ISOMETRIC

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RE: Commission Guidance Regarding the Listing of Voluntary Carbon Credit Derivative Contracts, RIN 3038–AF40

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Background
Isometric (Isometric HQ Limited) is a private limited company headquartered in the UK. The company, together with the Science Network, developed the Isometric Standard ("the Standard") and the underlying methodologies ("Protocols") that are governed by the Standard.

Our programme issues credits for long-duration carbon removal activities. Our core principles are transparency, scientific rigor, collaboration, and the elimination of conflicts-of-interest. Isometric credits represent scientifically rigorous confirmation that carbon removal has actually occurred. We only issue fully verified, *ex-post* delivered credits. Buyers can transparently view all the calculations and evidence that underpins each credit on the Isometric Registry.

A team of expert scientists within Isometric develop draft Protocols for carbon removal pathways that meet the Standard's requirements. These drafts then undergo a formal review by the Science Network, an independent group of over 200 carbon removal scientists. These scientists provide peer review style feedback, which is then incorporated as relevant into the final draft that is issued for a final public consultation. Only after reviewing those comments, and making further changes as relevant, can the Protocol be finalized and used for issuing credits against specific projects.

General

1. In addition to the VCC commodity characteristics identified in this proposed guidance, are there other characteristics informing the integrity of carbon credits that are relevant to the listing of VCC derivative contracts? Are there VCC commodity characteristics identified in this proposed guidance that are not relevant to the listing of VCC derivative contracts, and if so, why not?

We believe that there is a fundamental difference between so-called "avoidance credits" and carbon removal credits. Avoidance credits are generally based on a counterfactual that is not possible to determine with a high degree of assurance. This is in contrast to carbon removal activities that can produce a directly measurable removal of carbon dioxide from the atmosphere. It would be important that the VCC commodity characteristics recognise these differences so market participants do not consider them fungible.

Furthermore, there is also a significant range in the durability of different carbon removal activities. These are generally clustered into two distinct categories, sometimes referred to in common usage as “nature-based” or “engineered” carbon removals. The “nature-based” solutions are generally able to demonstrate durability in the order of decades, whereas “engineered” are able to demonstrate durability of 1,000 years or more. Isometric does not recommend incorporating these specific terms because they are not a totally accurate descriptor (for example, bio-oil sequestration, which results in 1,000+ years of durability involves both “nature” and “engineering”). However, the general point of ensuring the difference in durability is recognised is important. The VCC commodity characteristics could, for example, create categories of credits such as low, medium, and high durability, each with differing durability ranges (e.g. 0 - 100 would be “low”, 100 - 1,000 would be “medium”, and 1,000+ would be “high”). If these differences are not recognised explicitly, buyers may consider the different types to be fungible, which will not accurately reflect the substantively different underlying characteristics of the commodity.

2. Are there standards for VCCs recognized by private sector or multilateral initiatives that a DCM should incorporate into the terms and conditions of a VCC derivative contract, to ensure the underlying VCCs meet or exceed certain attributes expected for a high-integrity carbon credit?

The Isometric Standard[1], first published in 2023, sets out the world’s most stringent standard for carbon removal, for example, setting a minimum durability threshold of 1,000 years. However, we do not propose that the CFTC should advise DCM to incorporate a particular privately developed Standard directly into the terms and conditions of a VCC derivative contract. Selecting a specific Standard would imply CFTC “picking winners” as well as locking in a particular approach in a fast-evolving market, which could mean the contract becomes outdated. Privately developed Standards also lack the underlying legitimacy and accountability that arises from rules derived by governments and regulators. For the same reasons, we do not consider it appropriate for the CFTC to formally adopt the requirements of a particular external self-regulatory body, such as ICROA or ICVCM.

