

WEEK 3 DAY 2





TRADING PLATFORMS & TRANSACTION MECHANICS

(A Real-World Guide to How Carbon Credits Are Bought/Sold)

1. TRADING VENUES: WHERE DEALS HAPPEN

A) Exchanges (Transparent, Standardized Trading) Top Platforms:

Xpansiv CBL (Voluntary Market Leader)

How it works:

Live order book (like stock exchanges)

Trades "N-GEO" standard contracts (nature-based credits)

Typical spread: 10-15% for REDD+ credits

Who uses it:

Corporates (Microsoft, Shell)
Speculative traders
ICE Futures (Compliance Market Giant)

Key products:

EU Allowance (EUA) futures (€85/ton as of July 2024) California Carbon Allowance (CCA) futures (\$36/ton)

Volume:

200M+ tons traded daily



Key Difference:

Exchanges guarantee settlement (reduces fraud risk)
But only standardized products traded (no custom deals)

Live Demo: Xpansiv CBL Market Screen

B) OTC Markets (Custom Deals, Higher Risk)



OTC vs Exchange:

How Bilateral Trading Works: Matchmaking:

Brokers connect buyers/sellers via phone/chat Example: "I have 50k Kenya REDD+ credits at \$6.25 - anyone interested?"

Term Sheet Negotiation:

- Delivery timeline (spot vs. 3-month forward)
- Liability if forest burns (who covers the loss?)
 - Payment terms (escrow usually required)

Settlement:

Credits transferred via Verra/Gold Standard registry
Typically takes 3-5 business days

Feature	OTC Market	Exchange	
Customization	Yes (any project/terms)	No (standard contracts)	
Transparency	Low	High	
Counterparty Risk	High	Low (clearinghouse)	
Typical Fees	5-15%	\$0.02-\$0.50/ton	

Red Flag Alert:

65% of carbon market fraud occurs in OTC deals (2023 Carbon Market Watch report)



2. TRANSACTION STEP-BY-STEP

A) Due Diligence (Don't Skip This!)

Checklist for Buyers:

Registry Verification:

Confirm project exists in Verra/Gold Standard database

Check for "retired" status (avoid double-counting)

Project Documents:

Read the PDD (Project Design Document)
Verify monitoring reports show real emissions cuts

Credit Details:

Vintage year (older may be cheaper)
Buffer pool status (is there backup for reversals?)
Tool: Verra Registry Search

B) Execution Methods Spot Trades:

Immediate delivery (2-5 days)

Used for urgent compliance needs

Forward Contracts:

Example: "Buy 10k DAC credits for Dec 2025 delivery at \$800/ton"

Benefits:

Locks in prices

Lets removal projects pre-sell future capacity

Auctions:

Governments sell allowances (EU ETS auctions weekly) Corporations sometimes auction offset portfolios

C) Retirement (When Credits "Disappear")

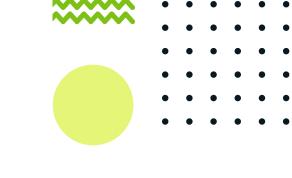
Why it matters: Retired credits can't be resold (stops double-counting)

How to verify:

Check registry retirement log Get third-party confirmation

Pro Tip: Some registries now use blockchain for instant retirement proof

3. TRADING STRATEGIES THAT WORK



A) Compliance Market Plays Calendar Spreads:

Buy Dec 2024 EUAs @ €85

Sell Dec 2025 EUAs @ €88

Profit if the €3 gap widens

Policy Arbitrage:

Buy California credits when cheap Sell when linked markets (e.g., Quebec) catch up

B) Voluntary Market Tactics Methodology Arbitrage:

Buy old REDD+ (VM0007) credits at \$4 Sell as new REDD+ (VM0042) equivalent at \$6 **Bundle Trading:**

Package 5 small projects together Sell as "diversified portfolio" at premium

Real Example:

Trader bought 500k Mozambique credits at \$3.20, repackaged as "African conservation bundle," sold at \$5.75 **Key Takeaways**

> Exchanges = Safe but Limited, OTC = Flexible but Risky Always Verify Before Buying (Registry #1 Check) Smart Traders Profit From Market Inefficiencies

4. SECONDARY MARKET MECHANICS: HOW CREDITS CHANGE HANDS (THE HIDDEN LIQUIDITY LAYERS)

B) Who Provides Liquidity?



A) Credit Lifecycle Stages Primary Issuance

Developer sells newly issued credits (e.g., 2024 vintage)

Pricing: Typically 20-30% below secondary market

Lock-ups: Often 1-year holding periods

Secondary Trading

Speculators buy/sell existing credits

Retirement Markets

Final sale to end-users (irreversible transaction)

Premium: +5-15% over secondary prices

Actor	Role	Typical Holding Period	
Project Developers	Initial sellers	0-6 months	
Merchant Banks	Warehouse credits	3-18 months	
Hedge Funds	Arbitrage trading	1-60 days	
ESG Funds	Buy-and-hold	3-5 years	

Real-World Example:

JPMorgan's carbon desk holds 2M+ credits as market-maker inventory

5. ADVANCED RISK MANAGEMENT **TECHNIQUES** (BEYOND BASIC HEDGING)



Secondary Markets = 70% of Volume but rarely taught Modern Risk Tools separate pros from amateurs Regulators Increasingly Demand this level of oversight

