

**Statement of
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Member of the Board of Directors, Green Exchange Venture
Before the
Senate Committee on Agriculture, Nutrition and Forestry
Hearing on Regulating Carbon Markets
in a Cap-and-Trade System**

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I am Julie Winkler, Managing Director of Research and Product Development of CME Group Inc. (“CME Group”) and Member of the Board of Directors of the Green Exchange LLC. The Green Exchange Venture appreciates the opportunity to provide its views to the Senate Committee on Agriculture, Nutrition and Forestry regarding the design and regulation of a U.S. carbon market.

We believe that cap-and-trade is the preferred solution for guaranteeing emissions reductions at the lowest possible cost to the economy. We strongly support providing compliance entities with a choice of utilizing exchange traded derivatives and over-the-counter (“OTC”) instruments with additional transparency to meet their environmental obligations. Also to provide these customers with effective risk management tools and liquidity, the U.S. carbon markets must allow for broad market participation. We believe that the Commodity Futures Trading Commission (“CFTC”) is best suited as the regulator of the U.S. carbon market and they will ensure a transparent and effectively regulated carbon market. Lastly, to ensure the use of transparent markets and central clearing services and the necessary liquidity and price discovery they provide, regulatory proposals should not include a transaction tax on carbon derivative exchanges.

Green Exchange Venture

CME Group is a founding member of the Green Exchange Venture along with Evolution Markets, Credit Suisse, Goldman Sachs, JP Morgan, and Morgan Stanley. The founding members are joined by partner firms from across the energy, environment, and financial sectors: Constellation Energy, ICAP, RNK Capital LLC, Spectron, TFS, Tudor Investment Corp. CME Group currently provides the electronic trading platform, Central Counterparty Clearinghouse (“CCP”) services, market data distribution, and regulatory services to the Green Exchange Venture. CME Group is the world’s largest and most diverse derivatives marketplace and through its subsidiaries operates four separate Exchanges: Chicago Mercantile Exchange Inc. (“CME”), the Board of Trade of the City

of Chicago, Inc. (“CBOT”), the New York Mercantile Exchange, Inc. (“NYMEX”) and the Commodity Exchange, Inc. (“COMEX”).¹

CME also operates CME Clearing, one of the largest central counterparty clearing services in the world, which provides clearing and settlement services for exchange-traded contracts, as well as for OTC derivatives contracts through CME ClearPort®. CME ClearPort provides clearing services to eligible participants, mitigates counterparty risk and brings OTC transactions within the regulatory oversight of the CFTC.

While the Green Exchange Venture was formally launched as a standalone entity this year, CME Group and the other Green Exchange Venture partners bring more than a century of experience in building markets to meet the risk management needs of commercial and financial participants.² The Green Exchange Venture member firms have been actively involved in designing and participating in all major environmental markets around the world, including U.S. emissions cap-and-trade programs for sulfur dioxide (“SO₂”) and nitrogen oxide (“NO_x”), the global renewable energy trading markets, the European Union (“EU”) Emissions Trading System (“ETS”), and the global carbon offset market.

Following CFTC review and approval of our application for contract market designation³, the Green Exchange product slate will include futures and options on European Union Allowances (“EUA”), Certified Emission Reductions, SO₂ Allowances, NO_x Allowances, and Northeastern Regional Greenhouse Gas Initiative Allowances (RGGI). These environmental contracts are highly flexible financial instruments useful to qualified market participants to meet their risk management needs. As an example, our EUA futures contract represents one-thousand EUA allowances, equaling one ton of emissions. Our product slate will also be expanded to include derivatives based on a U.S. cap-and-trade program if such legislation is approved. Until the contract market designation is obtained by Green Exchange, environmental futures and options products are trading on the NYMEX through the CME Globex® electronic trading platform and listed for clearing on CME ClearPort.

¹ The CME Group Exchanges offer the widest range of benchmark products available across all major asset classes, including futures and options on futures based on interest rates, equity indexes, foreign exchange, energy, metals, agricultural commodities, and alternative investment products.

² The CBOT became involved in the U.S. emissions market in 1993 when it was chosen by the Environmental Protection Agency (EPA) to administer the SO₂ auctions. After an objective selection process, the CBOT was chosen to run the auctions because of its demonstrated ability in handling and processing financial instruments and using transactional information systems. The CBOT was not compensated for these services by EPA and administered this innovative auction in partnership with the EPA for 12 years.

