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S E C U R I T I E S A N D F U T U R E S
S E C T O R

February 26, 2024

Mr. Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

Submitted via Overnight Courier

**Re: Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts;
Request for Comment
RIN 3038-AF40**

Dear Mr. Kirkpatrick:

The Climate Market Strategy and Infrastructure group, an initiative of Bloomberg Philanthropies,¹ respectfully submits this letter in response to the above-referenced notice filed by the Commodity Futures Trading Commission's ("CFTC" or the "Commission") request for comment (the "Request") on the guidance regarding the listing of voluntary carbon credit derivative contracts (the "Proposed Guidance").²

The Proposed Guidance sets out factors that designated contract markets ("DCMs") should consider when listing a voluntary carbon credit ("VCC") derivative to ensure compliance with the Commodity Exchange Act ("CEA") and CFTC regulations. Specifically, the Proposed Guidance requires DCMs to list only derivatives that are not readily susceptible to manipulation

¹ The Climate Market Strategy and Infrastructure group (CMSI) – an initiative of Bloomberg Philanthropies – develops and supports public good initiatives that help accelerate efforts to reach net zero by 2050. Working with stakeholders across the value chain – including companies, financial institutions, policymakers, and philanthropic organizations – CMSI's mission is to incubate and scale catalytic data- and technology-driven climate solutions that help drive market structure, standardization, and transparency.

Bloomberg Philanthropies invests in 700 cities and 150 countries around the world to ensure better, longer lives for the greatest number of people. The organization focuses on creating lasting change in five key areas: the Arts, Education, Environment, Government Innovation, and Public Health. Bloomberg Philanthropies encompasses all of Michael R. Bloomberg's giving, including his foundation, corporate, and personal philanthropy as well as Bloomberg Associates, a philanthropic consultancy that advises cities around the world. In 2023, Bloomberg Philanthropies distributed \$3 billion.

² Request for Comment on Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts, RIN 3038-AF40 (Dec 27, 2023), available at <https://www.cftc.gov/sites/default/files/2023/12/2023-28532a.pdf>

and consider the following VCC commodity integrity characteristics when selecting crediting programs from which counterparties may deliver eligible VCCs at expiration: transparency; additionality; permanence and risk of reversal; robust quantification; governance; tracking; prevention of double counting; inspection provisions, including third-party validation and verification; and monitoring.³

We share the Commission's view that the Commission has a significant role to play in the voluntary carbon markets.⁴ There is a growing interest in carbon markets to incentivize carbon mitigation activities to accelerate the reduction and removal of global greenhouse gas emissions. There is also a growing need for standardized linkages between the VCM and mandatory market to promote an efficient and transparent global pricing framework. The CFTC, as a market regulator, has an opportunity to bolster and safeguard the integrity of derivatives contracts that use voluntary carbon credits as the underlying commodity. We support the Proposed Guidance issued by the Commission and ask that the Commission take more concrete steps to regulating by making the proposed provisions mandatory for DCMs. We also believe the Commission has a role to: (1) continue aligning its approach with global standards to foster market integrity; (2) encourage standardization in the VCM to promote liquidity; and (3) explore the need for a "global carbon repository" to provide a holistic view of VCC data to facilitate market transparency and price discovery. We outline our comments in more detail below.

- 1) We cannot emphasize enough the importance of applying recognized global standards in the VCM. We support the CFTC's intent to align the Proposed Guidance with existing and future standards and frameworks, and are pleased the Proposed Guidance adapts terminology, concepts, and standards from the Integrity Council for the Voluntary Carbon Market's ("ICVCM") Core Carbon Principles and its Assessment Framework.⁵ We encourage the CFTC to monitor the adoption of ICVCM standards by global regulators and industry participants, and to amend the guidance as necessary to reflect future standards developments.
- 2) Standardized contracts are key to strengthening the VCM across jurisdictions and, in particular, promoting liquidity in carbon credit derivatives markets. We share the Commission's view that market participants will increasingly look to derivatives products as they manage the financial-related impacts of physical and transition risks, thus the need to create continued liquidity.⁶ While we are mindful of limitations to the CFTC's

³ Proposed Guidance at 7-11.

⁴ Statement of Chairman Rostin Behnam on the Proposed Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts (Dec 4, 2023), *available at* <https://www.cftc.gov/PressRoom/SpeechesTestimony/behnamstatement120423>

⁵ See Proposed Guidance. See also Statement of Commissioner Christy Goldsmith Romero on the Proposed Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts (Dec 4, 2023), *available at* <https://www.cftc.gov/PressRoom/SpeechesTestimony/romerostatement120423>

⁶ *Id.*

regulatory authority over the secondary market trading of VCCs, we note the work of international standard setting organizations such as the International Swaps and Derivatives Association, Inc. ("ISDA"), which has developed standardized trading templates for spot, forward, and option transactions in VCCs.

- 3) While obstacles to advancing and scaling the VCMs are manifold, we want to draw the CFTC's attention to the need for an aggregated global view of all VCC data to address market fragmentation. Specifically, we see a need for a public good utility, such as a "global carbon repository," to provide market participants with a full picture of VCC information and characteristics allowing for price discovery. The repository is not meant to supersede existing registries and meta-registries but instead sit above them as an aggregation tool. Similar to other trade repositories, the global carbon repository would be a central facility for all VCC and compliance market trade data, and would include such elements as a global carbon taxonomy to improve data quality, unique trade identifiers and Legal Entity Identifiers ("LEI") to increase transparency by tracking the issuance, transfer, and retirement of VCCs to mitigate double counting, and global standards, such as the ICVCM standards, to assist in standardizing terms and characteristics of VCCs across jurisdictions.

We appreciate the opportunity to share our thoughts on this issue and would be pleased to discuss any questions you may have with respect to this letter.

Thank you.

Sincerely,

/s/ Ben Macdonald

Ben Macdonald
Managing Principal
Climate Market Strategy and Infrastructure, a philanthropic initiative of Michael R. Bloomberg