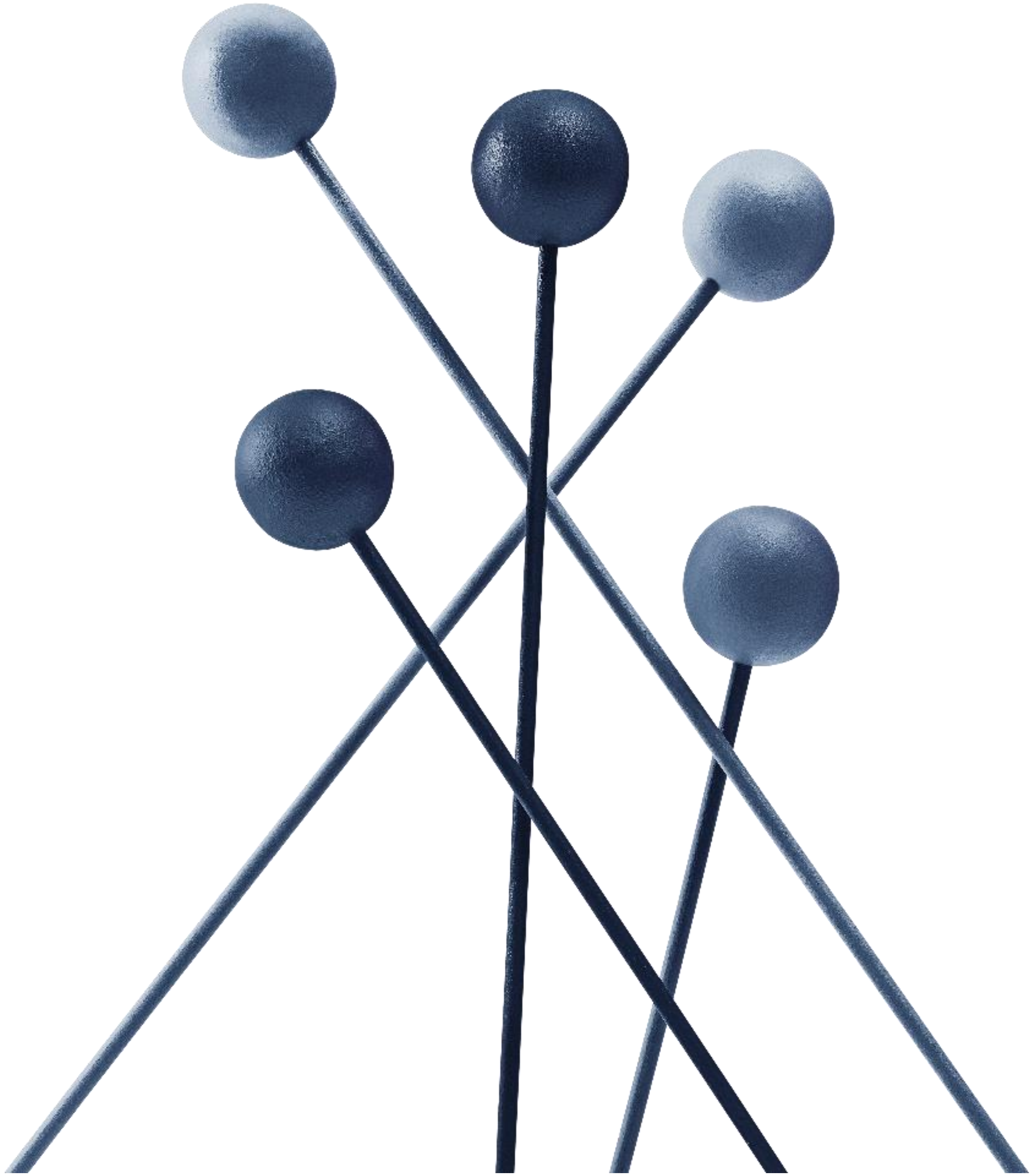


Taskforce on Scaling Voluntary Carbon Markets

Public Consultation Report

May 21st, 2021

All consultation documents were developed through engagement with TSVCM Members

The TSVCM continues to grow

400+

TSVCM members

250+

institutions represented

Consultation documents were informed by extensive engagement with TSVCM Members

3[1]	TSVCM plenaries	›	Opportunity for all TSVCM members to review work across working groups
3[2]	Advisory Board meetings	›	Opportunity for Advisory Board Members to review WG content and give feedback
4	Governance Working Group meetings	›	Working Group members developed content and provided feedback to shape the next iteration of the document
4	Legal Principles & Contracts Working Group meetings		
4	Credit-level Integrity Working Group meetings		

100+ Subgroup or one-to-ones meetings with all Members who requested them on deep-dive topics

1. Three already held, one more to come
2. Three already held, two more to come

Documentation was shared respectively with the TSVCM Plenary, Advisory Board and Working Groups the day before each meeting and feedback was requested with every new iteration

