# iconoclast

## February 16, 2024

On behalf of Iconoclast Industries, LLC, I am respectfully submitting these comments regarding CFTC Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts, 88 FR 89410.

In 2023, Iconoclast Industries, LLC was the recipient of a 5- year, USDA Partnership for Climate Smart Commodities grant award.

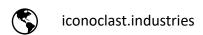
#### Introduction:

Longstanding prohibitions on hemp cultivation have hindered the generation of foundational data that would allow climate-smart hemp to be included in the current stage of carbon credit markets. Iconoclast will be working to generate data pertaining to carbon sequestration during climate-smart hemp cultivation and enable inclusion of fiber hemp as a crop module in the Decision Support System for Agrotechnology Transfer (DSSAT) for climate-smart decision support. After an initial pilot phase of this system, underserved producers will be the first to participate and take advantage of the initial implementation of farming practices to earn this climate- smart product designation in commodity markets for industrial hemp.

#### Iconoclast Project Goals Relative to Carbon Markets:

The Iconoclast project has several goals related to carbon markets, including:

- Supporting the design of an MRV strategy for the hemp farming carbon lifecycle in conjunction with universities & research partners (soil scientists, hemp scientists)
- Calculating methodology uncertainty and provide reporting and insights around core farming emission drivers;
- Identifying existing credit-generation options in the regulatory and voluntary markets and assess the effort required to create a new protocol if needed;
- Aligning on best available credit generation options, execute monetization roadmap, including data collection, validation, calculation, and report generation for voluntary or regulatory markets; and
- If necessary, write new protocol to create credit generation mechanism utilizing new scientific models not supported by any existing registries/methodologies, whose uncertainty is sufficiently small to be defensible in a large-scale voluntary market or regulatory incentives.



The implementation and monitoring of the proposed climate-smart commodity program will be done in accordance with guidelines established by existing market-leading Carbon Credit registries and agricultural land management methodologies. Outlined in these methodologies are a structured framework for monitoring, calculating, and validating carbon emission benefits associated with the introduction of improved agricultural land management practices. In addition to using these methodologies as a guiding framework for GHG emissions calculations, an expanded soil sampling and testing program will be introduced with the stated objective of improving Soil Organic Carbon measurement accuracy.

In conjunction with the findings Iconoclast and our partners expect to generate as part of the climate smart agriculture grant, we urge the CFTC to consider the cultivation of hemp and related products as potential carbon sequestration practices in future voluntary carbon markets.

Please accept the following comments on both the Supplementary Information outline, as well answers to the questions beginning on page 38.

## I. Background

## A. The Regulatory Framework for DCMs

All contracts could be done through block chain for tracking purposes. Terms and conditions are discussed, but there is no mention of data security or how contracts would be tracked and administered.

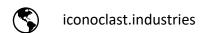
### **B.** Voluntary Carbon Markets

1. Overview of Voluntary Carbon Markets

On the issuance of credits, it should be verified that the metrics are consistent throughout the process for determining carbon credit value.

2. Initiatives to Promote Transparency, Integrity, and Standardization in the Voluntary Carbon Markets

Similar to points assigned for an Energy Star score, set multipliers should be established for all factors, e.g., permanence, data points, sensors, avoidance, etc. A grading system should provide a multiplier that helps distinguish the quality of a carbon credit and its value in the marketplace. For example, whether carbon is stored underground, captured in soil, etc. Such variables create a necessity for sound, reliable data from a carbon tracking platforms and software.



While we are pleased to see that standards and transparency are being addressed, we must data quality must be prioritized.

## C. The Commission and Voluntary Carbon Markets

- 1. Derivative Contracts on Environmental Commodities, Including VCCs
- 2. Initiatives relating to Voluntary Carbon Markets

## II. Guidance Regarding the Listing of VCC Derivative Contracts

## A. A DCM Shall Only List Derivative Contracts That Are Not Readily Susceptible to Manipulation

#### 1. Quality Standards

Added to the "conditions" should be a focus on data quality.

#### a. Transparency

This section primarily addresses transparency of formulas, but data transparency is critical and should require tracking via blockchain, for a single source of truth and rendering it unalterable.

Transparency of formulas, however, means that IP is forfeited and does not allow for those creating something new to publish their work. It is a better option to have those formulas hidden, if possible.

- b. Additionality
- c. Permanence and Accounting for the Risk of Reversal
- d. Robust Qualification

Systems like CarbonTrack should be considered and required. A discussion of avoidance should be added to this section.