³ Upon approval as a Designated Contract Market (DCM), the Green Exchange Venture will become a self-regulatory organization (SRO) with frontline market and trade practice surveillance responsibilities, subject to oversight by the CFTC. As an SRO, the Green Exchange Venture will be required to adopt and enforce rules to effectuate 18 core principles. It will be required to monitor trading activity, enforce rules, take appropriate disciplinary action, monitor deliverable supplies, detect and deter manipulation, among other things to ensure the integrity of the markets.

Lastly, we are actively engaged in discussing the U.S. climate policy; the CME Group was recently invited to join the Pew Center on Global Climate Change's Business and Environmental Leadership Council – a partnership of 45 companies including Fortune 500 energy, manufacturing, and other companies. We believe that our insights from other markets and our understanding of the policy debate surrounding the creation and oversight of environmental markets, provides a crucial perspective on the carbon market policy discussion.

Reducing Emissions through a Cap-and-Trade System

Scientists believe that climate change is a global threat that requires a response to bring about substantial reductions in carbon dioxide and other greenhouse gas (“GHG”) emissions. According to the 2007 Intergovernmental Panel on Climate Change (“IPCC”) report, the global average temperature could rise by 2.4-6.4°C by the end of this century if no corrective action is taken.⁴ This would lead to serious consequences from both an environmental and economic perspective for developed and developing countries.

A market-based solution, such as a cap-and-trade program, offers the best opportunity to minimize the cost of mandatory reductions in GHG emissions. The U.S. Climate Action Partnership (“USCAP”), an alliance of major businesses and leading climate and environmental groups, has stated that “cap-and-trade is essential” and “allows the economy-wide emission reduction target to be achieved at the lowest possible cost.”⁵ In a cap-and-trade system, one allowance would be created for each ton of GHG emissions allowed under the declining economy-wide emission reduction targets (the “cap”). Those emitters who can reduce their emissions at the lowest cost would have to buy fewer allowances and may have extra allowances to sell to remaining emitters for whom purchasing allowances is their most cost-effective way of meeting their compliance obligation. Like USCAP, leading environmental and nature resource groups such as the Natural Resource Defense Council, Environmental Defense Fund and the Pew Center on Global Climate Change are supporting U.S. cap-and-trade.⁶ Additionally, agriculture organizations such as National Farmers Union also view cap-and-trade as the preferred approach for reducing emissions.⁷

Cap-and-trade in the U.S. is not a new mechanism as the U.S. was the global leader in utilizing a market-based solution to establish the Acid Rain Program under the 1990 U.S. Clean Air Act Amendments. The SO₂ trading system has been regarded as an innovative solution, which is achieving its stated goals of reducing overall atmospheric

⁴ IPCC. “Climate Change 2007: Synthesis Report.” Published by the IPCC on Climate Change. 2008.

⁵ USCAP. “A Call to Action. Consensus Principles and Recommendations from USCAP: A Business and NGO Partnership.” 2009.

⁶ Environmental Defense Fund. “The Case for Cap-and-Trade.” July 23, 2009.

⁷ Testimony of Roger Johnson, President, National Farmers Union. “Concerning the Role of Agriculture and Forestry in Global Warming Legislation” before the Senate Committee on Agriculture, Nutrition and Forestry on July 22, 2009.

levels of SO₂ and NO_x.⁸ The EPA also estimates that by 2010, the overall compliance costs to businesses and consumers will be \$1-2bn per year, one quarter of the original one quarter of the originally predicted cost.⁹

In January 2009, ten Northeastern and Mid-Atlantic States launched the first mandatory, market-based effort in the United States to reduce GHG emissions called the Regional Greenhouse Gas Initiative (RGGI). This program aims to reduce capped CO₂ emissions from the power sector and will require a 10 percent reduction in these emissions by 2018. Alongside the allowances and offsets trading in the RGGI program, there are both derivative and OTC contracts being traded by market participants.