About the Taskforce

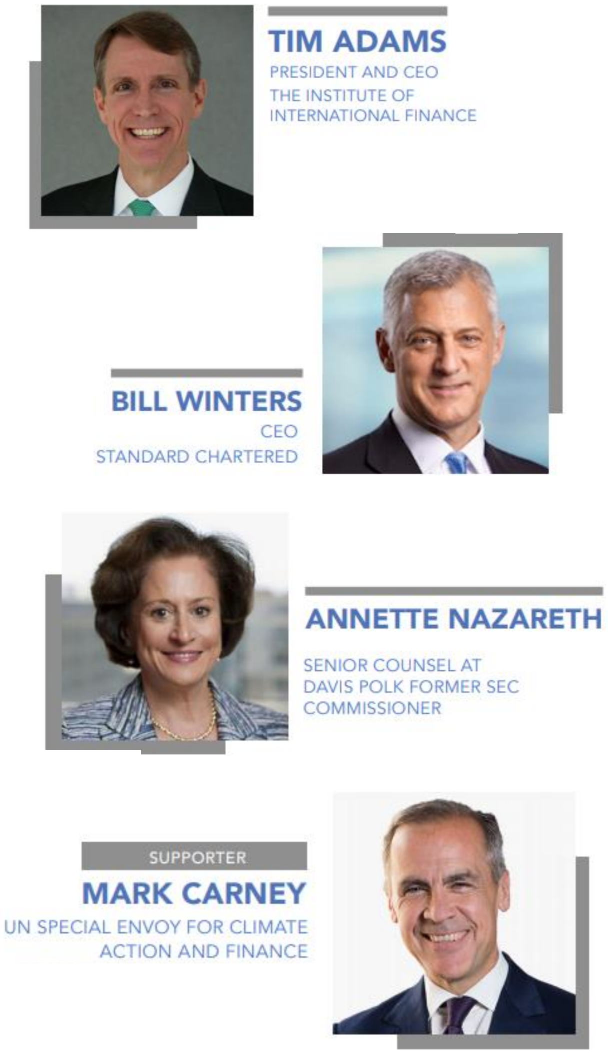
The Taskforce on Scaling Voluntary Carbon Markets is a private sector-led initiative working to scale an effective and efficient voluntary carbon market to help meet the goals of the Paris Agreement.

The Taskforce was initiated by Mark Carney, UN Special Envoy for Climate Action and Finance; is chaired by Bill Winters, Group Chief Executive, Standard Chartered; and is sponsored by the Institute of International Finance (IIF) under the leadership of IIF President and CEO, Tim Adams. Annette Nazareth, senior counsel at Davis Polk and former Commissioner of the US Securities and Exchange Commission, serves as the Operating Lead for the Taskforce. McKinsey & Company provides knowledge and advisory support.

The TSVCM's over 250 member institutions[1], represent buyers and sellers of carbon credits, standard setters, the financial sector, market infrastructure providers, civil society, international organizations and academics. An advisory board of 20 environmental NGOs, investor alliances, academics and international organizations provide guidance on TSVCM recommendations.

The Taskforce's unique value proposition has been to bring all parts of the value chain to work intensively together and to provide recommended actions for the most pressing pain-points facing voluntary carbon markets.

Full list of involved individuals and institutions can be found on the TSVCM website: https://www.iif.com/tsvcm



1. 53 Taskforce member institutions and 211 Consultation group member institutions

The Taskforce Phase II is composed of an advisory board and Working Groups with TSVCM members

x Working groups | Taskforce plenary | Taskforce-driven | Operating team-driven | Independent, with input from the Taskforce | Independent, sharing information with Taskforce

Taskforce Governance

Sponsor organization

Timothy Adams, CEO, Institute of International Finance (IIF)

Taskforce

Chair	Operating Lead	Taskforce & Consultation Group Members	Donors
Bill Winters, CEO, Standard Chartered	Annette Nazareth, Senior Counsel, Davis Polk; former SEC Commissioner	~150-200 subject matter experts across the carbon market value chain (e.g., buyers, suppliers, financial intermediaries)	Philanthropic foundations dedicated to making a positive difference by contributing to initiatives that help the world reach net zero

A Stakeholder engagement

Narrative on the value and objectives of the TSVCM

Operating team led, with support as needed from Taskforce members

Cross-cutting advisory board (eNGOs, investor alliances, academics, international organizations)

B Governance

Newly assembled expert group, supported by the operating team

C Legal principles & contracts

Newly assembled expert group, supported by the operating team

D Credit level integrity

Newly assembled expert group, supported by the operating team.

Operating Team

Institute of International Finance | Standard Chartered | Private Finance Hub (observer) | McKinsey & Company

Independent efforts

E Participant level integrity

Science Based Targets – Driving ambitious corporate climate action; VCMI Voluntary Carbon Markets Integrity Initiative

F Demand and supply engines

Coalition for Negative Emissions; Natural Climate Solutions Alliance; Sustainable Markets Initiative

G Traded volume & market infrastructure

Private Market Initiatives

H Corresponding Adjustments

EDF Environmental Defense Fund – Finding the ways that work; Trove Research

New collaboration between EDF / Trove to be set up

The Taskforce is working with a number of independent efforts, all with the goal of scaling voluntary carbon markets (1/2)

Participant level integrity / Corporate claims

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

2019, the Science Based Targets initiative initiated an inclusive, transparent multi-stakeholder process to develop a framework for setting robust and credible net-zero targets in line with a 1.5°C future. The framework will include net-zero target validation criteria, allowing companies to have their net-zero targets validated by the SBTi, as well as user friendly guidance for setting net-zero targets.

Following on from the publication of the 'Foundations for net-zero target setting in the corporate sector' paper in September 2020, the SBTi is currently developing detailed target validation criteria and guidance. The initiative completed the first public consultation on the Net-Zero Criteria in mid-March 2021 and the SBTi is revising its criteria based on stakeholder comments. The SBTi has also begun drafting user-friendly guidance to help companies set net-zero targets. A second public consultation on the criteria will begin in July and run through until the end of August, and will run alongside a road test where the SBTi will work with companies from a variety of sectors to test the criteria and pilot various models of net-zero target setting. The Net-Zero Standard will be launched at COP 26 in November, 2021.

