Comments from the Bipartisan Policy Center

Via Public Comment Portal

DATE: February 16, 2024

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

RE: **Comments Regarding the Listing of Voluntary Carbon Credit Derivative Contracts (88 FR 89410 (December 27, 2023))**

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On behalf of the Bipartisan Policy Center, we are pleased to submit the following comments in response to the Commodity Futures Trading Commission's request for public comment on the proposed guidance regarding the listing of voluntary carbon credit derivatives contracts. BPC welcomes increased focus from the federal government on integrity and quality for credits within the voluntary carbon market. The Commission is taking an important step to foster quality and confidence in carbon credits in the voluntary market through this proposed guidance.

The BPC Energy Program drives federal energy policy that boosts our economy, makes America more secure, and tackles climate change—all while keeping the U.S. a global leader. We achieve this by providing thought leadership, conducting original research, and building consensus on significant energy and climate policy issues. Some of our key areas of focus in recent years include carbon management and carbon dioxide removal, nature-based climate solutions, and the voluntary carbon market (VCM).

Meeting our climate goals requires that we rapidly scale efforts to reduce emissions of greenhouse gases and remove accumulated emissions from the atmosphere. We see the potential for carbon credits and a robust VCM to drive billions of dollars to essential climate mitigation projects, and in 2022 we launched a project on strengthening voluntary carbon credits as a vital private climate finance tool. BPC hosted two workshops to design a set of policy options to improve the quality of voluntary carbon credits (VCC), with input from key stakeholders including government leaders, representatives from companies buying and selling carbon credits in the VCM, carbon registry experts, and leading environmental organizations. We published two reports on the VCM and pathways to improving carbon credits.[1]

The Commission requests comment from the public on all aspects of its proposed guidance for designated contract markets (DCMs) regarding the listing of VCC derivative contracts and their compliance with the statutory core principles under the Commodity Exchange Act (CEA). BPC offers the following two points in reaction to the proposed guidance.

1. **The VCC commodity characteristics identified in this proposed guidance are appropriate characteristics to inform the integrity of carbon credits that are relevant to the listing of VCC derivative contracts.**

   The Commission's proposed guidance outlines three categories of VCC commodity characteristics and at least nine sub-characteristics that a DCM should consider in the design of a VCC futures contract's terms and conditions: (i) **quality standards**, which include transparency, additionality, permanence and accounting for the risk of reversal, and robust quantification of emissions reductions or removals; (ii) **delivery points and facilities,** which include effective governance at the carbon crediting program, tracking the issuance, transfer, and retirement of VCCs, and no double counting; and (iii) **inspection provisions**, which includes independent third-party validation and verification. The Commission notes that it reviewed "several private sector and multilateral initiatives" in developing this set of VCC commodity characteristics.

   BPC agrees that the Commission's proposed guidance identifies appropriate VCC commodity characteristics that have also been part of the VCM literature and policy discourse for many years. In BPC's report, "Government Intervention in Support of Quality Carbon Credits," [1] we noted there is growing consensus around the criteria that characterize high-quality carbon credit projects, but that these principles have yet to be widely implemented in the market. The Commission's proposed guidance helps establish a common definition of quality and integrity of carbon credits that are relevant to the listing of VCC derivative contracts. Our report identifies that a lack of standardization is holding back potential investors and limiting market participation and growth, and that there is a role for the federal government in strengthening the quality of carbon credits to enhance liquidity and confidence in the market.

2. **In implementation of this guidance, the Commission should make every effort to encourage consistency <u>across</u> DCMs to meet the Commission's goal "to advance the standardization of [VCC derivative contracts] in a manner that promotes transparency and liquidity."**

   The proposed guidance notes that DCMs will have "reasonable discretion" in how they comply with the Commission's requirements, which is "consistent with the current statutory and regulatory requirements." For example, DCMs are allowed to self-certify that their listing of VCC derivative contracts complies with the CEA and applicable CFTC regulations.

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Although discretion in implementation is a built-in feature of the process, BPC urges the Commission to make every effort to encourage consistency across DCMs in their development of the required "explanation and analysis" of how their VCC derivative contract meets the requirements of this proposed guidance. In our understanding of the proposed guidance, each DCM could develop a different interpretation and justification for why a carbon crediting program or particular VCC product as the underlying commodity meets the VCC commodity characteristics outlined in this proposed guidance. This could represent a continuation of the status quo instead of fostering greater standardization.

In general, DCMs are at their root financial services companies that may not today have the in-house scientific or technical expertise needed to comprehensively evaluate and continuously monitor for changes in carbon crediting programs that may affect the terms and conditions of VCC derivative contracts. The Commission could consider facilitating a community of practice among DCMs to encourage sharing of best practices and developing common evaluation frameworks.

As this market develops, forward-thinking federal policy can bring about quality and confidence necessary for the VCM to do what it is intended to do: fund projects that reduce or remove greenhouse gas emissions from the atmosphere. BPC appreciates the discussion prompted by the proposed guidance, which provides an opportunity to enhance market transparency and stimulate high-quality carbon credits in the voluntary carbon market. As CFTC moves forward with this guidance, BPC looks forward to continued engagement with CFTC and other stakeholders to ensure that federal VCM policy is effective and delivers real climate solutions.

Endnotes

[1] https://bipartisanpolicy.org/report/carbon-credits-climate-solutions
https://bipartisanpolicy.org/report/carbon-credit-report