In the EU, the ETS is the largest cap-and-trade program in the world currently covering more than 12,000 installations in the energy and industrial sectors, which account for approximately 40% of the EU's emissions of CO₂ and other GHGs. Since 2005 when the first trading period for ETS began, transaction volumes have grown by almost ten times.¹⁰ With respect to carbon emissions, initial evidence from the EU ETS demonstrates that leading companies subject to the caps are utilizing the carbon markets to effectively reduce emissions. According to a July 2009 Global Carbon Trading Study, it is estimated that global carbon trading could reduce the cost of emissions reductions by up to 70% in 2020 compared to a carbon cap without a trading component.¹¹

Cap-and-trade programs are proving that they can successfully cut emissions with efficiency and cost effectiveness. Emissions trading systems are already operating or planned in over 35 countries in the developed world.¹² Clearly, the global carbon trading is expanding rapidly and the U.S. would not want to miss the opportunity to play a defining role in this market's growth.

Cap-and-Trade Design Features

There are several design features that are critical to a well-functioning cap-and-trade system such as establishing an accurate emissions baseline, determining how allowances are to be auctioned or distributed, and collecting and disseminating market data. Based on our extensive market development experience, the Green Exchange Venture partners also strongly believe that a cap-and-trade system must include broad market participation and not be constrained by artificially created carbon price constraints.

⁸ Between 1990 and 2007, SO₂ emissions decreased by 43% and the 2010 emissions target was reached three years early.

⁹ Ellerman, A. Denny and Paul L. Joskow. "The European Union's Emissions Trading System in Perspective." Prepared for the Pew Center on Global Climate Change. May 2008.

¹⁰ Ellerman, A. Denny and Paul L. Joskow. "The European Union's Emissions Trading System in Perspective." Prepared for the Pew Center on Global Climate Change. May 2008.

¹¹ Lazarowicz, Mark. "Global Carbon Trading – A Framework for Reducing Emissions." Prepared for the United Kingdom Prime Minister. July 2009.

¹² Current ETSs in production and under development in other countries plan to result in 17-35% reductions in global emissions being covered under these programs by 2015.

For a cap-and-trade system to work effectively, the carbon market must have participation beyond compliance entities. A market that includes liquidity providers such as financial intermediaries and offset aggregators from the onset will ensure that buying and selling occurs on a routine basis as various market participants express different views on the market. These types of participants also provide essential market services to their clients, compliance entities, by assisting in managing price risk, providing financing for emissions reduction activities, and in general engaging in large-scale capital deployment which can reduce compliance costs.

Government imposed price floors or ceilings should be avoided if a carbon market is to play its role in creating meaningful price discovery. Price caps reflect factors extraneous to the fundamental factors that drive prices, and thus are not connected to actual supply and demand. While it may seem that artificially constraining prices with a ceiling will reduce price volatility or market manipulation, the opposite is likely to result. With a ceiling derived from non-market based factors lying idle above a market price, the free flow of buying and selling can be overshadowed by the knowledge that there is a flood of allowances to be unleashed at the ceiling price. The reverse could take place at price levels close to a floor, where demand automatically and arbitrarily surges.

A price cap would not only interfere with the generation of a meaningful market price for carbon, it would also discourage low-carbon energy and agricultural offset investors from participation in the market since they would be unable to benefit from increased prices for offset credits. Lastly, a price cap would interfere with the maturing of a global carbon market since if implemented in one jurisdiction and not others, it will distort pricing relationships.

We fully understand the motivation to protect American consumers from dramatic increases in the cost of carbon, however, the dynamics associated with price floors and ceilings would undermine the overarching intent of a cap-and-trade program.

The Functions of Cash and Derivatives Markets for Carbon Trading

If a federal cap-and-trade program is enacted by Congress, a price on carbon will become a new input cost for the energy and industrial sector and a new revenue source for agricultural offset providers who supply carbon offsets into the market. The carbon price will fluctuate as market participants' perceptions of the supply and demand balance of allowances, as well as the cost of compliance alternatives, evolve over time. The two primary markets created will be: 1) a cash market to allow for the trading of allowances and offset credits; and 2) the derivatives market to allow for the trading of allowance and offset derivatives.

Allowance supply is determined by the government imposed cap and therefore is unlike most commodities. This is unlike existing and more mature commodity markets where supply is determined from various entities and external factors. Confidence in

market integrity is crucial both to effective functioning of the market and ongoing support of a market approach among both policy makers and the general public. Therefore, an essential component of the cash carbon market will be a robust registry system to track creation, ownership and retirement of allowances and offsets credits. Registries play an important role in ensuring market integrity, tracking progress toward environmental goals, and facilitating delivery for environmental commodities.

