
S&P Global

Commodity Insights

February 16, 2024

Mr. Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

**Re: Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts,
RIN 3038–AF40**

Dear Mr. Kirkpatrick:

S&P Global Commodity Insights (Commodity Insights) welcomes the opportunity to provide comments on the Commodity Futures Trading Commission's (CFTC's or the Commission's) proposed Guidance regarding the listing of voluntary carbon credit (VCC) derivative contracts.

Commodity Insights has closely followed the CFTC's work in this area and participated in its June 2022 and July 2023 convenings on VCCs and subsequently submitted comments. We support the CFTC's initiatives aimed at building trust and rooting out misconduct in the VCC and environmental markets, as well as the Commission's recognition of the work of leading standard setting bodies such as the Integrity Council for Voluntary Carbon Markets and the Voluntary Carbon Market Integrity Initiative.

About S&P Global Commodity Insights

Commodity Insights employs over 4,600 people in more than 30 offices worldwide located in global business and energy centers on five continents. Each day, Platts, our price reporting agency (PRA), publishes thousands of daily price assessments, covering nearly every commodity, including carbon credits, that are widely used as benchmarks in the physical and futures markets. Alongside our price assessments, we publish news, commentary, fundamental market data and analytics across a number of commodity sectors, including oil, natural gas, LNG, generating fuels, power, shipping, metals, chemicals biofuels, fertilizers, food and grains, hydrogen, ammonia, renewables and carbon.

Platts is an independent benchmark provider and supports the objective of fostering efficiency, transparency, and integrity in the financial and commodity markets. We are independent and separate from market participants, product providers, and government entities. We do not participate in the markets we measure and have no vested interest in the value of any commodity included in our price assessments or indices. Instead, Platts relies upon a subscription-based business model.

Platts has a long history of publishing price assessments and bringing transparency across a broad section of different markets. Our portfolio of price assessments includes some of the most used commodities benchmarks, such as Dated Brent, JKM for LNG, Iron Ore and Ethanol. Our coverage in both mature and nascent markets has been a catalyst for the evolution of markets. In addition, our attention to rigorous methodologies and guidelines contributes to markets functioning with greater transparency and efficiency.

Greater Standardization and Predictability are Critical for the Viability of Voluntary Carbon Markets

We welcome the CFTC's efforts to create greater standardization and increase the quality, transparency, and integrity of carbon credit markets. The proposed Guidance correctly notes that "outlining factors for a [designated contract market] to consider in connection with product design and listing may help the standardization of such products in a manner that promotes transparency and liquidity."

Commodity Insights agrees that regulated carbon markets will play a crucial role in meeting global climate ambitions, and that carbon price benchmarks are a necessary part of this future. Carbon credits are a record of the impact of a particular project on greenhouse gas emissions. A VCC is a tradeable instrument that represents a reduction or removal of greenhouse gas.

Carbon credits are a core mechanism for carbon accounting and finance, thus driving investment in different types of carbon reduction and removal projects. However, there are significant challenges with today's market structures, including a lack of robust data infrastructure. This limits market transparency and interoperability. VCCs are largely unregulated with no universally agreed upon definition for what constitutes a 'good' carbon credit. This lack of aligned standards undermines the ability to value carbon credits, scale the market, and provide for the seamless formation of a unified global carbon market.

Carbon credit markets are still at the early stages of development and will require more time to build the infrastructure needed to support confidence, which will spur further growth. Registries are designed to keep track of the life cycle and ownership of a credit, but the lack of unified standards has led to questions about the effective functioning of carbon markets this past year, with an accompanying drop in demand and price. In fact, the price for nature-based credits as assessed by Platts fell to an all-time low in December 2022. The market seeks standardization around the definition and verification of carbon credits to safeguard its integrity. The CFTC's proposed Guidance represents an important step in creating greater standardization, which will provide significantly more predictability to market participants.

Price Reporting Agencies Are Increasing Transparency and Integrity in Voluntary Carbon Markets

In its request for comment, the CFTC highlights the challenges of accurately pricing the VCC cash market. Furthermore, the CFTC suggests that designated contract markets should provide greater information about the VCCs that are eligible for delivery in the terms and conditions of a particular derivatives contract. According to the proposed Guidance, this will help "ensure that the pricing of the contract accurately reflects the intended quality of the underlying VCCs."

As an experienced PRA in the cash carbon markets, Platts is already providing greater transparency in the pricing of VCCs and will continue to work to effectuate the goals of the CFTC's proposed Guidance.

Through our more than three years of coverage of carbon markets and our increased involvement in the ecosystem developing around voluntary carbon markets, Platts has significant experience publishing VCC cash market price assessments.

