

Attn: Chairman Rostin Behnam  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street NW  
Washington, DC 20581

February 16, 2024

**RE: Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts**  
**RIN 3038-AF40**

Dear Commissioners,

We are writing in response to your request for public comment on the proposed guidance regarding the listing for trading of voluntary carbon credit (“VCC”) derivative contracts. We are writing as scientific researchers with expertise in forest carbon cycling, climate policy, and carbon markets.

We have reviewed the proposed Commission guidance, which sets the expectation that carbon credit derivative contracts have underlying VCCs that represent one metric ton of carbon dioxide equivalent reduced or removed from the atmosphere and are not double counted. Such an expectation is important, because persistent problems with quality assurance have made the VCC market at particular risk of fraud and manipulation.

**As an initial step, we recommend that the Commission require any designated contract market (DCM) to use the common VCC commodity characteristics of i) transparency, ii) additionality, iii) permanence and risk of reversal, and iv) robust quantification when addressing quality standards in the terms and conditions of a VCC derivative contract.** Although the four registries generating the majority of carbon credits on the voluntary carbon market nominally use these same quality standards, all have produced carbon credit protocols that result in very high rates of overcrediting across most protocols. Thus, we have the following recommendations to incrementally strengthen each of these quality standards for underlying VCCs, which will in turn help ensure the quality of derivative contracts.

***i) Transparency***

**A DCM should require the following information to be publicly disclosed from a seller of voluntary carbon credits: the location and nature of any GHG reduction or removal intervention as well as all information that an external analyst would need to recalculate the benefits and understand the source of data and assumptions (as is now required for carbon credits marketed or sold in California under AB 1305).** This would assist market participants in understanding how GHG emission reductions or removals are calculated, how additionality is assessed, and how GHG emission reductions or removals are quantified. This information should be accessible to non-specialized audiences, presented in a standardized format, and would assist market participants and observers in making informed evaluations and comparisons of the quality of VCCs that underlie derivative contracts.

***ii) Additionality***

**We strongly encourage the Commission to reinforce the current common definition that additionality requires that the credited activity would not have been developed and implemented in the absence of the added monetary incentive created by the revenue from the**

**sale of carbon credits.** This is an appropriate way to characterize additionality because it stipulates that the funding for a climate mitigation project must have had a causal effect. In addition, given the inherent uncertainty in estimating emissions reductions or removals against a counterfactual scenario, an approach to additionality that leverages recent advances in dynamic baselines or synthetic controls and an approach that treats uncertainty conservatively are highly recommended.

The Commission should not define additionality 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 to the project's or activity's jurisdiction. Such "regulatory additionality" is a necessary, but wholly insufficient element of a robust definition of additionality. Adopting such a limited definition would significantly weaken existing market standards and promote a lower quality carbon market.

### ***iii) Permanence and Risk of Reversal with Nature-based Carbon Credits***

Our research shows that forests' climate mitigation potential is increasingly at risk of disturbance due to drought, fire, and biotic factors, and that these risk factors are themselves exacerbated by climate change. Buffer pools are used by registries as insurance policies against this risk of reversal, with buffer pool credits retired as needed to cover carbon losses from unintentional events such as wildfire or drought. However, research shows that current buffer pools are very likely undercapitalized and therefore unlikely to be able to guarantee the environmental integrity of associated carbon credits over their predetermined sequestration time.

**Given that forest carbon credits make up a significant amount of current VCCs, DCMs should only accept carbon credits from crediting programs that have updated (and will continue to update as the science evolves) their buffer pools to reflect the latest science on disturbance risk to make such buffer pools sufficiently capitalized.**

### ***iv) Robust Quantification***

In current offset crediting programs, all actors from the project developer to the third-party auditor are incentivized to maximize credits, which may contribute to persistent over-crediting. **As one incremental step towards more accurate quantification, we recommend that the Commission requires underlying VCC producing projects to have auditors hired by independent parties, instead of directly by project developers as is common under current offset crediting programs. VCCs could structure quantification and verification where all project developers pay into an auditing pool and then qualified independent auditors are randomly selected to audit individual projects.**

### ***Preventing Double Counting***

**Finally, to prevent double counting, the CFTC should require a DCM to only engage with underlying VCCs that have corresponding adjustments applied by the mitigation project's host country.** This in particular is a fundamental—not incremental—request, but would prevent underlying VCCs used to meet a voluntary carbon commitment to be simultaneously counted toward the climate target of a country where the emissions reductions took place to achieve a country's Nationally Determined Contribution under the Paris Agreement. Voluntary carbon credits without corresponding adjustments threaten the credibility of the underlying VCC market and undermine the Paris Agreement.

### ***Conclusion***

The above incremental steps toward strengthening each of these quality standards can help ensure higher quality VCCs underlying CFTC-regulated derivative contracts, and can help prevent some of the persistent problems with quality assurance that have made the VCC market at particular risk of fraud and manipulation. However, while important, even if these steps are implemented, we emphasize they might not be fully sufficient to guarantee that VCCs will meet the CFTC requirements for derivatives.

Signed,

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