VCMI Voluntary Carbon Markets Integrity Initiative

The Voluntary Carbon Markets Integrity Initiative (hereafter VCMI) is a multi-stakeholder project bringing together representatives of civil society, businesses, Indigenous Peoples and local communities, and governments to establish guidance on how voluntary carbon credits can be used and claimed as part of credible net-zero decarbonisation strategies.

Alongside this work, the VCMI will facilitate the development of VCM Access Strategies to encourage and enable supply-side countries to build capacity to bring high-integrity carbon credits into the VCM. These strategies will be developed by participating countries with support provided by the VCMI.

The VCMI will work alongside existing initiatives that are aimed at ensuring the integrity of the VCM, providing an avenue for representatives of these efforts to connect, coordinate, and, as appropriate, champion their contributions to ensuring the VCM makes a significant and meaningful contribution to limiting global temperature from rising to 1.5oC above pre-industrial levels.

The initial phase of VCMI will culminate with the publication of a Consultation Report in early-July 2021. Following a global consultation phase, which will run until September, the VCMI will launch a final report ahead of COP26.

Please click here to learn more about how to take part in the VCMI consultation process.

The Taskforce is working with a number of independent efforts, all with the goal of scaling voluntary carbon markets (2/2)

Demand and supply engines

Coalition for Negative Emissions

Description of initiative: The Coalition for Negative Emission's mission is to enable the scaling of nature-based and technology-based negative emissions to meet climate needs. The Coalition includes players representing negative emissions supply and demand, including the majority of global companies working to scale Bio-Energy with Carbon Capture and Storage (BECCS) and Direct Air Capture and Storage (DACS). Given this breadth of expertise, the Coalition has unique insight on what is needed to enable negative emissions to scale to industrial levels.

Current status and next steps: The Coalition for Negative Emissions will publish its inaugural report in June 2021. That report will detail that:

- Negative emissions are essential to limiting the impact of climate change to 1.5°C as they remove hard-to-abate emissions and tackle expected overshoots in the global carbon budget. In pathways that limit warming to 1.5°C, annual negative emissions scale fast, with 0.5-1.2Gt pa of CO2 being removed in 2025 (IPCC) and as much as 6-10 Gt pa of CO2 removal by 2050 (IPCC). However, today the world is far from a trajectory that will meet the need for negative emissions. Based on the current pipeline of projects, the 2025 1.5°C pathway need will be missed by 80%.
- Nature- and technology-based negative emissions solutions can scale to meet the climate need – BECCS, DACS and NCS can each sustainably reach the Gt scale, even when applying stringent sustainability criteria. But it is essential that a portfolio of solutions is deployed – no single solution can provide negative emissions needed for a 1.5 pathway. By deploying this portfolio, it is possible to significantly reduce the cost of negative emissions.
- Immediate progress and ambitious actions are essential to deliver the dramatic growth of negative emissions required to meet the climate need. Many of these actions – including defining what constitutes "high-quality negative emissions" and shaping robust, liquid and transparent markets for trading negative emissions credits – are closely linked to the work of the Taskforce.

The report will be published on https://coalitionfornegativeemissions.org/ and will include opportunities to engage with the Coalition over the coming months.

Natural Climate Solutions Alliance

Description of initiative: The Natural Climate Solutions Alliance (NCSA) NCS Demand Campaign aims to catalyze increased private sector investment in Natural Climate Solutions (NCS) by securing corporate commitments to reach one Gigaton of NCS emission reductions and removals per year by 2025. The campaign will drive the following outcomes:

- Raise private sector ambition with aggregate public commitments to 1 GtCO2e of NCS removals and reductions by 2025.
- Build Trust and credibility by linking commitments to the NCS Alliance's guidance on demand-side eligibility criteria and supply quality
- Generate high-quality NCS supply by stimulating project and jurisdictional program development to high-quality criteria
- Demonstrate action by establishing a monitoring and tracking framework to report and recognize increasing investment in NCS over time
- Scale NCS markets and policy mechanisms by signposting to policy-makers private sector uptake and acceptance of NCS as a credible climate change mitigation action in the transition to net zero

Current status and next steps: Phase 1 of the NCS campaign strategic communications and launch are being finalized with the aim to deliver a consistent drumbeat of outreach and engagement moments in the lead up to COP26, during COP26 and into 2022 and beyond.

