620 8th Avenue
35th Floor
New York
NY 10018
United States

tel +1 212 931 4900
fax +1 212 221 9860
www.markit.com

Mr. David A.Stawick, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

Submitted via the CFTC website

Re: Public Input for the Study Regarding the Oversight of Existing and Prospective Carbon Markets – 75 Fed. Reg. 72816 (November 26, 2010)

New York, December 17, 2010

Dear Mr. Stawick:

Markit[1] is pleased to submit the following comments in response to the request for public input by the Commodity Futures Trading Commission ("CFTC") on the Study Regarding the Oversight of Existing and Prospective Carbon Markets, as provided for under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").

Robust and resilient carbon registries play a key role in overall carbon market design. They can provide much needed transparency and traceability of credits issued, purchased, used and retired. When connected to the financial market infrastructure, carbon registries reduce delivery risk, promote greater transparency and efficiency of the markets and ultimately facilitate lower cost transactions. Designed correctly, carbon registries fortify the voluntary carbon market for future investment and growth and by maintaining transaction records and audit trails, ensure that both regulators and markets participants can police potential manipulation or any disruptive trading practices in these markets. Effective and efficient financial-market-based registry solutions will become even more important as restrictions on carbon, and other environmental assets, are further regulated by governments.

In addition to its traditional business platforms, Markit operates Markit Environmental Registry ("MER"), a market interoperable registry that lists leading environmental standards and provides customers with a unique portfolio approach to managing their environmental assets, including carbon offset credits, in one place. Markit brings together people who have had many years of experience in designing, building and operating registries and who understand the features that are needed in a modern environment. MER currently has over 400 clients and over 60 million issued credits originating over 20 countries.

MER provides critical market capability including issuance, holdings, transfers, retirement services, and, through our partners, provides financial market services such as straight-through processing, including delivery versus payment. MER is uniquely positioned to drive market efficiency and provide transparency to market participants and regulators alike.

We strongly endorse the need for a comprehensive, interagency study on the oversight of existing and prospective carbon markets. An oversight regime that seeks to ensure an efficient, secure and transparent carbon market can be designed in many different ways. Based on our experience operating an environmental registry in voluntary carbon markets, we offer the following comments in response to the questions that we feel most qualified to answer.

- **Question 1: Section 750 of the Dodd-Frank indicates that the goals of regulatory oversight should be to ensure that carbon markets are efficient, secure and transparent. What other regulatory objectives, if any, should guide the oversight of such markets?**

[1] Markit is a financial information services company with over 2,000 employees in North America, Europe and Asia Pacific. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency.

We support the Dodd-Frank goals of efficiency transparency and security in carbon markets. In particular, we feel strongly that market participants must have transparency and the capability to track legal ownership with regard to environmental offset and allowance credits in the market.

We believe that registries can play a crucial role in ensuring transparency and the capability to track legal ownership in a manner similar to the way trade repositories do for OTC derivatives in other asset classes. In the carbon markets, a number of existing registries have been set up in order to manage the entire life cycle of the asset issuance upon evidence of verification, through to integration with trading platforms and ultimately retirements. Utilizing this type of registry infrastructure increases transparency in the carbon market and provides market participants with sufficient confidence in the validity and characteristics of their environmental assets. Requiring the use of such registries, in our experience, is an effective way of ensuring transparency and establishing a mechanism through which regulators may obtain the information needed to safeguard carbon markets.

Additionally, we believe that, similar to the OTC derivatives markets, the use of identifiers will prove to be a crucial pre-condition for regulators to achieve the necessary transparency and have the capability to aggregate and understand the information that is provided to them. The use of standard identifiers should be encouraged in carbon markets in order to facilitate position reporting and consistent market valuation of underlying carbon assets to enable greater efficiency and price transparency in the market.

- **Question 2: What are the basic economic features that might be incorporated in a carbon market that would have an effect on market oversight provisions—e.g., the basic characteristics of allowances, frequency of allocations and compliance obligations, banking of allowances, borrowing of allowances, cost containment mechanisms, etc.?**

As a general principle, market-based mechanisms that allow for choice in compliance have proven to enhance liquidity and efficiency in markets. We believe that same principles should be applied to carbon markets. In particular, permitting carbon credits to be used as offsets for regulated emissions will serve as an effective cost containment mechanism for regulated entities and will result in a more efficient and robust market that achieves emission reduction targets without harming economic activity, a key policy objective in the United States. Integrating oversight of the offset credits and primary emission allowance markets will be a key regulatory function best achieved in partnership with third parties, including registries, verifiers and project developers.

- **Question 5: What regulatory methods or tools would be appropriate to achieve the desired regulatory objectives?**

As in other financial markets, we believe that certain types of contract standardization are desirable, and that such contract standardization will equally be a precondition for a liquid yet well regulated carbon market. Regulatory authorities should encourage the use of increased legal standardization for OTC carbon transactions to enable electronic trade confirmations, which will form the basis for straight-through-processing and the reporting to registries and regulatory authorities.

- **Question 6: What types of data or information should be required of market participants in order to allow adequate oversight of a carbon market? Should reporting requirements differ for separate types of market participants?**

We believe, in general, that carbon market participants should have reporting requirements similar to those of participants in other assets classes. One solution for smaller carbon market participants, such as certain offset project developers and small manufacturers, would be to permit reporting for such participants through a third party registry.

- **Question 8: To what extent, if any, and how should a U.S. regulatory program interact with the regulatory programs of carbon markets in foreign jurisdictions?**

It will be important for any U.S. regulatory program to not only interact but also to closely coordinate with regulatory programs in foreign jurisdictions. A uniform set of criteria should be established for credits accepted into the United States and into international carbon markets. This will promote fungibility in the market and enhance efficiency. In addition, secure financial markets registry infrastructure should be required to record and maintain ownership records for offsets regardless of the jurisdiction of origin for these credits and the jurisdiction where the credits are used.

- **Question 11: Who are the primary participants in the current primary environmental markets? Who are the primary participants in the current secondary allowance and derivative environmental markets?**

Within the carbon market there are a wide range of market participants from corporations who are utilizing voluntary offsets to smaller "mom and pop" operations.

The Markit Environmental Registry has been designed to accommodate the needs of players in both the primary and secondary markets. This diverse range of customers, includes individuals, small companies and consumers; project funders; project developers; large commercial compliance emitters (energy companies, industrial processors etc.); large commercial enterprises for CSR, speculation and commercial purposes; governments, NGO's, Not-For-Profit Organizations; large multi-national investment banks; retail and commercial banks; and Environmental Asset Traders.

Compliance traders will be the primary users of the secondary allowance and derivative markets for hedging and financial trade purposes. These markets should be regulated under a regulatory regime similar to that currently under development by the CFTC.

While these market participants vary in terms of size and scope it is imperative for all of these participants to report their transaction in order to fulfill the CFTC's goal of transparency.

Markit appreciates the opportunity to submit these comments regarding the oversight of existing and prospective carbon markets. If the Commission has any questions, please contact Kathy Benini, Managing Director, Markit Environmental Registry, at 212.205.1742.

Kind regards,

Sal Naro
Executive Vice President
Global Head of Valuation and Analytics Services
Sal.Naro@markit.com

Kathy Benini
Managing Director
Markit Environmental Registry
Kathy.Benini@markit.com