credits.  2. Yes, we suggest DCMs should incorporate: at least the CCP requirements for carbon credit supply quality and issuance; but also ISSB Standards (IFRS S2 Climate related disclosures) and VCMI standards for carbon credit use where relevant.  3. DCMs should periodically reassess the appropriateness of VCC derivative contracts T&C against latest versions of the abovementioned guidance.  4. Analysis of whether or not a VCC derivative contract would be readily susceptible to manipulation can be informed by a crediting program providing third-party assurance that VCCs are ICVCM CCP(/ISSB/VCMI where relevant) compliant, with particular emphasis on the conflict of interests policy – which should be included in supply-side quality criteria (in Transparency and/or Governance) and especially Inspection Provisions – Third-Party Validation and Verification. Rules could be considered in the context of managing any conflicts of interest raised by the issuance, verification, certification, transfer, and retirement of carbon credits. These could include adequate disclosures by a crediting program of potential legal or beneficial relationships between project developers, validation and/or verification bodies and carbon crediting programs —noting these risks are not generally present in the relationships between this group of actors due to most programs being not for profit organizations and most validation and/or verification bodies being subject to rules preventing them having interests in project development companies as part of their accreditation to operate in this market; but also registries (generally part of the carbon crediting program), marketplaces and exchanges, intermediaries, etc.  5. Yes – While still fragmented, VCM markets are potentially global and regulation should be aligned with international standards to ensure fungibility and scalability of the market. |
| Transparency | 6. Criteria for DCM to assess whether a crediting program is providing sufficient access to information on projects/ activities it credits | 6. The CCP rules (criterion 3.1) already contains comprehensive transparency requirements under the CCP on Transparency, including the requirement to make all information about the projects and its project rules public. |
| Additionality | 7. Criteria for DCM to assess whether a crediting program has the procedures in place to test for and provide assurance on additionality.  8. Is additionality as characterized in the Proposal appropriate or would another characterization be more so (e.g. legal additionality)? | 7. As part of CCP approval, ICVCM conducts a rigorous assessment of carbon crediting programs and their methodologies (see criteria in Section 4 of the ICVCM guidance, the Assessment Framework) to ensure that they have procedures and processes that ensure additionality. CCP Eligible programs have passed the thresholder and so a DCM can just require that the carbon credits be CCP carbon credits in order to ensure that they are robust and high integrity. Additionality assessment is detailed on pages 74 onwards of Section 4 of the Assessment Framework.[[7]](#footnote-8)  8. Characterization of additionality is appropriate as is, no further specification is needed. Criteria by which crediting programs demonstrate additionality (question 7) have to include review of existing policy frameworks (p. 32 of Section 3 Summary for Decision Makers of the Assessment Framework[[8]](#footnote-9) reads: “Carbon-crediting programs must have program documents which demonstrate that mitigation activities meet existing host country legal requirements, such that the emissions reductions or removals exceed those required due to relevant and enforced legal requirements.”) |
| Risk of Reversal | 9. Criteria for DCM to assess crediting program’s measures to avoid or mitigate reversal risk, especially when the underlying VCC is sourced from nature based projects  10. When projects have reversal risk, criteria DCMs should incorporate in VCC contracts | 9 and 10. The ICVCM CCP Assessment Framework has several requirements for crediting programs in this regard, as set out in criteria 9. Permanence of Section 4 of the Assessment Framework, p. 82 onwards, including: cancelling or retiring a carbon credit for each tonne of CO2e reversed; estimation of reversal risk and characterization as avoidable or unavoidable; 40-year minimum monitoring, reporting and compensation period for avoidable reversals for categories with material reversal risk (such as nature based projects); establishment of buffer pool reserves proportional to reversal risk over the entire monitoring and compensation period. |
| Robust Quantification | 11. Criteria to assess a crediting program has robust, conservative and transparent quantification methodology | The CCPs require programs to ensure robust quantification (see criteria 5. Robust Quantification of GHG Emissions Reductions and Removals, Section 4 of the Assessment Framework, p. 58 onwards), including through:   * rules for adopting and updating, * suspending and reviewing, * methodologies for quantification of emissions reductions and removals, * (potential) leakage conservativeness in determination of baseline scenario, * quantification of baseline emissions and removals, including uncertainties rules on length of crediting period |