We believe that governments and regulators have the most appropriate mandate, governance, and authority to define in formal regulations what should be considered a “high-integrity” carbon credit. The European Union has advanced legislative proposals[2] that will define the minimum threshold of durability as “several centuries” (i.e. 200+ years). If the CFTC were to incorporate external quality standards (rather than defining these itself) we think it would be most appropriate to incorporate rules developed by governments. In the US context, the most relevant option in the near-term would be any guidance and information published by the Department of Energy (DoE) as it concludes the process of selecting winners for the CDR

[1] https://isometric.com/registry-standard
[2] https://climate.ec.europa.eu/eu-action/sustainable-carbon-cycles/carbon-removal-certification_en

Purchase Pilot Prize[3]. The DoE is undertaking a rigorous, science-led approach to defining what qualifies as “high quality carbon removal”, and therefore the results of the Prize will provide a de facto standard for what attributes the US Government expects for a “high-integrity carbon credit”.

Transparency

6. Is there particular information that DCMs should take into account when considering, and/or addressing in a VCC derivative contract's terms and conditions, whether a crediting program is providing sufficient access to information about the projects or activities that it credits? Are there particular criteria or factors that a DCM should take into account when considering, and/or addressing in a contract's terms and conditions, whether there is sufficient transparency about credited projects or activities?

Crediting programs (“registries”) should be required to provide the highest degree of transparency possible (only excluding, where relevant, confidential information) in relation to all credits that they issue. Isometric has built its registry with transparency as a core principle. This includes the ability to view the full calculation data underlying all credits[4]. For example, a detailed breakdown of the total emissions ascribed to the transportation of materials to the site where the carbon removal activity takes place. This is an unprecedented degree of transparency in the market - but given that this level of transparency is possible, CFTC should consider raising the bar to this level for all participants.

Additionality

8. In this proposed guidance, the Commission recognizes VCCs as additional where they are credited for projects or activities that would not have been developed and implemented in the absence of the added monetary incentive created by the revenue from carbon credits. Is this the appropriate way to characterize additionality for purposes of this guidance, or would another characterization be more appropriate? For example, should additionality be recognized as the reduction or removal of GHG emissions resulting from projects or activities that are not already required by law, regulation, or any other legally binding mandate applicable in the project's or activity's jurisdiction?

As set out in the Isometric Standard[5], we believe that three pillars of Additionality (Financial, Environmental and Regulatory) all must be met for carbon removal credits to be issued. The criteria for these are as follows:

- Financial:
    - The Project can be considered to demonstrate Financial Additionality if Removals are the main purpose and only source of revenue of the Project.

[3] https://www.energy.gov/fecm/carbon-dioxide-removal-purchase-pilot-prize
[4] Example from the Isometric Registry: https://science.isometric.com/removal/rmv_1HJ7C37T21S0QYA1?tab=calculation-data
[5] https://science.isometric.com/standard#additionality

    - Otherwise, the Project must demonstrate that economic barriers would prevent Project implementation in the absence of Carbon Finance, as outlined in the Financial Additionality Considerations section below.
- Environmental:
    - The Project can be considered to demonstrate Environmental Additionality if the climate impact of the Project is net negative when compared to the Counterfactual scenario, using a Cradle-to-Grave GHG Assessment, in accordance with the assessment framework defined in the relevant Protocol.
- Regulatory:
    - The Project can be considered to demonstrate Regulatory Additionality if the Project is not required by any regulatory, policy or other legal requirement.
    - Otherwise, the Project must be able to demonstrate that it exceeds the minimum regulatory requirements.

Risk of Reversal

9. Are there particular criteria or factors that DCMs should take into account when considering, and/or addressing in a VCC derivative contract's terms and conditions, a crediting program's measures to avoid or mitigate the risk of reversal, particularly where the underlying VCC is sourced from nature-based projects or activities such as agriculture, forestry or other land use initiatives?

In cases where risk of reversal is high (such as the examples noted) DCMs should carefully consider the functioning of the buffer pools intended to compensate for reversals. The quality of credits in the buffer pools should be an important consideration - for example, one possibility to raise the integrity of the underlying VCC is to ensure the credits in the buffer pool are derived from high-durability projects which themselves have low risk of reversal, in order to partially mitigate cascading risk events that could overwhelm the buffer pools' ability to compensate for reversals.