Platts assesses the price of an array of different types of carbon credits and currently produces a variety of price assessments including both current year delivery and delivery one year forward (Year 1) prices. As part of our drive for greater transparency, our reporters collect and publish market price indications, including bids, offers and transactions, from market participants throughout the day. Each price assessment reflects the most fungible of the most competitive credit that meets the [methodology guidelines](#) laid out for each credit category, based on bids, offers, trades reported in the brokered market, or on exchange traded instruments. Platts also collects price indications during every trading day directly from a variety of market participants using a survey method. Platts collects and publishes real time bids, offers, and trades for carbon credits that have been certified by the following standards: The Gold Standard, Climate Action Reserve (CAR), Verified Carbon Standard (VCS), and Architecture for REDD+ Transactions, and American Carbon Registry.

We believe that the role we have been playing as a PRA in the carbon markets is complementary to the goals of the CFTC's proposed Guidance. For example, Platts has already instituted the IOSCO PRA Principles in the development, documentation, and publication of its VCC price assessments.

In adhering to the IOSCO PRA principles, Platts:

- Documents and discloses its criteria and procedures;
- Provides transparency by making its assessment methodologies public and engaging with market participants and stakeholders for every methodology change;
- Makes public how we collect and employ input data and how judgment is exercised;
- Makes public the criteria employed that define who may submit input data and how the integrity of the reporting process is maintained;
- Ensures that our assessors are consistently qualified;
- Has internal controls to maintain the integrity and reliability of our assessments;
- Documents and retains the necessary information in reaching a price assessment for five years;
- Implements and enforces procedures to avoid commercial and personal conflicts of interest;
- Maintains a process for reviewing and investigating complaints about the assessment process;
- Commits to make available our audit trails and related documentation to relevant market authorities; and
- Appoints an independent, external auditor to conduct an annual, independent assurance review of its compliance with IOSCO principles and publishes the results of the review.

Given our voluntary adoption of IOSCO PRA principles in the provision of VCC price assessments and our ongoing work to increase transparency in these markets, Platts is well-positioned to further the goals of the CFTC's proposed Guidance.

We also agree that registries are a critical aspect of the carbon market infrastructure. We host a carbon register where we currently support over thirty-five environmental programs across carbon, water, and biodiversity providing both compliance and voluntary programs, and emerging national and sub jurisdictional programs. For example, we are supporting Canada's federal registry. We have also built a

meta registry to support connectivity across global carbon registers, which we believe will enhance transparency and integrity across carbon markets.

Carbon Credits are Commodities

We appreciate that the proposed Guidance acknowledges that a VCC is a commodity.¹ Furthermore, the proposed Guidance asks designated contract markets to take “VCC commodity characteristics . . . into consideration when designing a VCC derivative contract, and addressing in the contract’s terms and conditions the underlying VCC.”

We note there is some debate as to how to classify carbon credits. Platts considers them to be commodities given they are tied into physical infrastructure and have a range of unique characteristics, including (among others):

- Attributes of time (both through date of production and longevity of impact);
- Geographical and project-based provenance;
- Associated benefits;
- Technologies;
- Additionality;
- Permanence; and
- The absence of social or environmental damage or the presence of a social or environmental benefit.

These attributes create a value difference across carbon credits. Variable characteristics that impact value are a key feature of traditional commodities. Moreover, the outcome of the production and utilization of a carbon credit is a physical outcome, dependent on the unique attributes tied to the specific carbon credit in question. Financial instruments tend not to have such varied attributes within a single instrument and have purely financial outcomes. These are the key reasons why we believe that carbon credits are commodities.

Further, carbon credits have already started to be incorporated into physical commodity markets. A number of compliance markets have allowed for the use of carbon credits to cover emissions, ranging from WCI, to the EU ETS (in its early stages), to the expected use within the International Civil Aviation Organization’s CORSIA scheme and China’s ETS. That approach is starting to be embraced in other commodity markets, notably crude oil, LNG, and metals, among others. This involves any given commodity having an assigned emissions value throughout its trade lifecycle, with those emissions being offset in tandem with the trade of that commodity. The traded shipment has incorporated its full carbon accounted value.

Emissions are embedded in supply chains and hence contribute a component part of the full value of a commodity. Stakeholders across the entire length of commodity supply chains are starting to hedge their commodities to include their corresponding emissions. Emissions are a component part of an entity’s risk

¹ The Guidance states, “As discussed further below, this proposed guidance addresses an emerging class of climate related derivative contracts listed for trading by DCMs, where the underlying commodity is a VCC.” Furthermore, the Guidance states, “Where the underlying commodity is a VCC, the Commission recognizes that standardization and accountability mechanisms for VCCs are currently still developing.”

and not something discrete. For stakeholders to hedge their risk, independently published reference prices that are fully reflective of market value are required.

For these reasons, we support the Commission's acknowledgement that VCCs are commodities.

We appreciate the Commission's efforts to create more transparency, integrity, and standardization in our voluntary carbon markets and we look forward to playing a role in facilitating these critical goals.

Sincerely,

A handwritten signature in black ink, appearing to read 'P. Davis', followed by a horizontal line.

Pierre Davis
General Counsel
S&P Global Commodity Insights