As a complement to the cash market, allowance derivatives contracts such as futures offered by the Green Exchange Venture will enable capped entities to manage U.S. carbon price movements and deploy capital for new energy projects with a greater level of certainty. For example, a risk manager working for a compliance entity, who knows she will need to purchase allowances for compliance at a specific time in the future, can lock in a price by purchasing the appropriate number of carbon futures contracts on the exchange. If the price rises, the manager will pay a higher price for the actual allowances in the cash market, but will earn a corresponding and offsetting profit on the futures position.

In addition, buyers of futures contracts can, if they choose to, take delivery of the cash allowances by holding the position until contract expiration. In this case, the buyer may be able to contract for a future supply of allowances at a lower price than what might be available upon eventual delivery, thereby lowering compliance costs. These deliveries are managed by the clearinghouse, which maintains an account with the emission registry involved in the delivery process.¹³

A compliance entity who anticipates having an excess of cash allowances as a result of the firm's efficiency in reducing emissions below its cap, can lock in a price in advance by selling futures contracts in the appropriate amount. A seller of the futures contract also can maintain their short position and deliver allowances against the contract.

The Role of Futures Exchanges, CCP Solutions and Regulators in a U.S. Carbon Market

Futures markets perform two essential functions—they create a transparent venue for price discovery and they permit low cost hedging of risk. Futures markets depend on a broad universe of market participants with both short and long term expectations to make markets and provide liquidity for hedgers. By offering trading of U.S. emission derivatives on electronic trading platforms, we believe exchanges will enhance price transparency, speed execution, and eliminate many classes of errors and mismatched trades, contribute significantly to liquidity, and will generally be beneficial to the market.

Electronic trading of exchange traded emission derivatives coupled with a comprehensive CCP solution such as the one offered by CME Clearing and utilized by the Green Exchange Venture, will reduce risk and uncertainty for carbon market participants. CME Clearing has provided clearing services for the futures industry for

¹³ The clearinghouse also guarantees the integrity and completion of delivery of the allowances.

over a century without a single default and has an industry-leading financial safeguards package of over \$7 billion that is designed for the benefit and protection of both clearing members and their customers.¹⁴

Electronic trading and CCP solutions will also provide a trustworthy and timely audit trail for regulatory purposes. In providing market and trade surveillance services to the Green Exchange Venture, the CME's dedicated and highly trained regulatory staff will implement audit and compliance programs to monitor existing markets for fraud and manipulation. Through advanced technology tools, we have an audit trail that allows us to effectively identify anyone who engages in misconduct. CME also has a reliable means to provide transaction data to the CFTC and these are divided into five broad categories: trade data, time and sales, order data, volume and open interest data and reference data. CME currently reports cleared trade data (pit, electronic, and ex-pit transactions) on a daily basis to the CFTC.

Over the past year, CME worked closely with the CFTC and other exchanges to transition to standardized trade data reporting to the CFTC.¹⁵ These data files provide critical and timely data to the CFTC and the Green Exchange Venture is committed to continuing this practice for trading activity in our emissions products. Additionally, the CFTC receives large trader positions directly from each clearing firm on a daily basis to monitor activity and prevent market manipulation.

The CFTC assures the economic utility of the futures markets by encouraging competitiveness, protecting market participants against fraud, manipulation, and abusive trading practices, and by ensuring the financial integrity of the clearing process. Through effective oversight, the CFTC enables the futures markets to serve the important functions of price discovery and hedging price risk. To ensure the adequacy of exchange SRO programs, the CFTC conducts routine rule enforcement reviews of each futures exchange. In the context of the rule enforcement reviews, the CFTC reviews the exchanges' trade practice and market surveillance programs, disciplinary programs and audit trail. These reviews are comprehensive and the findings and recommendations are public documents.

We believe that because of the CFTC's established expertise and coordination within the global derivatives industry, it is in the best position to provide strong regulatory oversight to a mandatory U.S. cap-and-trade market. We applaud the efforts of this Committee and the Administration to ensure that a mandatory U.S. GHG cap-and-trade program will enhance transparency, integrity, efficiency and fairness in the markets.

¹⁴ The CME Clearinghouse currently holds more than \$100 billion of collateral on deposit and routinely moves more than \$5 billion per day among the CME Clearinghouse and its clearing firms. It conducts real-time monitoring of market positions and aggregate risk exposures, twice-daily financial settlement cycles, advanced portfolio-based risk calculations, monitors large account positions, and performs daily stress testing.