For project types with higher risks of reversal, DCMs should also consider having guidance for the appropriate levels of ongoing monitoring to ensure that reversals can be adequately detected, reported, and compensated.

10. How should DCMs treat contracts where the underlying VCC relates to a project or activity whose underlying GHG emission reductions or removals are subject to reversal? Are there terms, conditions or other rules that a DCM should consider including in a VCC derivative contract in order to account for the risk of reversal?

As noted above, it is important to avoid obscuring underlying real differences in credits. VCCs based on projects with higher risk of reversal should be identifiable and distinct from those VCCs based on projects with low or negligible risks of reversals. This will enable more effective price discovery and better functioning markets.

Robust Quantification

11. Are there particular criteria or factors that a DCM should take into account when considering, and/or addressing in a contract's terms and conditions, whether a crediting program applies a quantification methodology or protocol for calculating the level of GHG reductions or removals associated with credited projects or activities that is robust, conservative and transparent?

In general, protocols need to be scientifically rigorous and leave little flexibility for suppliers to "game" the protocol. This means, for example, that protocols should ensure effective data collection and measurement with robust statistical tests - not allowing suppliers to rely primarily on desk-based modeling. Isometric has published several Protocols[6], built around the principle of scientific rigor, which may be useful for CFTC to consider in determining the appropriate degree of robustness for quantification methodologies.

Governance

12. In addition to a crediting program's decision-making, reporting, disclosure, public and stakeholder engagement, and risk management policies, are there other criteria or factors that a DCM should take into account when considering, and/or addressing in a VCC derivative contract's terms and conditions, whether the crediting program can demonstrate that it has a governance framework that effectively supports the program's transparency and accountability?

As the CFTC knows better than almost anyone - financial incentives matter. Isometric believes that the current payment model for registries creates poor incentives[7]. There are two main issues, which we believe have contributed to some of the well-publicized previous cases of over-crediting in voluntary carbon markets. Firstly, registries have typically been paid by the suppliers whose work they are supposed to be overseeing. Secondly, registries have typically been paid per credit issued. These incentives are common practice and are permitted within the current ICROA and ICVCM frameworks.

Isometric has sought to resolve these issues by changing the financial incentive structure. We do not get paid by suppliers. Instead, we get paid for verification by the buyers of the credits - aligning their demand for high quality credits with our incentives to be rigorous in verifying the work done by suppliers - and therefore only issue a credit where it truly represents a net tonne of carbon dioxide removed from the atmosphere.

CFTC could consider requiring DCMs to consider the appropriateness of financial incentive models for the crediting programs ("registries") who are issuing the VCC.

Inspection Provisions

15. Should the delivery procedures for a physically-settled VCC derivative contract describe the responsibilities of registries, crediting programs, or any other third-parties required to carry out the delivery process?

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[6] https://science.isometric.com/protocols
[7] https://isometric.com/writing/aligning-incentives

Given the intangible nature of carbon credits, careful consideration will be needed in relation to delivery procedures. Since by definition, the CO2 is stored away, ideally inaccessibly, it is not possible for a counterparty to take physical delivery, or make an inspection. Therefore the measurements and verification of the activity that ‘produces’ the commodity (i.e. the removal of carbon dioxide from the atmosphere) effectively are synonymous with “delivery”. This activity is generally carried out by registries, and therefore it would be advisable to specify the role of the registry. Firstly, that a registry is mandatory (suppliers of carbon removal should not be able to ‘check their own homework’). And secondly, minimum standards that the registry needs to meet. In the current state of the market, these registries are not regulated, so there is no pre-existing regulatory framework to draw from for these standards (ICROA and ICVCM are private sector initiatives intended to plug this gap). However, the EU’s draft legislative proposals for a Carbon Removal Certification Framework (CRCF) as referenced above, would create a regulatory framework for registries (referred to as “certification schemes”).