Terra Global Capital, LLC Response: CFTC Guidance Regarding the Listing for Trading of Voluntary Carbon Credit Derivative Contracts
February 16, 2024

About Terra Global Capital

Terra Global Capital, LLC is pleased to provide feedback on the proposed Guidance Regarding the Listing for Trading of Voluntary Carbon Credit Derivative Contracts by the U.S. Commodity Futures Trading Commission (CFTC). With 17 years of experience in developing nature-based solutions carbon credits, conducting greenhouse gas quantification under market standards, and providing private sector climate finance in nature-based projects and programs, Terra Global has been at the forefront of creating markets for high-quality multiple-benefit carbon carbons and providing climate finance in developing countries. Serving a global client and investor base, we bring our multi-disciplinary expertise in science-driven quantification, rural development, business case developing, and financial structuring to foster financially, socially, and environmentally sustainable landscapes. Having worked in 34 countries, Terra Global has designed and supported the implementation of REDD+ and other sustainable landscape programs from project to national scale.

Terra Global Investment Management, LLC manages the Terra Bella Nature-based Solutions Carbon Fund that seeks to mobilize USD $300 million in upfront investment capital to reduce/remove 1.3 billion tons of greenhouse gases through financing sustainable landscape management to generate an estimated USD $23 billion in climate finance. The Fund provides the much needed primary project finance capital to produce massive climate change mitigation benefits while creating substantial rural income growth through investing in jurisdictional programs and projects that reduce emissions from deforestation and degradation, improve forest management, support afforestation/reforestation, establish agroforestry systems, promote climate smart agriculture, and install rural energy efficiency infrastructure (fuel-efficient cookstoves, solar energy, water filters) to produce verified emission reductions and removals (also called carbon credits).

Terra Global Investment Management, LLC is a registered Commodity Pool Operator under Reg. 4.7 managing both the Fund and other direct project investments in nature-based carbon credits. While the Commission's proposed guidance focuses on listed contracts, a majority of carbon credits trade over the counter. Thus, Terra Global views the proposal as a potential first step in an expansion of CFTC regulatory oversight in the carbon credit transactions market, and as such, Terra Global is highly motivated to provide comments as leading nature-based carbon credit sector experts. It is of the utmost importance that CFTC and other financial regulators get the regulation "right", as it will have an incredibly significant impact on the ability to attract the estimated USD $384 billion of private investments into nature-based solutions carbon credits needed by 2025, and USD $484 billion per year by 2030[1], which is critical to reaching the global goal of reductions in GHG emissions limiting warming to 1.5 degrees C.

[1] United Nations Environment Programme (2022). *State of Finance for Nature. Time to act: Doubling investment by 2025 and eliminating nature-negative finance flows.* Nairobi. https://wedocs.unep.org/20.500.11822/41333.

Comments on Proposed Guidelines

General

1. *In addition to the VCC commodity characteristics identified in this proposed guidance, are there other characteristics informing the integrity of carbon credits that are relevant to the listing of VCC derivative contracts? Are there VCC commodity characteristics identified in this proposed guidance that are not relevant to the listing of VCC derivative contracts, and if so, why not?*