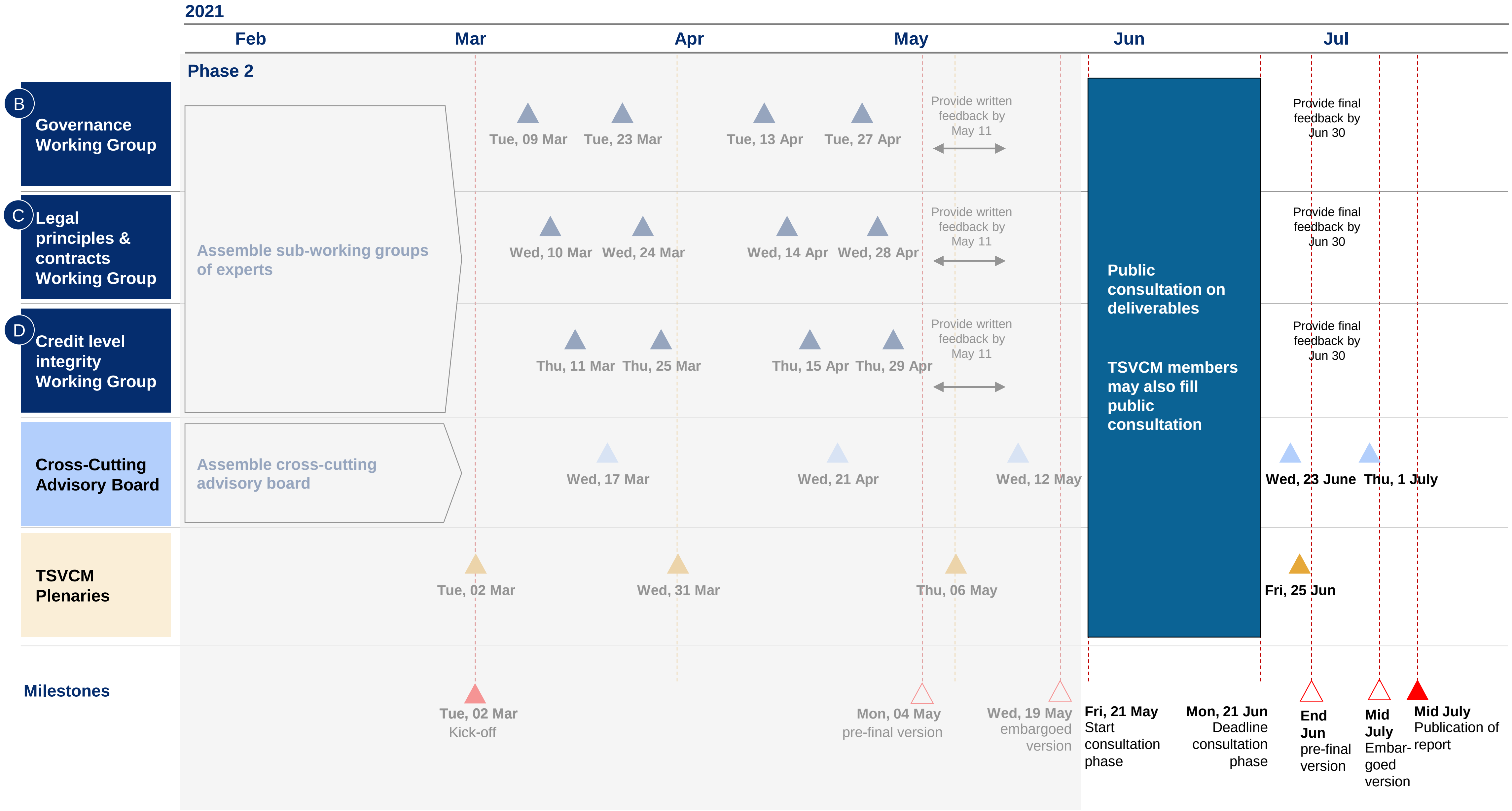
Sustainable Markets Initiative

His Royal Highness The Prince of Wales launched the Sustainable Markets Initiative (SMI) at The World Economic Forum's Annual Meeting in Davos in January 2020 as a way to put Nature, People and Planet at the heart of global value creation. Through the SMI, HRH is building together 'coalitions of the willing' who share a common vision aiming to rapidly accelerate global progress towards a truly sustainable future – one that is inclusive of Climate, Nature (on land and below water) and a Just Transition. SMI members represent the world's most influential and sustainably minded global CEOs who actively support HRH, their industries and an action-biased agenda.

The SMI has hosted more than two dozen industry and investment roundtable discussions, bringing hundreds of business leaders into industry specific taskforces to drive action and acceleration at a global scale. The SMI has also, in the past year: engaged with select countries to support their national economic transition efforts; supported the One Planet Summit and the related 2021 Great Green Wall Investment Forum; launched the Natural Capital Investment Alliance and the S30 a network of Chief Sustainability Officers. It has also issued a public statement from its Financial Services, Hydrogen and Water Taskforces. The SMI are connected to the TSVCM through the work that the SMI Financial Services Task Force are leading in supporting the development of a functioning global market for carbon credits. HRH also launched RE:TV in 2020; a content platform showcasing the most inspiring business innovations and ideas for a sustainable future.

HRH The Prince of Wales unveiled the Terra Carta in January 2021 – which provides a roadmap to 2030 for businesses to move towards an ambitious and sustainable future; one that will harness the power of Nature combined with the transformative power, innovation and resources of the private sector.
The Terra Carta will serve as the guiding mandate, across the decade, for HRH The Prince of Wales's Sustainable Markets Initiative.

