

# PERSPECTIVES ON CARBON DERIVATIVES AND THE UNDERLYING MARKETS

U.S. CFTC Energy & Environmental Markets  
Advisory Committee

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# The OTC Market Perspective

## Carbon market incubator

- Compliance instruments trade OTC before adoption by regulated exchanges
  - European Union Allowances (EUAs)
  - California Carbon Allowances (CCAs)

## Innovation in risk management

- OTC market participants tackle difficult risk challenges
  - Options for compliance instruments
  - Offsets for compliance use (CERs & CCOs)



# Current OTC Derivatives Markets for Carbon

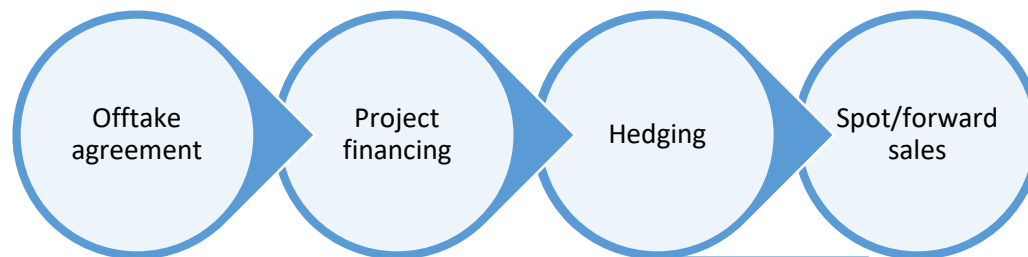
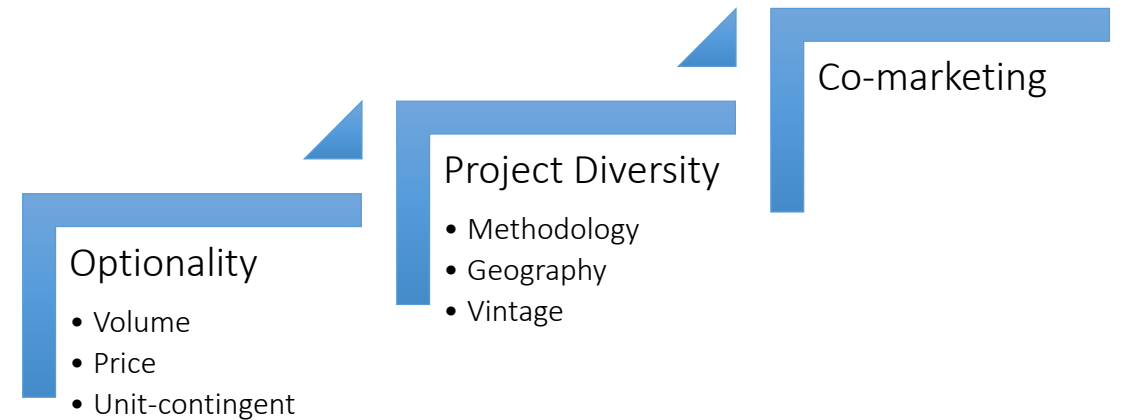
- Well developed OTC carbon derivatives market for established compliance programs
  - Largely dealer/customer transactions mirroring exchange-cleared market
  - Exchange listed-contracts for hedging OTC positions
- Mature OTC market for spot and forward delivery
  - Focus on bespoke structures and lowering transaction costs
  - New carbon trading platforms



# Evolving Carbon Offset Market

- Largely spot trades for physical delivery or forward purchases of long-term strips of credits
- Lack of standardization: “Beauty in the eye of the beholder”
- Manage risk through contracting
- New project development

## Carbon Offset Risk Management

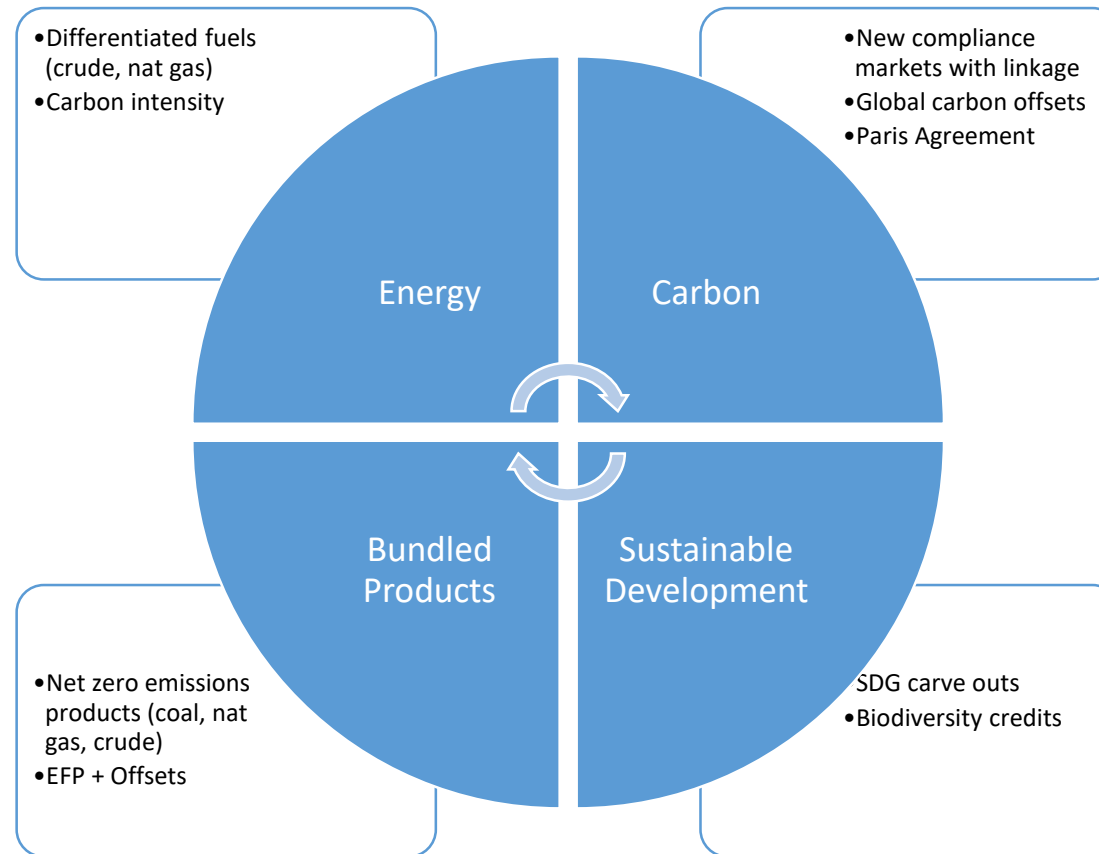


# Future Considerations: Climate Change

- Extreme weather events lead to price volatility and raise market structure issues
- Long-term shifts in liquidity (commodities, venues, products)
  - Power & natural gas basis markets
  - Global LNG markets
  - Carbon markets
  - Renewable energy certificate markets
- Emerging trading strategies based on climate impacts amplify trends
- Carbon pricing will play important role

# Future Considerations: Intersectional Approach

- Decarbonizing of economy and drive to net zero emissions will lead to new products



Thank you.

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