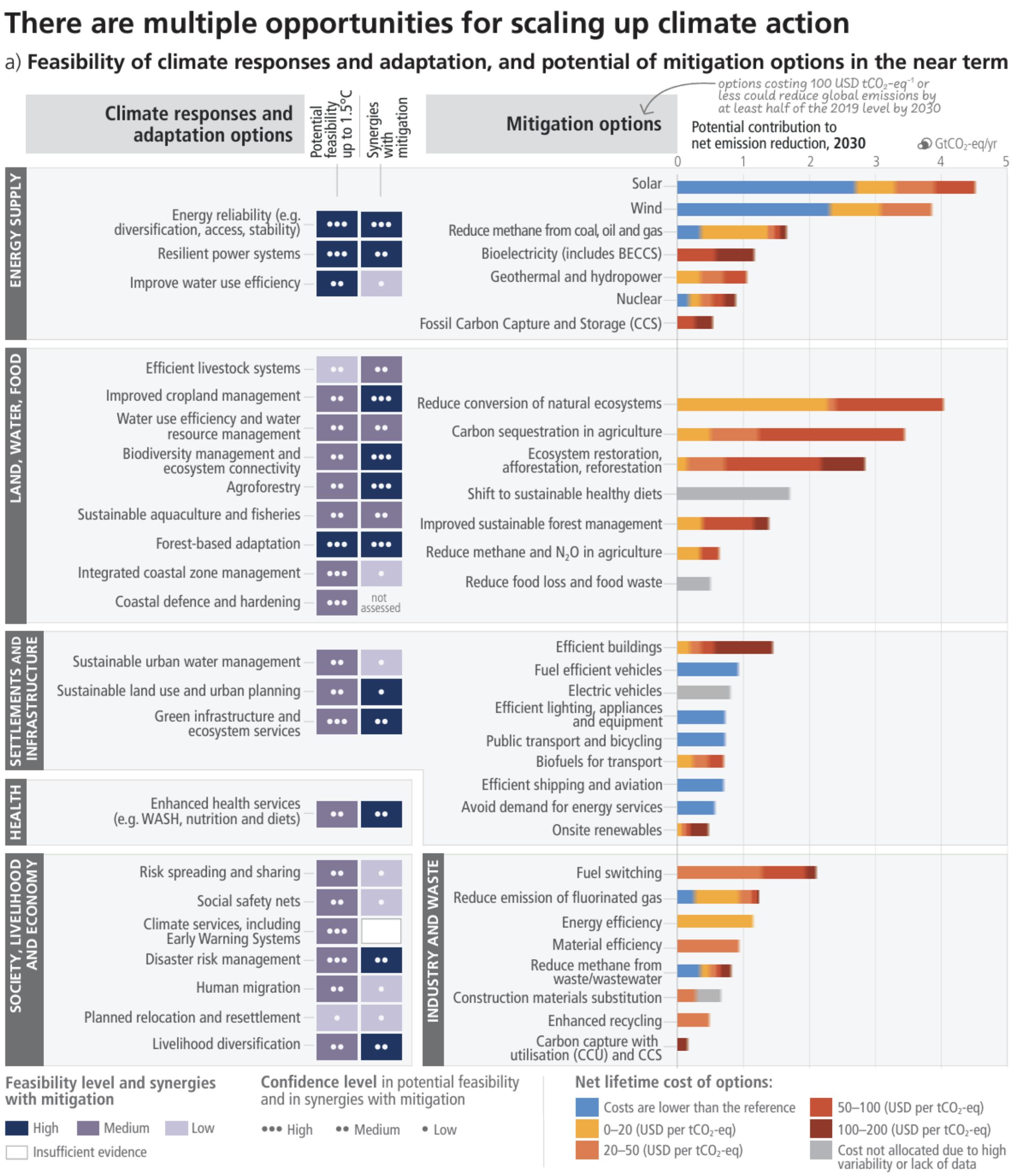
Comment: The term "integrity" is a carbon market industry buzz word, and while it can apply to carbon credits (or VCCs), for both regulatory and voluntary use, it has been mostly aligned with the voluntary market (yet important to note it is applicable to both). There are numerous criteria in an effort to define "high integrity" as it relates to the underlying commodity, but it is not the CFTC's role to define these details. Much like the different coffee and varying cocoa derivative contracts, the VCC derivative contract should be required to clearly specify the details of the requirements of the underlying ton of CO_2e including the name of the GHG quantification standard (and methodology) it must be verified under, type of technology, country of origin, as well as any carbon co-benefits that are in addition to the GHG certification. The co-benefits delivered with each ton of CO_2e may include impact on biodiversity, community well-being, gender equity, and the benefits for vulnerable/marginalized communities which would be part of contract requirement and would specific the standard under which they must be certified. When a DCM seeks to list a VCC derivative contract, these details should be made fully transparent in the contract, but the CFTC should not decide which standards are "high integrity", as it is up to the market to determine which underlying type of carbon credit is seeks to trade. One role that CFTC could play is to ensure that VCC derivative contracts will serve to expand the VCC market, by requiring contracts meet standards that have met other requirements in the market whether that be CORISA, ICROA, or the upcoming ICVCM Core Carbon Principals.