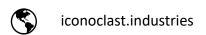
#### 2. Delivery Points and Facilities

Block chain could be the methodology used.

#### a. Governance

The relevance of crediting programs' governance structures should be strengthened, and higher standards should be set. Existing frameworks have proven inadequate.

### b. Tracking



#### c. No Double Counting

## 3. Inspection Provisions

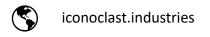
## B. A DCM Shall Monitor a Derivative's Contract's Terms & Conditions as They Relate to the Underlying Commodity Market

As this section is currently written, continual monitoring should also include price. However, we remain concerned that if the methodology changes, will one later be rewarded or punished? This could make or break some companies.

C. A DCM Must Satisfy the Product Submission Requirements Under Part 40 of the CFTC's Regulations and CEA section 5c(c)

## III. Request for Comment General Answers

- 1. The issue of avoidance should be added as a consideration. Avoidance should include additional credit or consideration for acting on marginal lands, which creates co-benefits that include water conservation and quality, supporting wildlife and pollinators, positive economic impacts, and more.
- 2. Data tracking and sensors should be included.
- 3. Data security and how contracts are tracked and administered should be included. Our recommendation is tracking through block chain technology.
- 4. Tracking and the ability to produce sound data needs to be considered, e.g., CarbonTrack.
- 5. [No response]
- 6. Data should be prioritized. Perhaps a 3<sup>rd</sup> party auditing Board should be instituted or changes to the allowable financial models for the Board. Too many Boards are financially driven on getting as many credits out as possible, rather than ensuring that the proper credit is issued.
- 7. Proper description and data tracking of what could be avoided and examples of this being done or what is planned to be done.
- 8. Anything above what is legally required should be considered.
- 9. There should be a bigger vantage point than just "trapping the topsoil" and subsequent credit loss if there are negative changes. The long-term impacts to ag lands based on climate-smart practices should be assigned higher value. For



example, no-till practices are assigned lower values, even though it is a way to improve soil health.

## 10. [No response]

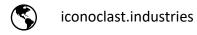
11. As discussed in our comments above in Section II., Subsection A., Number 1.a., transparency of formulas means that IP is forfeited and does not allow for those creating something new to publish their work. We are ambivalent on this because full transparency of new methodologies does limit barrier to entry for those who have created something new. However, it is difficult to validate without it. Not every protocol should be a published version, but methodologies should be shown. The VCC market is moving too quickly to require a published methodology by a Board because, they are unable to keep pace.

## 12. [No response]

- 13. The use of blockchain, data, and tracking of the NFT or credit resolves this issue entirely.
- 14. The use of blockchain, data, and tracking of the NFT or credit resolves this issue entirely.
- 15. Yes, either a third party of the use of technology, including sensors, testing, drones, etc.
- 16. No. This creates the risk of politics being the primary driving force for how these are measured.
- 17. No. That makes this a zero-sum game. Incremental steps should be acceptable and if certain aspects of creation hinder the 2050 goal, technology and the market with continue facilitating the evolution towards this goal.

#### **Additional Comments**

- 1. In general, it is better to set **disclosure requirements** over hard requirements.
  - We recommend that the CFTC specify that quantification methodology, risk management methodology (buffer pools, etc.), and how additionality criteria are assessed should all **be publicly available**. However, caution should be taken to avoid being prescriptive about specific approaches within those categories.
- 2. On additionality especially, the needs of the market change in countries where there is universal carbon pricing. In those places, additionality makes less



sense. Overly rigid rules on both additionality and protocols constrain innovation in the space for two reasons:

- It is more difficult to update protocols as science improves, and more importantly,
- It disincentivizes pioneers in the carbon removal space, who are the only ones who cannot get credit for the projects they built before the protocols were proven (for additionality reasons).

To offer an example, suppose a project developer builds 5 projects in different regions of the world in order to prove out novel scientific or engineering approaches to carbon removal. Once the voluntary protocol is published, some registries will not allow those projects to generate credits simply because they were doing that work before the protocol was published, hence they don't meet the additionality criteria because they were operating the project before there was a market for it. This is a perverse incentive and would dramatically harm the integrity and scalability of voluntary markets.

There are multiple schools of thought on additionality, and each serves a different niche of both buyer demand and the mission of climate change mitigation. It makes sense for buyers to know what they are buying but not for a regulator to outlaw any of these niches.

Thank you for the opportunity to provide feedback on this important proposed guidance. We encourage you to reach out to us with any questions or if you need additional information.

Sincerely,

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