¹⁵ Earlier this year, the CME and CBOT became the first exchanges to begin reporting trade data using the FIXML Trade Capture Report format to the CFTC.

Price Transparency and Market Data Distribution

Another important aspect to an effective cap-and-trade program is access to price data for market participants, emitters, regulators, and the general public. Our real-time futures price data is disseminated to approximately 400,000 real-time data subscribers through 40 directly connected quote vendors and an additional 200 licensed vendors¹⁶. The technology employed allows for real-time market data to be disseminated in 5-10 milliseconds from the time it leaves our electronic trading system. Additionally through www.cmegroup.com, we provide free, delayed price quotes for all of our futures products.¹⁷ We strongly believe that the existing market data infrastructure, standard FIX/FAST formats, and reliability of our quote distribution technology, can provide the price transparency required to support the U.S. carbon market. This data feed can also facilitate the real-time transfer of price data to regulators with very little additional effort or cost. In our view, creating a new infrastructure for this purpose for the carbon market would be complex and costly for federal government and participants alike, which could be ultimately detrimental to establishing U.S. leadership in addressing global environmental challenges.

OTC Transactions

As beneficial as exchanges and clearinghouses will be to the formation of an effective U.S. carbon market, they will not meet all of the needs of companies seeking to meet their compliance targets. Although the Green Exchange Venture and other emissions trading platforms would likely be the presumed beneficiaries if all transactions were required to be executed on electronic trading platforms, we do not believe such a requirement would be in the best interest for a U.S. cap-and-trade program to meet its goal of cost-effectively reducing emissions.

We believe that both exchange-traded and OTC derivatives markets are essential to the efficient functioning of a U.S. carbon market. Together, these markets can provide compliance entities with the ability to increase the certainty in their future cash flows by protecting against price risks and effectively managing their capital, thereby increasing their confidence and ability to act and reducing their overall cost of compliance. Given the multitude of unique contracts traded in the OTC market and the specialized customer needs, we strongly believe that customers must be given the ability to access both exchange traded derivatives and OTC markets, if they are to effectively manage their price risk. A government mandate for exchange trading of standardized contracts as a replacement for this bespoke market will increase costs for entities with compliance obligations, and impede the ability of developers of both projects and new technologies to obtain financing on reasonable terms.

¹⁶ This data is sent on behalf of the four exchanges operated by CME Group, which include CME, CBOT, NYMEX and COMEX. CME also handles market data distribution and licensing administration services for the Green Exchange Venture.

¹⁷ In August 2009, www.cmegroup.com received approximately 9.2 million hits per day and 43% of these hits viewed quote pages for commodity products.

The OTC market complements standardized exchange traded products by providing products customized to a regulated entity's emissions and time horizon. Such customization is necessary for successful financing of carbon offset projects, and for structuring long-term hedging transactions that underpin investments in emissions reduction or clean energy technologies¹⁸. OTC arrangements are particularly crucial for financing carbon offset projects and the sale in the first instance of the created carbon offsets. Primary offset creation contracts provide the supply of offsets necessary to help contain the costs of a climate program for American consumers. Each of these carbon offset creation contracts is unique, and their customized nature lends itself to the OTC market, not exchanges.

Another example of a vital customized transaction for U.S. carbon markets would be long-term structured transactions. These transactions hedge price risk associated with investments in emissions reduction and clean energy technologies. Companies financing such investments base the repayment of loans, in part, on the cost of carbon allowances or offsets. This leaves such financing vulnerable to swings in carbon prices, which is a risk that must be hedged for financing to take place. Again, such transactions are specific to each investment and are often of such long duration that they cannot be effectively traded on an exchange.

Finally, OTC markets support the healthy functioning of exchanges themselves. Historically, products that are today traded on exchanges have started as OTC products. It is only after an OTC product achieves a degree of standardization and attains a critical mass of acceptance that it meets the qualifications for listing on an exchange. Eliminating OTC transactions could cause damage and disruption to the evolution of standardized exchange traded products.