The final report with Phase II recommendations will be published in July



This document is structured across four chapters

X Chapters in the report

	A Objectives and focus of the TSVCM	B Governance	C Legal principles & contracts	D Credit level integrity
Ambition	Public awareness of the climate and co-benefits that Voluntary Carbon Markets can drive as an important complement to own-firm emissions reductions	A future umbrella body with a mandate to implement, host and curate a set of Core Carbon Principles, provide oversight over standard setters and coordinate interlinkages between individual bodies	Standardizing legal framework underpinning credit issuance and trading contracts with common language on liability, ownership, delivery etc.	Core Carbon Principle threshold standard that does not exclude credits from the market but marks out those that satisfy a high quality standard
Taskforce contribution	Engagement with key stakeholders to drive demand and supply in VCMs	Blueprint for a future governance body specifying its mandate, organizational structure, sources of funding and a process for its setup	Defined use cases to drive awareness of potential ways to use the market Developed operational requirements for Standards' Terms of Use Developed general trading terms clauses	Draft assessment Framework for Standards Analysis of credit eligibility criteria Proposal for a taxonomy of additional attributes

Public consultation survey questions across topics can be found at the end of this report

Contents of this document

A: Objectives and focus of the TSVCM

- Introduction: A global issue
- Difficulties faced by the market today
- The Taskforce: Composition and activities
- A dual ambition: High-integrity carbon credits and robust, transparent and liquid markets
- Governance: Addressing the oversight needs for an at-scale market
- Legal Principles & Contracts: Harmonization and liquidity
- Credit Level Integrity: Core Carbon Principles and Additional Attributes
- Article 6: The Taskforce's position
- Conclusion: A historic effort

A. Objectives and focus of the TSVCM (1/4)

Introduction: A global issue

To achieve the Paris ambition of limiting the average temperature rise in this century to 1.5° Celsius, the global community needs to reach net zero emissions by no later than 2050. To credibly hit that target, we all need to act now, not in 2040.

This net zero challenge requires the entire economy to change; every company, bank and investor will have to adjust their business models, develop credible plans for their transition, and implement them as rapidly as possible. Many countries and companies are rising to this challenge, not least by making net zero commitments and communicating their plans. In addition to corporates' primary obligation to decarbonize, additional compensation and neutralization have an important role to play to achieve a 1.5° pathway. It is essential that any use of carbon credits which forms part of corporate climate commitments is done through high integrity and quality projects.

Difficulties faced by the market today

Voluntary carbon markets began trading before the most recent international climate change agreements had been put in place. Over the last years, standard setters, verifiers, project developers and other market participants and associations have developed and continuously improved theses markets in the face of significant uncertainty. However, today's markets remain highly fragmented and face ongoing NGO and press criticism regarding the quality of credits. The combination of real and perceived issues within the voluntary carbon market creates difficulties in scaling them in line with the demands of Paris.

To support the investment required to deliver the 1.5-degree pathway, the TSVCM estimates that voluntary carbon credit volume would need to grow by up to 15 times by 2030 – while simultaneously increasing the integrity of the underlying carbon credits. This can drive billions of dollars from those emitting carbon to those removing carbon or preventing its emission over the next 30 years. For finance to flow to the right projects, a well-functioning voluntary carbon market with high integrity quality standards and robust governance is needed.

The Taskforce: Composition and activities

The TSVCM was initially convened in September 2020. A report, with 20 recommendations identifying the solutions necessary to scale voluntary carbon markets, was issued on January 27th 2021. TSVCM membership has continued to grow and now includes experts from across the carbon markets value chain, from more than 250+ organizations, 20 sectors of the economy and from six continents. To ensure the highest level of rigor and challenge, we have increased engagement and participation from civil society, particularly in the form of an Advisory Board, whose remit spans across all topics.

The work is not done. Between March 3rd 2021 (when the Development & Implementation phase kicked off)) and summer 2021, the Taskforce and Consultation Group is supporting three core topics: A) Governance, B) Legal principles & contracts, and C) Credit level integrity. This consultation document represents the synthesized output of this phase, to solicit input.

A. Objectives and focus of the TSVCM (2/4)

A dual ambition: High-integrity carbon credits and robust, transparent and liquid markets

The Taskforce knows that we cannot sacrifice quality and integrity. The existing voluntary carbon market does not operate effectively due to difficulties (both real and perceived) in quality and integrity of the credits. The Taskforce aims to remedy this through the development of Core Carbon Principles (CCPs), a threshold standard for defining high quality.

The Taskforce envisions a future governance body with the mandate implement, host and curate the CCPs by evaluating which Standards and methodology types may issue CCP-labelled credits. The CCPs will set a new high quality benchmark surpassing existing certification.

The full definition of the CCPs will be carried out by the future governance body's expert panel building on the Assessment Framework and the set of key considerations to address provided by the TSVCM. The creation of a CCP threshold standard will not exclude any credits from the market but will introduce new high quality removal CCP credits and high quality avoidance and reduction CCP credits that will be fungible and backed by accredited Standards.

Some corporate participants today have large teams dedicated to independent verification and purchasing of these carbon credits. While highly commendable in the current market context, this is inefficient and must become unnecessary as the market scales and CCP credits provide a standardized alternative.

Separate from integrity there is the question on harmonization of credits. For the voluntary carbon market to scale & operate effectively, there will need to be a core reference contract (similar to the one that exists for electricity in the Nordic power markets). We understand that there is concern that harmonizing carbon credits might reduce their quality. We believe the opposite is likely to occur. When a product follows a set of widely interrogated and codified standards, quality usually improves as producers are motivated to meet those standards. The Taskforce is also recommending a rigorous convergence around general trading terms, terms of use and high-integrity core carbon principles.