2. *Are there standards for VCCs recognized by private sector or multilateral initiatives that a DCM should incorporate into the terms and conditions of a VCC derivative contract, to ensure the underlying VCCs meet or exceed certain attributes expected for a high-integrity carbon credit?*

Comment: Terra Global believes that VCC derivative contracts listed by DCMs should focus on mobilizing the much needed climate finance into the sectors that can cost effectively deliver reductions needed to meet the 1.5 degree of C ceiling. The CLIMATE CHANGE 2023 Synthesis Report Summary for Policymakers[2] (below) demonstrates the importance of each sector to delivering reductions through 2030. And while the commodity unit of the VCC may be a ton of CO_2e, it is important to note this is not one commodity, nor do they cost the same to produce. The private sector, particularly in the voluntary sector, has recognized the importance of purchasing VCCs that deliver more than simply a ton of CO_2e, and this has made the nature-based VCC a larger portion of the market. To ensure that the private sector has the financial instruments necessary to deploy capital, one requirement for contracts specifications should include the sector (or technology) and the certified co-benefits to be delivered with the VCC. Additionally, as use under the Paris Agreement is emerging in the form of voluntary market volume, contract

[2] https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_SPM.pdf

specifications should be required to specify the "use rights" of the VCCs delivered as having a corresponding adjustment or not.



If the CFTC does in some way seek to set requirements for the GHG standards and co-benefit certifications in the nature-based sector we suggest including 1) Verified Carbon Standard (VCS), 2) Climate, Community & Biodiversity (CCB) Standards, 3) American Carbon Registry, 4) ART TREES, and 5) Climate Action Reserve. These frameworks are critical for ensuring the integrity of carbon credits, especially those derived from Nature-based Solutions (NbS). Incorporating these standards will align VCC derivative contracts with the highest levels of environmental integrity and sustainability, fostering trust and reliability in the carbon market. This approach not only supports high-integrity carbon credits but also ensures that VCCs contribute effectively to global climate goals, including those facilitated by mechanisms under the Paris Agreement, such as Article 6.4, enhancing international cooperation and climate finance, especially for developing nations.

3. *In addition to the criteria and factors discussed in this proposed guidance, are there particular criteria or factors that a DCM should consider in connection with monitoring the continual appropriateness of the terms and conditions of a VCC derivative contract?*

No comment.

4. *In addition to the criteria and factors discussed in this proposed guidance, are there particular criteria or factors that a DCM should consider, which may inform its analysis of whether or not a VCC derivative contract would be readily susceptible to manipulation?*

Comment: To minimize the risk of manipulation, in the sense that a contract holder does not receive the underlying VCC that meets the standards, Terra Global advises that the DCM provides a listing of all details regarding delivered VCCs against contract settlement publicly and that the allocation process is made publicly available. This will support transparency in the marketplace and self-policing within the industry.

5. *Should the VCC commodity characteristics that are identified in this proposed guidance as being relevant to the listing by a DCM of VCC derivative contracts, also be recognized as being relevant to submissions with respect to VCC derivative contracts made by a registered foreign board of trade under CFTC regulation 48.10?*

No comment.

