February 16, 2024

Environmental Resources Trust (ERT) appreciates the opportunity to provide comments on the proposed *Guidance Regarding the Listing for Trading of Voluntary Carbon Credit Derivative Contracts* published by the Commodity Futures Trading Commission (the "Commission" or CFTC). ERT fully agrees with the CFTC's objective of enhancing trust in the VCM and elevating the use of high-quality carbon credits.

Environmental Resources Trust (ERT), a nonprofit enterprise of Winrock International, operates two leading global carbon crediting programs, ACR and the Architecture for REDD+ Transactions (ART).
ACR was founded in 1996 as the first private greenhouse gas registry in the world with the mission of harnessing the power of markets to improve the environment. In addition to the voluntary carbon market, ACR's experience includes serving for over a decade as the leading Offset Project Registry (OPR) for the California Cap-and-Trade program, as one of two approved OPRs for Washington State's Cap-and-Invest program and as approved to supply credits to both phases of ICAO's CORSIA. ACR has issued 270 million tons of verified, serialized emission reductions from over 700 projects.

The Architecture for REDD+ Transactions (ART) was launched in 2018 to serve as a global quality benchmark for jurisdictional REDD+, providing the confidence needed in the integrity of emission reductions from large-scale forest protection and restoration to unlock private capital at scale for ambitious climate action. In just five short years, ART has become an internationally recognized brand with 20 jurisdictions in the crediting process and having issued the world's first market-based jurisdictional REDD+ Credits. The LEAF Coalition, which includes four sovereign governments and over 20 corporations, has pledged $1.5 billion for ART-issued TREES Credits, and ART is also approved by ICAO to supply credits to both phases of ICAO's CORSIA.

**COMMENTS ON PROPOSED GUIDELINES**

ERT appreciates the CFTC's work on the proposed guidelines. Our comments aim to clarify the distinct roles of DCMs, multi-lateral initiatives, and carbon crediting programs themselves (also referred to as "standards" and "registries") in setting and adhering to strong benchmarks for carbon credit quality.

First, however, we'd like to recognize that while the guidance is framed as being directed at the voluntary carbon market (VCM), it is important to clarify the reality of the convergence of the "voluntary" and "mandatory" carbon markets as those relate to your proposed terminology of "Voluntary Carbon Credits – VCCs."

Credits issued by independent crediting programs such as ACR and ART are not "VCCs" since they can also be used in national or international compliance markets such as ICAO's CORSIA. Therefore, the VCM is really about the USE of the credit rather than the voluntary nature of the credit itself. To ensure clarity, we propose the use of the term "carbon credit" or "verified carbon credit" to refer to the underlying unit while "voluntary" refers to the use.

1) Role of a DCM

Many of the issues the Commission is trying to address in respect of the VCM are related to the underlying credits themselves rather than the derivatives market. In this respect, it is important to note that while DCMs have responsibility to prevent market manipulation, they are poorly positioned to evaluate the attributes of quality of the credits underpinning physically settled carbon-based derivatives contracts.

DCMs should base contracts on credits that have been approved by multilateral initiatives, as described below, to ensure attributes of credit quality have been met. Further, for carbon credit-based contracts, DCMs should have discretion to make substantive determinations related to the crediting programs, methodologies, criteria (i.e., vintage), or credit labels they choose to include or exclude in the contract.

2) Role of Multilateral Initiatives

Multi-lateral initiatives and jurisdictional compliance regimes have been designed to help ensure the quality of issued credits through endorsements or other recognition models.

For example, the International Civil Aviation Organization (ICAO) has established the world's first global compliance carbon market, the CORSIA: Carbon Reduction and Offsetting Scheme for International Aviation. ICAO approves carbon crediting programs (and even credit types) based on a rigorous assessment by the 19-member international Technical Advisory Body (TAB) to adherence to program-level and credit-level quality criteria that were developed and piloted by ICAO over the course of many years.

This includes all of the quality attributes highlighted in the Commission's Guidance including:

A) Program governance and conflict of interest;
B) Robust quantification including additionality, baselines, leakage, uncertainty
C) Safeguards including for Free, Prior and Informed Consent as well as grievance mechanisms
D) Management of non-permanence and risk of reversal including through buffer pools
E) Avoiding double counting
F) Independent, third-party verification; and
G) Transparency of information on a public registry

Since 2020, over three dozen crediting programs have applied for ICAO approval, but to date, only a small number of programs are approved. ICAO has become synonymous with a global carbon quality benchmark, and one on which DCMs can rely with confidence.

The Commission should allow and encourage DCMs to rely on ICAO and other rigorous crediting certification including, but not limited to, ICAO, the Integrity Council for the Voluntary Carbon Market (ICVCM) and ICROA. This area is an evolving landscape, and other internationally-recognized quality standards may emerge. The critical factor is that DCMs be transparent about crediting programs that are eligible in their derivative contracts.

3) Role of Independent Carbon Crediting Programs

Given their deep expertise and foundational role in the market, carbon crediting programs are at the front lines of addressing credit quality. It is the responsibility of the crediting programs, together with project developers and the independent and accredited validation and verification bodies (VVBs) to have rules in place to protect against manipulation or fraudulent activity associated with the creation of credits that are issued pursuant to their standards that may be included in a derivative contract.

The crediting programs have extensive experience in assessing the complex issues on credit quality, such as setting definitions for additionality, addressing permanence and reversal risks, and developing robust quantification methodologies. They provide transparent information on public registries including project data and credit status.

In conclusion, we appreciate this opportunity to provide ERT's comments on the proposed guidelines. Please don't hesitate to reach out as needed for more information.

Sincerely,

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