Through "additional attributes", we will codify attributes that all Standards that issue credits in line with Core Carbon Principles will have to specify going forward. These additional attributes are integral parts of what defines the carbon credits, but are not always specified today. A key example is removal vs. avoidance / reduction credits. This is not always specified in registries today, but will need to be included in new "additional attribute" columns in registries going forward. Removals vs. reductions / avoidance will be a key differentiator for corporate claims going forward. Other critical "additional attributes" that the Taskforce recommends include: removal/reduction method (tech vs. nature), storage method, co-benefits and corresponding adjustments

A. Objectives and focus of the TSVCM (3/4)

Governance: Addressing the oversight needs for an at-scale market

A large majority of participants in the TSVCM have emphasized that further step-changes in oversight are required, to increase the quality of credits to a level where buyers have the confidence to enter the market at scale. Hence the TSVCM Phase I report from January 2021 called for the development of an umbrella governance body with the mission to promote the integrity, liquidity and growth of the global voluntary carbon market. The need for this umbrella governance body was reconfirmed by an expert Governance Working Group, which consequently developed a set of concrete recommendations for the mandate, organizational design and implementation path for this body. The mandate is to:

i) Establish, host, and curate: a) CCP eligibility guidelines and additional attributes; b) CCP assessment framework for standard setters; c) Eligibility principles for suppliers and VVBs.

ii) Provide oversight over standard setting organizations on adherence to CCPs and participant eligibility / oversight.

iii) Coordinate work of, and manage interlinkages between, individual bodies. Serve as the steward for the Voluntary Carbon Market and endeavor to foster its responsible growth by defining a roadmap for success.

This mandate will be carried out by the four key parts of the governance body: Board of Directors (consisting of Founding Sponsor representatives and Independent Board Members); Expert Panel; Executive Secretariat (hosted by the Executive Secretariat Host); and member consultation group

Legal Principles & Contracts: Harmonization and liquidity

Currently, voluntary carbon markets are highly complex and fragmented. On the one hand, uncoordinated Terms of Use across Standards (different onboarding requirements and rules of dispute resolution; uncertainty over limitation of liability and indemnity clauses) stand in the way of creating, and thereby trading, a truly fungible product. On the other hand, an ambiguous and uncertain legal landscape – differences across geographies, heterogenous supply chains, unclear liabilities, and diverging risks including fraud – create a significant burden for market participants and limits access to carbon credit trading. The Working Group on Legal principles and contracts seeks to contribute to streamlining the legal landscape for Standards' Terms of Use and for trading of CCPs, by providing clarity over use cases, operational requirements for Standards terms of use, as well as develop general trading terms.

A. Objectives and focus of the TSVCM (4/4)

Credit Level Integrity: Core Carbon Principles and Additional Attributes

The Credit-level Integrity Working Group was established to support the future governance body, by providing input on the key documentation this governance body will need. In particular the governance body will need to develop the Core Carbon Principles (CCPs) which define high-quality standards as well as high-quality carbon credits. This will be operationalized through an assessment framework for standards as well as a set of credit eligibility guidelines. Furthermore, to enable trading at scale, exchanges need to be able to identify key attributes of carbon credits which they would use to develop a small set of reference contracts. Hence the working group has develop a set of Additional Attributes that need to be identified for each CCP credit (e.g. whether the credit is an avoidance / reduction or removal credit).

The Taskforce's position on Article 6

The Taskforce cannot deliver policy guidance on issues currently subject to international negotiations, such as the rules underpinning Article 6 of the Paris Agreement and 'corresponding adjustments'. Once rules are negotiated, the voluntary market should comply with the rules of the Paris Agreement and Article 6. Further work will need to be done to determine how to proceed as the outcomes of the Article 6 negotiations become clearer.

A historic effort

This is truly a historic opportunity to contribute to getting the world to net zero, and we encourage continued participation to ensure that future initiatives set out a pathway toward real growth of the voluntary carbon market

Contents of this document

B | The Governance chapter contains two parts…

I Terms of Reference (ToR) for the new umbrella body

- Critical governance needs for the Voluntary Carbon Market
- Mission and mandate of the new umbrella governance body
- Organizational design
- Funding
- Operating principles, transparency and grievance mechanisms

II Call for initial engagement from (potentially) interested parties

to become a Founding Sponsor, Independent Board Member, Expert Panel Member and Executive Secretariat Host

- Timeline for the implementation of the governance body
- Recommendation guidelines
- Questions for interested parties to consider in preparation for a potential submission of interest

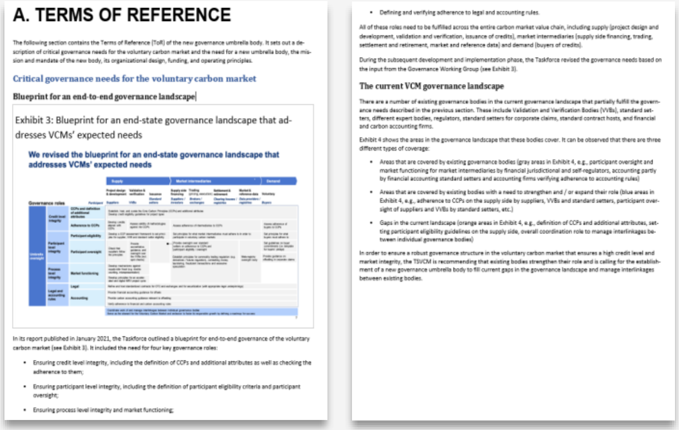
+ Questions for public consultation

…which are detailed in a separate document

Please find an executive summary on the following pages

+

The detailed Terms of Reference for the new governance body and a call for initial engagement from (potentially) interested parties can be found in a separate text document[1]