Transparency

6. *Is there particular information that DCMs should take into account when considering, and/or addressing in a VCC derivative contract's terms and conditions, whether a crediting program is providing sufficient access to information about the projects or activities that it credits? Are there particular criteria or factors that a DCM should take into account when considering, and/or addressing in a contract's terms and conditions, whether there is sufficient transparency about credited projects or activities?*

Comment: Terra Global stresses the need for DCMs to require standards that provide comprehensive project documentation, monitoring reports, audits reports, and transparent stakeholder engagement processes, to ensure the credibility and transparency of underlying VCCs. And while the standards are starting to support the evolution to digital MRV, these are currently modest efforts. In addition to DCMs being required to provide the public information on physically delivered VCCs, they should further be required to provide links to all the supporting standards data for each project in which the VCCs are delivered.

Additionality

7. *Are there particular criteria or factors that DCMs should take into account when considering, and/or addressing in a VCC derivative contract's terms and conditions, whether the procedures that a crediting program has in place to assess or test for additionality provide a reasonable assurance that GHG emission reductions or removals will be credited only if they are additional?*

Comment: The additionality requirements should be determined by the underlying market standards of VCCs eligible under the contract specifications, which should not be set by the DCM; only at GHG standards level.

8. *In this proposed guidance, the Commission recognizes VCCs as additional where they are credited for projects or activities that would not have been developed and implemented in the absence of the added monetary incentive created by the revenue from carbon credits. Is this the appropriate way to characterize additionality for purposes of this guidance, or would another characterization be more appropriate? For example, should additionality be recognized 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 in the project's or activity's jurisdiction?*

Comment: It is Terra Global's opinion this is not the role of the CFTC to direct nor determine details of additionality, much like it does not determine grade of coffee. Alternatively, the CFTC could focus on proposing specifications of which GHG and co-benefits standards a DCM could use to define VCC contract specifications.

Risk of Reversal

9. *Are there particular criteria or factors that DCMs should take into account when considering, and/or addressing in a VCC derivative contract's terms and conditions, a crediting program's measures to avoid or mitigate the risk of reversal, particularly where the underlying VCC is sourced from nature-based projects or activities such as agriculture, forestry or other land use initiatives?*

Comment: The long-term tested approach to non-permanence risk for nature-based solutions VCC is to apply a risk buffer approach on a portfolio basis by the standards. By each project depositing a number of VCCs into a pool based on the risk of the project, any reversals of previously issued VCCs is covered by the pool. The portfolio effect of the pool provides "self-insurance" for each standard. There is currently little transparency or reporting requirements around the adequacy of these buffer pools by standards outside of certain initiatives, such as ICVCM and ICROA. The Commission may want to require the DCMs it assesses as part of the contract listing.

10. *How should DCMs treat contracts where the underlying VCC relates to a project or activity whose underlying GHG emission reductions or removals are subject to reversal? Are there terms, conditions or other rules that a DCM should consider including in a VCC derivative contract in order to account for the risk of reversal?*

Comment: The use of adequately funded risk buffer pools by the standard eliminates the requirement to treat these VCC differently from others. That said, Terra Global recommends (for other reasons) that contracts for nature-based as well as other technologies be defined as different instruments.

Robust Quantification

11. *Are there particular criteria or factors that a DCM should take into account when considering, and/or addressing in a contract's terms and conditions, whether a crediting program applies a quantification methodology or protocol for calculating the level of GHG reductions or removals associated with credited projects or activities that is robust, conservative and transparent?*

Comment: The standards have extensive experience in assessing the complex issues on VCC GHG quantification. They provide detailed requirements, rules, and methods, as well as project approval status using 3rd parties, and processes for credit issuance. Guidance can be provided by CTFC to ensure that DCMs prioritize crediting programs with proven, conservative, scientifically robust, transparent quantification methodologies, which are in line with industry best practices, enforced by reputable international standards requiring public input, and further, align with principles of continued improvement, transparency, and accountability.

Governance

12. *In addition to a crediting program's decision-making, reporting, disclosure, public and stakeholder engagement, and risk management policies, are there other criteria or factors that a DCM should take into account when considering, and/or addressing in a VCC derivative contract's terms and conditions, whether the crediting program can demonstrate that it has a governance framework that effectively supports the program's transparency and accountability?*

Comment: Terra Global reiterates its position that the CFTC can rely on efforts such as CORISA, ICROA, and the emergence of ICVCM to define requirements for crediting program governance.