While some types of customized transactions must be conducted OTC, the natural tendency of the majority of trades will be to gravitate to exchanges, and to utilization of clearing services, with or without any legal requirement to do so. Carbon market participants will be attracted to trading platforms that provide the highest level of liquidity and transparency, the best risk management opportunities, and highest level of financial assurance. This is currently being seen in the functioning carbon market in the EU. Carbon trading in the EU ETS began with transactions taking place exclusively OTC. In relatively short order, exchange-traded products developed. Over the last two years a distinct trend has emerged with increased liquidity on carbon exchanges and enhanced use of CCPs. According to market participants, it is estimated that over 40% of ETS EUA futures contracts are exchange traded and a predominance of OTC transactions are cleared through CCPs. All of this is occurring without any legal or regulatory requirement to do so. The EU example demonstrates not only the importance of

¹⁸ Exchange cleared transactions require posting of collateral so for some entities, the OTC market can provide more flexible financing arrangements that provide needed financial security without requiring cash. An easy to understand example would be taking a lien, or "mortgage" against the physical assets of a counterparty. This "cashless" form of collateral can be of great benefit to a project developer, a manufacturer developing a new technology, or even an established business needing to conserve cash.

exchanges in carbon market trading, but also the vital role that OTC markets play in the market's initial development – and its continued importance for customized transactions.

Improved Transparency in OTC Carbon Markets

Our view is that efficiently functioning derivative markets are essential to risk management, and that it is entirely appropriate to focus on how to improve the efficiency and security of the OTC derivative market. CME Group and the Green Exchange Venture are strong proponents of the benefits of centralized clearing of OTC derivatives as an effective means of reducing systemic risk while at the same time collecting and providing timely information to regulators. Our view derives from considerable experience acting as a central clearing party for exchange traded derivatives, and more recent experience acting in the same role for OTC derivatives based on energy and agricultural commodities.

While OTC transactions must be present in a carbon market for cap-and-trade to be fully successful, the OTC carbon market must provide a greater level of transparency than what is currently present in some other OTC markets. We support position reporting for carbon-related OTC transactions to provide enhanced transparency. Indeed, as part of its special call reporting; the CFTC already requires extensive reporting of OTC commodity derivative positions. This framework can be leveraged and extended to include new carbon derivatives. We also recognize that this Committee, the Administration, and others are evaluating regulatory changes to the broader OTC derivatives market. We believe that any regulatory framework created for the U.S. carbon market should be crafted to be consistent with regulatory changes that may be made to the broader OTC derivatives markets.

Ensuring the Cost Effectiveness of Carbon Trading and Clearing

In effectively regulating a potentially large carbon market, the CFTC may need additional resources. However, the Committee should resist any proposal to add a transaction tax to carbon derivatives transactions. A transaction tax would directly increase the cost of doing business for the compliance entities and essential liquidity providers that will use carbon derivatives. This tax will expose them to the choice of trading on the exchange at a profit level that is unjustified for the risks assumed and likely result in them trading elsewhere. The exit of market participants will mean decreased efficiency of the futures markets, more price volatility and less opportunity for other market participants to make effective use of futures markets. Moreover, futures markets provide significant benefits to market users and to persons seeking meaningful information on future pricing in order to guide their decision making on clean energy investment and offset development. More depth and liquidity in a carbon futures market will lead to better price discovery. Any impairment of liquidity lessens the value of the information and the functioning of our markets.

A transaction tax will also discourage the use of centralized clearing. At a time when the markets are searching for increased transparency and safeguards, a transaction tax applied to the settlement of derivative contracts cleared by a Derivatives Clearing Organization (DCO), would essentially penalize those using a regulated U.S. DCO and discourage the growing use of CCP solutions. This is in direct conflict with the Administration's goal of improving the role of regulators in monitoring systematic risk.

We recognize the need to ensure that CFTC has adequate resources to effectively oversee a potentially sizable carbon market, but we strongly believe that a transaction fee on derivatives will discourage the use of the risk management tools available on transparent exchanges which will ultimately drive up the costs of a cap-and-trade program through diminished liquidity and decreased price signals.

Conclusion

Cap-and-trade is the most efficient approach to significantly reducing emissions. Entities such as the Green Exchange Venture will provide capped entities and other market participants with the venue to safely and securely manage their carbon price risks. Such exchanges and CCPs should be unimpaired from transaction taxes that could damage liquidity and discourage their use. Regulated exchanges, CCP solutions, and the CFTC, will provide a high level of transparency to the U.S. carbon markets. This existing transparency combined with added transparency to the OTC market will ensure a well-functioning carbon market that will enable compliance entities to meet their environmental obligations and agricultural and forestry offset developers to fully participate in the carbon market.