Submission to CFTC

Submission of comments in response to Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts; Request for Comment

Disclaimer: The views and opinions expressed in this document are those of the staff members and do not necessarily reflect the views or positions of the World Bank.

The Climate Finance and Economics and Long-Term Finance teams at the World Bank wish to convey its sincere gratitude for the opportunity to share our inputs on the Commission Guidance regarding the listing of voluntary carbon credit derivative contracts.

We would like to share our observations on some of key topics embedded within the questions related to additionality, tracking and no double counting, and sustainable development benefits and safeguards. The observations are based on aforementioned teams' experience with carbon market so far and to support incentivizing the development of the robust carbon markets.

Response to #7 and #8 regarding Additionality

Conservative baseline setting (i.e., setting the baseline lower than the business-as-usual emissions level) reflecting the baseline with the country's NDC may be sufficient to prove additionality of a mitigation activity, and there may no longer be a need for adopting traditional additionality demonstration approaches (such as financial additionality or barriers assessments). Under the Paris Agreement, countries set their mitigation commitments in the form of nationally determined contribution (NDC), and they decide which activities need climate/carbon finance support through developing positive/negative lists. In such scenarios, no further additionality test is required. The additionality determination methods used in earlier market-based mechanisms had inherent uncertainty, and they may become a risk-management tool to determine the quantity of emission reductions to avoid overselling rather than a yes/no decision tool. New approaches like in the table below under different scenarios, linking to the NDC stringency of countries, should be looked into, of which further detailed information can be accessed here.

Table 1. Requirements for ensuring environmental integrity for Article 6.2 mitigation outcomes under different country conditions

Where Independent Assessment of NDC is	NDC Stringency	Corresponding adjustments	Requirements to ensure Environmental Integrity*		Remarks
			Baseline/ Reference level	No net increase in GE	
Possible	More stringent than BAU	Required	Describe consistency with NDC	Addressed by host and buyer attaining NDC All mitigation outcomes may be transferable	Activity-based additionality testing is not needed
	Less stringent than BAU	Required	Required through conservative cap/ baseline, using NDC/BAU as point of reference	All MOs below the stringent cap/baseline transferable	Activity-based additionality testing is not needed
Not possible	Difficult to ascertain	Required	Required through conservative cap/baseline, using technical determination, not based on NDC	Part of MOs transferable	Activity-based additionality evaluation required
n.a.	n.a.	Required	Required through conservative cap/baseline, using technical determination	Part of MOs transferable	Activity-based additionality evaluation required
*The requirement for minimizing risk of non-permanence is not addressed here					

Source: The World Bank. "Considerations for Additionality Concepts to Article 6.2 Approaches," World Bank Working Paper, Washington, DC.

Response to # 12 regarding Governance

It is common practice, with some exceptions, that carbon crediting programs also manage the Registry of the carbon credits they accredit. Conducting both practices under the same entity could potentially lead to situations of conflict of interest. In this context we would suggest to mention explicitly that i) governance of entities conducting both activities should have in place the firewalls and provisions relevant to prevent or manage situation of conflict of interest; and ii) the need for entities conducting only Registry functions to have also robust governance, similar to that required for carbon crediting entities. Finally, we would encourage to evaluate whether a more direct and/or stronger oversight of the crediting programs and registries should be considered.

Response to #14 regarding Tracking and No Double Counting

While registries are critical to record and track mitigation activities and carbon credits issued, communication between different program registries is essential to prevent double counting as it enables verification of the history of transactions and modifications made to the projects and credits. The draft guidance focuses only on the former – carbon crediting programs having a registry, but not on the latter – the need for such registries to communicate with each other, which can be supported through use of common data formats and taxonomy in the different programs. The Climate Action Data Trust (CAD Trust) was developed and launched in collaboration with the government of Singapore, International Emissions Trading Association, and the World Bank to connect decentralized registry systems globally to bring more transparency on different activities happen within and across connected registries . In addition to the carbon crediting program's robust governance to ensure that the relevant mitigation activity has not been registered and not issued credits elsewhere, connecting the program's registry to CAD Trust would facilitate trackability of issued credits.

Response to #16 and #17 regarding Sustainable Development Benefits and Safeguards

Response to #16. It is important to ensure that the mitigation activity causes no major negative environmental and social impacts and is implemented in accordance with relevant and applicable national (host country's relevant requirements) and international regulations (such as Red-listed species, ILO Convention No. 16 on the Rights of Indigenous and Tribal Peoples, child labor, etc.). While meeting or exceeding best practices on social and environmental safeguards is desirable, the balance needs to be maintained so that it is effectively confirmed that no major negative environmental and social impacts are associated with the relevant mitigation activity.

Response to #17. Having a requirement that the mitigation activity uses a technology or practice that is transformational and consistent with a net-zero emissions goal by mid-century is not supportive of the way countries increase their ambitions through carbon markets under the Paris Agreement. Countries consider different mitigation options based on their cost, access, capacity to implement and policy objectives and develop the NDC and sector implementation plans accordingly. Country context, access to technology, capacity and political economy should be accommodated in any approach proposed under the crediting programs. Balanced incentive structures should be provisioned to support the country's climate ambition and liquid carbon markets development.