| Governance | 12. Criteria to assess whether crediting program can demonstrate its governance framework supports transparency and accountability | The ICVCM CCP require robust governance structures and processes that ensure transparency and accountability. Three points to further consider for the Proposal are outlined below.  Since digital assets’ cyber security is particularly important to control for, we recommend guidance could be further developed. Another governance point the Proposal makes is ensuring registries have appropriate measures in place to facilitate physical settlement of a VCC derivative contract. This is linked to the ‘Effective registries’ criterion within the 2. Tracking principle in Section 4 of the Assessment Framework, p.55. DCMs could specifically consider whether the subject VCCs are being tracked in registries that require identification of the entity on whose behalf the carbon credit was retired as well as the purpose of retirement.  Finally, and as already mentioned in Question 4 (General), governance assessment requires a focus on the conflict of interests policy. Mentioned in the Proposal’s Transparency section, conflict of interest could be reiterated in Inspection Provisions – Third-Party Validation and Verification, and go beyond by providing guidance on how to assess whether transfers and retirements of carbon credits are conflict of interest free in the relationship between marketplaces, exchanges, intermediaries and end users. As noted in Question 4, risks are not generally present in the relationships between project developers, auditors, and crediting programs, due to most programs being not for profit organizations and most validation and/or verification bodies being subject to rules preventing them having interests in project development companies as part of their accreditation to operate in this market. |
| Tracking and No Double Counting | 13. Criteria a DCM should consider in a VCC contract with respect to whether a crediting program’s operated or utilized registry procedures ensure certainty on issuance, transfer, retirement of VCCs  14. Criteria to consider to demonstrate a registry ensures no double counting of emissions reductions/ removals | 13. ICVCM CCP Assessment Framework requires crediting programs to have registry provisions that prevent double registration (the registration of any mitigation activity that has been registered under another carbon-crediting program and is still active under that program); double use (the further transfer, retirement or cancellation of a carbon credit once it has been cancelled or retired for a specific use); and doubling claiming with mandatory domestic mitigation programs or incentivization schemes (e.g., RECs).  14. Unique identifiers and meta-registries can dramatically improve transparency and reduce risk of double counting. |
| Inspection Provisions | 15. On whether contracts should describe responsibilities of third parties (crediting programs, registries, others) required to carry out the delivery process | 15. Contracts should not have to describe the responsibilities of third parties if the roles of the third party are known to both parties, and the performance of those responsibilities by those third parties can be managed through usual risk management in contracts by allocating that risk between the contract Parties or providing for default/force majeure etc. type risks. Standard contracts for VCCs routinely use annexes to allocate such risks through box ticking exercises.[[9]](#footnote-10)  IOSCO proposes: “Consistent with their respective mandates, relevant regulators and other authorities could consider requiring that VCM participants, including carbon credit project developers, registries, validation and verification bodies, brokers, traders, marketplaces and exchanges, rating agencies, third-party entities, and private sector supply and demand side standardization initiatives, have in place a comprehensive governance framework with clear lines of responsibility and accountability for the functions and activities they are conducting.” However, we would note that it is not apparent that in each case the regulator would need to cover all actors in the VCC in the same way and may be able to rely on existing structures to some extent:   1. The ICVCM CCPs require this for programs so that a CCP-Eligible program would meet this accountability requirement, so a program’s registries would also be compliant. Usually carbon crediting programs require the corporate documents of project developers to be submitted as part of the validation process. 2. The accrediting body for the relevant validation and verification bodies would impose these requirements on the validation and verification body. 3. Typically, governments would regulate exchanges and traders and brokers.   Encouraging the use of standardized quality (e.g., CCP-labelled) credits could provide a safeguard for contract delivery in that a DCM would be able to hedge for risks of non-delivery from a specific carbon crediting program or project while ensuring the buyer gets the same threshold of quality credit regardless of the type of mitigation activity underlying it.  To carry out delivery of VCC contracts, some further work may be needed to understand the relevance of having provisions on alignment between host country rules and the carbon crediting program rules with regards to ownership rights for VCCs (ISDA 2021, Legal Implications of Voluntary Carbon Credits) which may vary depending on the type of mitigation activity and its location. At the current time, carbon crediting programs tend to require projects to “comply with all applicable laws and regulations” by host countries, and, while this is validated, the legal status of ownership may be at risk in certain contexts. |
