

Carbon Markets Are Vital to Tackle Climate Change

The CFTC Has to Stop Talking and Take Meaningful Action

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The role of carbon markets, especially voluntary carbon markets, is [critical to achieving the global commitment to combat climate change](#), exemplified by the Paris Climate Agreement. These markets offer a mechanism for financing carbon reduction and capture projects, but their effectiveness hinges on transparency, integrity, and efficiency. Studies have demonstrated that [companies that participate in carbon markets](#) invest more and make more progress in curbing their carbon emissions compared to those not involved in carbon markets. The Commodity Futures Trading Commission (CFTC) has a key role to play, and Better Markets has been pushing the agency [to leverage its expertise and resources](#) to enhance these markets.

The CFTC recently took an important step in this direction by [proposing guidelines](#) for the listing of Voluntary Carbon Credit (VCC) derivative contracts. The proposed guidance seeks to create a more transparent framework that encourages the integrity of carbon trading practices.

The CFTC Proposes Guidelines for the Listing of Voluntary Carbon Credit Derivative Contracts

Although the CFTC has put forward proposed guidelines for the listing of Voluntary Carbon Credit VCC derivative contracts, the timing and future impact of these guidelines remain uncertain. The initiative, while a step towards addressing concerns in the carbon market, raises questions about its timeliness and the potential for significant delays in implementation. With more than three years passed since President Biden's inauguration and with the November presidential elections looming, too much time has passed and there's a real possibility that changes in administration could alter or halt the progress of finalizing the proposed guidance. Furthermore, the process of finalizing these guidelines, which involves reviewing public comments, could extend over several months, adding to the uncertainty.

That's why it's crucial for the finalization process to proceed as quickly as possible. Better Markets urges the CFTC to expedite the review and finalization of these important guidelines. Clear standards for VCC derivatives are essential for the integrity of carbon markets and the broader fight against climate change. The focus in the proposed guidelines on accurate representation, verification, and reporting of carbon credit transactions are critical, and mark a good step forward in ensuring that carbon markets contribute effectively to environmental goals. However, the [proposal must also be strengthened](#).

Key Elements of the CFTC's Proposed Guidelines

The CFTC's proposed guidelines focus on several critical areas to improve the carbon market:

- **Enhanced Transparency:** Mandating detailed disclosure of carbon credit generation, verification processes, and the environmental impact of the projects backing the credits. This aims to provide market participants with clear information, enabling informed decision-making.
- **Fraud Prevention:** Introducing measures to detect and prevent fraudulent activities, including the double-counting of credits, issuance of credits for non-qualifying projects, and other deceptive practices that undermine market integrity.
- **Market Integrity and Compliance:** The guidelines propose compliance with CFTC core principles designed to prevent market manipulation and disruptions, fostering a stable trading environment for VCC derivatives.
- **Engagement with Stakeholders:** Encouraging collaboration between project developers, standard-setters, certifiers, and buyers to address information imbalances and establish a shared understanding of quality and integrity in carbon credit projects.

The Journey Ahead: Turning Guidelines into Green Milestones

While a good first step, the CFTC must adopt further measures to improve the voluntary carbon market. Better Markets [recommends](#) that the CFTC implement mandatory transaction reporting, establish conduct standards for intermediaries, and promote market integrity through the standardization of documentation and certification for environmental commodities. These recommendations aim to address the persistent challenges within these markets, such as fraud and disorganization, by intensifying efforts against market manipulation. This, in turn, will enhance the market's credibility and effectiveness in contributing to the fight against climate change.

Moreover, to ensure progress in the voluntary carbon markets is measurable and transparent, the CFTC can establish a series of strategic, time-bound objectives designed to assess the real impact of these markets on climate change. These "green milestones" may serve as critical benchmarks, enabling stakeholders to determine whether the voluntary carbon market is a viable tool in the fight against climate change or merely an illusion of progress. Through rigorous monitoring and evaluation of these milestones, the CFTC can help ensure that the voluntary carbon market is not just a concept of climate change "fool's gold," but a genuine mechanism contributing effectively to global environmental goals.

The potential transformative impact of well-regulated markets on global climate change mitigation efforts cannot be overstated. The CFTC has a key role to play here, and it needs to be much more aggressive and act with much more urgency. As we look forward to the CFTC strengthening, finalizing, and implementing these guidelines, Better Markets will continue to engage with the CFTC, market participants, and stakeholders to ensure that voluntary carbon markets evolve into robust tools for climate action.



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