

February 15, 2024

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

**RE: Request for Information 88 FR 89410 titled Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts; Request for Comment**

Secretary Kirkpatrick:

As the Chief Science Officer of EcoBalance Global LLC, I wish to address specific sections of the FTC's guidance on the Listing of Voluntary Carbon Credit Derivative Contracts (Document 2023-28532a), particularly those sections that may present challenges or conflicts with the innovative approaches of carbon credit registries like BCarbon and Nori.

EcoBalance Global, formed in 2022, strives to take a leadership role in sustainable land management globally, providing both agricultural partners and consumers with the widest array of options for creating a more sustainable environment. We are keenly focused on providing the agriculture and ranching sectors with a clear path to sustainability via the development and implementation of holistic management practices to expand and diversify resulting commodities with sustainability attributes. The application of these practices allows participants to cultivate an ecosystem that benefits the landowner, environment, communities, people, and the products grown on the land. At the core of EcoBalance, is a mission that represents a commitment to three primary guiding concepts: Healthy Soils. Thriving Families. Global Solutions.

EcoBalance is well connected with the agriculture and commodities industries in the United States and has built a proof of concept incorporating data to track and inset carbon credits into the beef supply chain using blockchain based carbon credits. We did so by co-developing the EcoBalance enterprise system which provides transparency, traceability, and assurance regarding environmental claims and source verification. Internationally, EcoBalance has built relations with international partners to develop proofs of concept on development of climate smart commodities with "inset" carbon credits to provide verifiable storage on behalf of customers.

- 1. Quality standards across diverse carbon storage solutions.** In Document 2023-28532a, Section A.1. Quality Standards the FTC outlines critical commodity characteristics that a Designated Contract Market (DCM) should consider for VCC derivative contracts, specifically focusing on transparency, additionality, permanence and risk of reversal, and robust quantification (Document 2023-28532a, Section A.1.). While these standards are essential for ensuring the integrity of the carbon market, we are concerned that the stringent application of these standards, particularly additionality and

permanence, may not fully appreciate measurement based methodologies and innovations employed by BCarbon<sup>1</sup>, rated as best in class in the USA<sup>2</sup>, and similar registries.

- **Additionality:** The strict interpretation of additionality, requiring VCCs to represent reductions or removals that would not have occurred without the sale of carbon credits, may not fully recognize the inherent additionality in certain agricultural and soil carbon sequestration practices. EcoBalance supports the approach that a carbon credit represents 1 ton of CO<sub>2</sub> equivalent stored or avoided.
- **Robust Quantification, not perverse incentives:** The call for conservative and transparent quantification methodologies is vital. Still, the guidance should allow for the evolution and integration of new scientific advancements in quantification methodologies that may offer enhanced accuracy and efficiency. There is too much room for fraud within methodologies presented as CCPs by the ICVCM. For example, in forest methodologies there is a perverse incentive to enhance the financial gains from the carbon credit initiative, the project proponent could artificially inflate the credited amount for the "conserved forest" by intentionally deforesting areas in the reference forest that would have otherwise been preserved.

2. **Blockchain and NFTs:** Our organization, like many others in the VCM, is exploring blockchain technology and NFTs to enhance the traceability and reliability of carbon credits. The FTC document discusses the pricing of derivative contracts on VCCs based on the spot price of VCCs (Document 2023-28532a, Supplementary section II). We seek clarification on the FTC's stance on using blockchain and NFTs within the VCM framework, ensuring that these technologies are not inadvertently classified in a manner that could stifle their use for environmental benefit.

*“The Commission preliminarily believes that a DCM should consider whether the crediting program for the underlying VCCs can demonstrate that it has processes and procedures in place to help ensure clarity and certainty with respect to the issuance, transfer, and retirement of VCCs. The DCM should consider whether the crediting program operates or makes use of a registry that has measures in place to effectively track the issuance, transfer, and retirement of VCCs; to identify who owns or retires a VCC; and to make sure that each VCC is uniquely and securely identified and associated with a single emission reduction or removal of one metric ton of carbon dioxide equivalent.” Supplementary section II.2.b.*

We support the emphasis on transparency and view the use of blockchain with public ledger as exemplar in this regard.

3. **Buffer pool vs insurance: Allow for complexity through transparency**

Carbon credits are developed from different technologies with differing risk factors, so guaranteed storage time should be included in the projects. In the instance of reversal, a buffer pool is mentioned:

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<sup>1</sup> <https://bcarbon.org/soil-faq>

<sup>2</sup> <https://carbonplan.org/research/soil-protocols>

*“A DCM should consider whether a crediting program has a buffer reserve or other measures in place that provide reasonable assurance that, in the event of a reversal, the VCCs intended to underlie the derivative contract would be replaced by VCCs of comparable high quality that meets the contemplated specifications of the contract. The DCM could also consider whether the crediting program regularly reviews the methodology by which the size of its buffer pool is calculated in order to address evolving climate risks that may heighten the risk of reversal, and whether there is a mechanism in place to audit the continuing sufficiency of the buffer pool.” Section II.2.c*

A buffer Pool is an internal mechanism within a carbon crediting program where a portion of the credits from all projects is set aside into a common pool. This pool is used to compensate for any reversals, ensuring the integrity of the credits issued. It's a self-insurance mechanism where the projects collectively bear the risk. Buffer pools held by credit issuers (registries) have failed in the past, e.g. “Finite Carbon - Colville IFM project” (ACR255)<sup>3</sup> so this may not be the correct approach.

An alternative approach could be insurance, which involves an external entity (an insurance company) providing risk coverage in exchange for premiums. In the context of carbon credits, insurance could cover various risks, including the risk of reversal, ensuring that investors and project developers are compensated if stored carbon is released back into the atmosphere due to unforeseen events.

Considering the vast complexity, EcoBalance agrees with Nori’s<sup>4</sup> CEO Matthew Trudeau that “Evaluating the robustness, conservativeness, and transparency of a quantification methodology or protocol goes beyond the scope of DCM and should be left to market participants and/or other regulators, policymakers, or industry groups.”

## **Conclusion**

We commend the FTC's efforts to standardize and ensure the integrity of the voluntary carbon market. It is imperative that the guidance be adaptable to accommodate the innovative and scientifically rigorous approaches employed by registries like BCarbon. We respectfully request that the FTC consider these points in its final guidance to support a diverse, inclusive, and effective carbon market.

We appreciate the opportunity to contribute to this important dialogue and look forward to further engagement with the FTC on these matters.

Sincerely,

M. Brennan Pecha, Ph.D.  
Chief Science and Sustainability Officer  
EcoBalance Global LLC

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<sup>3</sup> <https://carbonplan.org/blog/buffer-update-three>

<sup>4</sup> <https://nori.com/>



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