Market Risk Advisory Committee March 22, 2024
Commodity Futures Trading Commission

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- Thank you, Commissioner Johnson, for the opportunity to speak at this inaugural meeting of the subcommittee. The following remarks are derived from my comment on the proposed guidance for Designated Contract Markets (DCMs) listing Voluntary Carbon Credit (VCC) derivatives contracts.[2]
- The Commission proposes to create a new commodity characteristic in Appendix C documentation to demonstrate DCM compliance with Core Principle 3 to prevent the listing of contracts susceptible to market manipulation.[3] This proposal accommodates the process for "continuous improvement" of VCCs in the rulebook of the Integrity Council for the Voluntary Carbon Market (ICVCM).
- IATP invites the subcommittee to consider how and when revisions to the ICVCM rulebook and those of other private standards organizations would be reported by DCMs to market participants, intermediaries and the Commission.

[1] IATP is a nonprofit, 501(c)(3) nongovernmental organization, headquartered in Minneapolis, Minnesota, with offices in Washington, D.C. and Berlin, Germany. IATP participated in the Commodity Markets Oversight Coalition (CMOC) from 2009 to 2015, and the Derivatives Task Force of Americans for Financial Reform since 2010. IATP has participated in the activities of the United Nations Framework Convention on Climate Change since 2007. We have been a member of an international NGO coalition, the Climate Land Action Rights Alliance, since 2010. IATP is an Associate Member of the Commission's Technology Advisory Council.

[2] https://comments.cftc.gov/PublicComments/CommentList.aspx?id=7463. The letter is summarized in Steve Suppan, "CFTC's high stakes bet: guidance and legitimacy for voluntary carbon markets," Institute for Agriculture and Trade Policy, February 26, 2024. https://www.iatp.org/cftcs-high-stakes-bet

[3] Appendix C to Part 38—Demonstration of Compliance That a Contract Is Not Readily Susceptible to Manipulation, https://www.law.cornell.edu/cfr/text/17/appendix-C_to_part_38

The subcommittee should also consider how these revisions should be recorded in self-certification documents for existing and new VCC derivatives contracts.

- We illustrate the challenge of applying these revisions to inform market participants with two VCC issues that may affect market integrity.
- First, carbon accounting and crediting methodologies tacitly assume that there is a 1:1 ratio between fossil fuel emissions and nature-based emissions sequestration. That assumption underlies the concept of "offsetting." Both the Intergovernmental Plan on Climate Change (Chapter 5.6.2.1)[4] and climate scientists have documented a growing asymmetry between emissions and sequestration.[5] Carbon Market Watch[6], Carbon Plan[7] and academic researchers[8] have characterized this assumption as the false equivalence of offsetting. ICVCM revisions to robust quantification and crediting methodologies will be driven by his growing asymmetry. The market participant expectation of offsetting their emissions by buying VCCs or VCC futures will persist regardless of legal scrubbing of VCC contracts to state vaguely that their purpose is to "address environmental concerns."
- Second, another source of revisions that will affect VCC integrity and price formation concern the relative degree of permanence, or durability of emissions storage relative to the persistence of greenhouse gases in the free atmosphere. A major market disruptive factor in VCC credit issuance is the growing scale and frequency of emissions reversals, since reversals will affect the relative permanence and corresponding price of VCC issuances. The ICVCM is currently considering whether to extend the credit program monitoring of offset projects from 40 years to 100 years. This extension would have major consequences for

[4] IPCC, 2021: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Masson-Delmotte, V., P. Zhai, A. Pirani, S.L. Connors, C. Péan, S. Berger, N. Caud, Y. Chen, L. Goldfarb, M.I. Gomis, M. Huang, K. Leitzell, E. Lonnoy, J.B.R. Matthews, T.K. Maycock, T. Waterfield, O. Yelekçi, R. Yu, and B. Zhou (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, 2391 pp. doi:10.1017/9781009157896.

[5] Zickfeld, K., Azevedo, D., Mathesius, S. *et al.* Asymmetry in the climate–carbon cycle response to positive and negative CO_2 emissions. *Nat. Clim. Chang.* **11**, 613–617 (2021). https://doi.org/10.1038/s41558-021-01061-2

[6] Wijnand Stoefs, "Respecting the laws of physics: Principles for carbon dioxide removal accounting," Carbon Market Watch, December 16, 2021, p. 28. https://carbonmarketwatch.org/publications/respecting-the-laws-of-physics-principles-for-carbon-dioxide-removal-accounting/

[7] Freya Chay, Grayson Badgely, Kata Martin, Jeremy Freeman, Joe Hamman and Danny Cullenward, "Unpacking tonne-year accounting," (Carbon)Plan, January 31, 2022. https://carbonplan.org/research/ton-year-explainer

[8] Some of this academic literature is summarized in Stoefs, "Respecting the laws of physics," *Op. cit.*

buffer account sustainability and the liability of project developers and their host country governments for monitoring projects and avoiding reversals.

- In conclusion, let me suggest that there is no categorical divide between market integrity and environmental integrity.[9] Standards to improve environmental integrity for the purpose of scaling up VCC trading volume and value suggest as much. Thank you.

[9] Steve Suppan, "IATP Comment on Voluntary Carbon Markets—IOSCO Consultation Report," March 12, 2024. https://www.iatp.org/iatp-comment-voluntary-carbon-markets-consultation-report