A. TERMS OF REFERENCE

Critical governance needs for the voluntary carbon market

Blueprint for an end-to-end governance landscape

Exhibit 3: Blueprint for an end-state governance landscape that addresses VCMs' expected needs

The current VCM governance landscape

1. File name: *Governance ToR & call for initial engagement from interested parties*, can be accessed at www.iif.com/tsvcm

B.I | Terms of reference for new governance body – Exec. summary (1/6)

Critical governance needs for the Voluntary Carbon Market

In order to achieve the Paris goal of limiting global warming to 1.5 degrees Celsius, the global community needs to reach net zero emissions by no later than 2050. To hit that target, climate action needs to start now. Corporates must follow a clear mitigation hierarchy: they must first reduce emissions in their own operations and value chain, followed by regular and transparent reporting of emissions reductions, only then does effective use of carbon credits have a role to play.

Successful use of carbon credits will involve defining high-integrity standards while at the same time ensuring a robust, transparent and liquid market that will increase in volume by a factor of up to 15 until 2030. Over the next 30 years, billions of dollars will flow from those emitting carbon to those reducing, avoiding, sequestering, and removing carbon. For finance to flow to the right projects, a well-functioning voluntary carbon market (VCM) is needed.

Today, demand in the voluntary carbon market is held back by a lack of a high quality standard for credits. Buyers and potential buyers are concerned about the environmental and reputation risks connected with the purchase of credits. In the survey that the Taskforce on Scaling Voluntary Carbon Markets (TSVCM) conducted in Phase I, credit quality was the topic that buyer representatives expressed most concern about, mentioning a lack of environmental and social integrity of certain projects. In addition, today's voluntary carbon market value chain is highly fragmented. It contains highly heterogenous and mostly small project developers with more than 20 standards issuing carbon credits. The current market does contain a few oversight bodies (e.g. the International Carbon Reduction and Offset Alliance (ICROA) and the International Civil Aviation Organization Technical Advisory Board (ICAO TAB) overseeing the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)), which have played a key role in increasing integrity of the market and quality of credits to where they are today.

A large majority of participants in the TSVCM have emphasized that further step-changes in oversight are required, to increase the quality of credits to a level where buyers have the confidence to enter the market at scale. Hence the TSVCM Phase I report from January 2021 called for the development of an umbrella governance body with the mission to promote the integrity, liquidity and growth of the global voluntary carbon market. At the core of its mandate is the hosting and curating of a set of Core Carbon Principles (CCPs), which is a threshold standard for high quality credits. The need for this umbrella governance body was reconfirmed by an expert Governance Working Group, which consequently developed a set of concrete recommendations for the mandate, organizational design and implementation path for this body, in the period of March-May 2021.

Mission and mandate of the new umbrella governance body

The new umbrella governance body is an independent, voluntary, stakeholder-led and self-regulating body with the mission to advance ready solutions to the global climate crisis. To this end it promotes the integrity, liquidity and growth of the global VCM by ensuring a high integrity of credits and uniting the fragmented governance landscape. In order to do so, it will embrace membership participation of companies and organizations active in all segments of the voluntary carbon market and will engage with industry groups, investor alliances, government agencies and non-governmental organizations (NGOs) whose members or activities are involved with the market. The governance body's goal is to build the market by ensuring that the supply of high integrity carbon credits is sufficient to meet the demand from institutional, corporate and individual purchasers. Rapid VCM growth requires Core Carbon Principles (CCPs) and standards for high integrity carbon credits that are broadly accepted and applied; infrastructure, technology and solutions that foster market data and price transparency; and, sufficient debt and equity capital formation to support a liquid market for VCM credits.

The umbrella governance body's mandate is to:

i) Establish, host, and curate: a) CCP eligibility guidelines and additional attributes; b) CCP assessment framework for standard setters; c) Eligibility principles for suppliers and Validation and Verification Bodies (VVBs).

ii) Provide oversight over standard setting organizations on adherence to CCPs and participant eligibility / oversight.

iii) Coordinate work of, and manage interlinkages between, individual bodies. Serve as the steward for the Voluntary Carbon Market and endeavor to foster its responsible growth by defining a roadmap for success.

B.I | Terms of reference for new governance body – Exec. summary (2/6)

Organizational design (1/3)

Expert Panel

Develops recommendations on CCPs

Sub-panels:

- CCP principle 1
- Methodo-logy type 1
- CCP principle 2
- Methodo-logy type 2

→ **Makes recommendations for key decisions on CCPs** for approval by Board of Directors

Board of Directors

- Founding Sponsor representatives
- Independent Board Members

Accepts / rejects recommendations on CCPs and strategic decisions

↑ **Makes recommendations for strategic decisions** for approval by Board of Directors

Executive Secretariat

Carries out operational tasks. Manages interlinkages between bodies

← **Provides operational support** and document drafting

↑ **Provides input** to expert reviews and recommend-dations on CCPs

↑ **Provides input** on coordination between individual bodies, strategic roadmap and emerging market trends

Member consultation group

Represents member perspective

B.I | Terms of reference for new governance body – Exec. summary (3/6)

Organizational design (2/3)

There will be four parts to the umbrella governance body: Board of Directors (consisting of Founding Sponsor representatives and Independent Board Members); Expert Panel; Executive Secretariat (hosted by the Executive Secretariat Host); and member consultation group. The tasks, composition, and nomination process for each are detailed below.