| Sustainable Development Benefits and Safeguards | 16. On whether DCMs should consider crediting program’s measures to help ensure projects meet or exceed best practices on social and environmental safeguards  17. On whether DCMs should consider crediting program’s measures to help ensure projects avoid locking in levels of GHG emissions, technologies or practices incompatible with achieving net zero | 16. Yes – as raised for Question 1, because verifiable social and environmental attributes beyond mitigation and credit revenues are generally perceived by buyers as increasing the quality of credits, driving higher market prices. Specifically, the ICVCM CCP 9. Sustainable Development Benefits and Safeguards (p. 40 onwards in Section 3 of the Assessment Framework) requires compliance to best practice and beyond in the following areas: Labor Rights and Working Conditions; Resource Efficiency and Pollution Prevention; Land Acquisition and Involuntary Resettlement; Biodiversity Conservation and Sustainable Management of Living Natural Resources; Indigenous Peoples, Local Communities, and Cultural Heritage; Respect for Human Rights, Stakeholder Engagement; Gender Equality; Robust Benefit-Sharing; Cancun Safeguards (for specific kinds of avoided deforestation projects falling under these rules).  17. Yes, as raised for Question 1, because the Paris Agreement goal of “[h]olding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels” depends on achieving net-zero emissions around mid-century, according to science. If the VCM is to help combat climate change, then this characteristic should be considered by a DCM as an important part of a T&C derivative contract. Specifically, the ICVCM deems ineligible for CCP approval the types of carbon project that undermine a country’s effort to move towards a lower carbon economy, that is, those activities that: directly lead to an increase in the extraction of fossil fuels, such as Carbon Capture and Storage technologies used for Enhanced Oil Recovery; relate to unabated coal-fired electricity generation; involve any other unabated fossil fuel-powered electricity generation other than new gas-fired generation as a part of increased zero-emissions generation capacity in support of national low-carbon energy transition plans; focus on road transport that relies on the continued use of solely fossil-fueled engines.  This CCP requirement is aligned to the work of the Parties (signatories) to the Paris Agreement, including the recent main decision from COP28, which calls on governments to contribute to a series of global efforts including “[t]ransitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner, accelerating action in this critical decade, so as to achieve net zero by 2050 in keeping with the science.” |

1. <https://www.cftc.gov/sites/default/files/2023/12/2023-28532a.pdf>. [↑](#footnote-ref-2)
2. <https://www.cftc.gov/sites/default/files/2023/12/PR%208829-23.pdf>. [↑](#footnote-ref-3)
3. <https://icvcm.org/the-core-carbon-principles/>. [↑](#footnote-ref-4)
4. See full question drafting in the Proposal’s Request for Comment. [↑](#footnote-ref-5)
5. Article 6 of the Paris Agreement includes Article 6.2 Cooperative approaches, that is, country-led bilateral cooperation involving transactions of “ITMOs,” between Parties toward NDCs or between a Party and a non-Party for other international mitigation purposes such as the VCM, which need to be authorized thus correspondingly adjusted to avoid double counting; and Article 6.4 mechanism, UNFCCC centralized crediting mechanism successor to the CDM, with a supervisory body, which approves methodologies and projects and issue A6.4 ERs, akin to a carbon crediting program. [↑](#footnote-ref-6)
6. “Voluntary Carbon Credit Buyers Willing to Pay More For Quality,” December 4, 2023, <https://carboncredits.com/voluntary-carbon-credit-buyers-willing-to-pay-more-for-quality/#:~:text=Analysis%20of%20transaction%20data%20indicates,for%20credits%20of%20superior%20quality> and Ecosystem Marketplace (October 2023), 2023 State of the Voluntary Carbon Markets Report, <https://www.ecosystemmarketplace.com/publications/state-of-the-voluntary-carbon-market-report-2023/>. [↑](#footnote-ref-7)
7. The Integrity Council for the Voluntary Carbon Market (2023), Section 4. Assessment Framework – Core Carbon Principles, January 2024, Version 2, <https://icvcm.org/wp-content/uploads/2024/02/CCP-Section-4-V2-FINAL-6Feb24.pdf>. [↑](#footnote-ref-8)
8. The Integrity Council for the Voluntary Carbon Market (2023), Section 3. Summary for Decision Makers – Core Carbon Principles, January 2024, Version 2, <https://icvcm.org/wp-content/uploads/2024/02/CCP-Section-3-V2-FINAL-6Feb24.pdf>. [↑](#footnote-ref-9)
9. Example contracts can be found at “IETA, Trading Documents,” February 14, 2024, <https://www.ieta.org/resources/trading-documents/>. [↑](#footnote-ref-10)