Tracking and No Double Counting

13. *In addition to the factors identified in this proposed guidance, are there other factors that should be taken into account by a DCM when considering, and/or addressing in a VCC derivative contract's terms and conditions, whether the registry operated or utilized by a crediting program has processes and procedures in place to help ensure clarity and certainty with respect to the issuance, transfer, and retirement of VCCs?*

Comment: Each standard (crediting program) handles this requirement; it should not be done in the context of the CFTC or DCM.

14. *Are there particular criteria or factors that a DCM should take into account when considering, and/or addressing in a VCC derivative contract's terms and conditions, whether it can be demonstrated that the registry operated or utilized by a crediting program has in place measures that provide reasonable assurance that credited emission reductions or removals are not double-counted?*

Comment: DCMs who support the delivery of physically settled VCCs should be required to fully and publicly account for the serialized tons that are delivered under each contract.

Inspection Provisions

15. *Should the delivery procedures for a physically-settled VCC derivative contract describe the responsibilities of registries, crediting programs, or any other third-parties required to carry out the delivery process?*

Comment: Terra Global advises that delivery procedures for physically settled VCC derivative contracts clearly outline the responsibilities of all parties involved to ensure the integrity and authenticity of the credits upon delivery.

Sustainable Development Benefits and Safeguards

16. *Certain private sector and multilateral initiatives recognize the implementation by a crediting program of measures to help ensure that credited mitigation projects or activities meet or exceed best practices on social and environmental safeguards, as a characteristic that helps to inform the integrity of VCCs issued by the crediting program. When designing a VCC derivative contract, should a DCM consider whether a crediting program has implemented such measures?*

Comment: Any standard or crediting program that will be defined under a VCC contract specification must be able to deliver safeguards, as this is the minimum requirement from an accepted standard. But the real value add is that contract specifications support the inclusion of certified co-benefits that are part of the delivered commodity. Co-benefits are different than safeguards as the measure, and 3rd parties verify the non-carbon benefits that a project delivers, as opposed to "do not harm". CFTC should encourage DCMs to create VCC contracts which recognize these as support delivery of VCC for carbon, with various levels of certified co-benefits, such as triple gold (i.e., exceptional benefits for community, biodiversity, and climate adaptation), that are certifiable under the Climate, Community, and Biodiversity Standard.

17. *Certain private sector and multilateral initiatives recognize the implementation by a crediting program of measures to help ensure that credited mitigation projects or activities would avoid locking in levels of GHG emissions, technologies or carbon intensive practices that are incompatible with the objective of achieving net zero GHG emissions by 2050, as a characteristic that helps to inform the integrity of VCCs issued by the crediting program. When designing a VCC derivative contract, should a DCM consider whether a crediting program has implemented such measures?*

Comment: At this point in the global climate crisis, Terra Global believes this is not a priority. Over so many years, the perfect has been the enemy of the good and we find ourselves at risk for failing to meet the 1.5 degree C limit. As a highly regarded and respected regulatory body, the Commission should do as much as possible to promote the trading of VCCs both over the counter and as listed derivatives that are produced from all technologies in order to create real emission reductions and removals in both the immediate and medium-term. As Terra Global and others finally start to drive the required finance and are producing notable climate progress, guidance can evolve to assess changes as needed in the long-term.

Concluding Remarks

Terra Global Capital appreciates the opportunity to contribute to the development of the Commission's guidance on Voluntary Carbon Credit Derivative Contracts. As a leader in leveraging nature-based solutions for climate finance, we remain committed to financing sustainable landscapes and robust market mechanisms that attract the required private sector climate finance to nature-based project and jurisdictional programs in developing countries.

For additional insights or to engage further with Terra Global on these critical issues, please get in touch via info@terraglobalcapital.com, join Terra Global's mailing list for key updates, or follow Terra Global on LinkedIn.

Sincerely,

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