The Founding Sponsors are a group of NGOs, investor alliances and industry associations that provide public endorsement, legitimacy and authority to the new governance body. Their representatives serve on the Board during the initial phase (first 3 year term) to provide guidance and steering during the setup phase. There should be three to four Founding Sponsors to ensure diversity of expertise (e.g., financial and carbon markets, climate change) and representation from all geographies.

The Executive Secretariat Host is an organization that is hosting and running the Executive Secretariat. In order to avoid conflicts of interest, the Executive Secretariat Host is not a Founding Sponsor. In the steady state, the Board of Directors can establish or appoint another legally independent institution to run the Executive Secretariat.

The TSVCM Advisory Board will recommend[1] organizations to become Founding Sponsors and the Executive Secretariat Host in September 2021.

Board of Directors

- The Board of Directors (BoD) takes key decisions on CCPs (e.g., accepts / rejects credit eligibility guidelines, standard assessment framework and standard eligibility under CCPs) and the strategic roadmap of the governance body based on recommendations from the Expert Panel and Executive Secretariat.
- The Board has 9-11 Directors (uneven number). Board seats are rolling (terms are staggered and last 3 years, each year 3-4 Board Members are appointed) and are distributed as follows:
  - 3-4 Founding Sponsor representatives during the initial phase (first 3 years), with one seat per Sponsor assigned by each of the 3-4 Sponsor organizations.
  - 6-7 Independent Board Members acting in the global interest (e.g., experts, academics or former market participants[2]), including 1-2 representatives from multilateral and international organizations. These Directors need to be in the majority on the board to ensure its independence. In the steady state phase (after first 3 years), seats are rolling and Independent Board Members are elected by the remaining Board of Directors.
- The Board will be made up of Directors from across geographies (including the Global South) and with diverse expertise on, e.g., carbon and financial markets as well as governance (in particular during the setup phase).
- The Board has observers from the Executive Secretariat (Secretary-General and Deputy) and the Expert Panel (Chair and Deputy), who do not have voting rights.
- Board Members are expected to commit approximately 6-10 hours of their time per month during the first year and around 3-5 hours per month afterwards.
- Independent Board Members are compensated for their work. Founding Sponsor representatives receive in-kind contributions from Sponsor organizations.

1. Advisory Board members who submit interest to become a Founding Sponsor, Independent Board Member, Expert Panel Member or Executive Secretariat Host will be excluded from the decision process
2. Minimum of 2 years since last engagement for an active market participant

B.I | Terms of reference for new governance body – Exec. summary (4/6)

Organizational design (3/3)

Expert Panel

- The Expert Panel makes recommendations for key decisions on CCPs for approval by the Board of Directors (e.g., develops standards assessment framework and credit eligibility guidelines for methodology types, assesses whether standards should be eligible under CCPs).
- The Expert Panel is a group of independent experts without direct market interests (e.g., academics, experts from multilateral and international organizations, former market participants[1]), which are grouped in sub-panels based on required expertise for assessments of standard setters to be eligible under CCPs and of different methodology types. The Expert Panel is led by a Chair and Deputy and the work of each sub-panel is organized by a Coordinator. Expert Panel Members, Chair and Deputy are appointed by the Board of Directors.
- To ensure the widest possible breadth and depth of expertise and a broad geographic representation, the panel consists of about 20-22 members, out of which 5-10 experts serve for a 3-year term (including Chair and Deputy). The remaining 10-17 experts serve on an ad-hoc basis corresponding to the currently required expertise.
- During the first 6 months, all 20-22 experts are expected to commit at least 40 percent of their time in order to finalize the standards assessment framework (based on work from TSVCM), approve initial standards and develop initial credit eligibility guidelines. Experts can optionally increase their time commitment up to 100 percent and take on a secondment role (with honorarium). After the first 6 months, the time commitment is likely to reduce to 10-20 percent.
- Expert Panel Members are compensated for their work.

Executive Secretariat

- The Executive Secretariat carries out operational tasks (e.g., coordinating work, organizing meetings, managing memberships, supporting experts) and coordinates other individual bodies in the VCM governance landscape.
- During the setup phase (initial three years), the Executive Secretariat is hosted within an Executive Secretariat Host organization. This organization should not be a Founding Sponsor in order to ensure a clear separation between the development of content and preparation of materials (Executive Secretariat) and decision making (Board of Directors). In the steady state, the Board of Directors can establish or appoint another legally independent institution to run the Executive Secretariat. Secretary-General and Deputy are appointed by the Board of Directors.
- The precise setup will be determined by the Executive Secretariat Host organization. It likely consists of 17-25 full-time employees during the first year. After the first year, it contains 15-22 full-time employees.
- Secretariat employees are compensated for their work.

Member consultation group

- The member consultation group provides input to the Expert Panel and Executive Secretariat.
- It consists of representatives of all stakeholders of the voluntary carbon market (including market participants, NGOs, experts / academics, etc.).
- The member consultation group is neither compensated nor required to provide funds.

1. Minimum of 2 years since last engagement for an active market participant

B.I | Terms of reference for new governance body – Exec. summary (5/6)

Funding

The governance body will operate on a not-for-profit basis. Funding for the new umbrella body will follow a phased approach:

Setup phase (first three years)

The first three years require seed funding of approximately USD 23 to 33 million (8 to 11 million per year). It will be the joint responsibility of the Founding Sponsors and the TSVCM to secure the funding. While not required, it would be desirable for Founding Sponsors and the Executive Secretariat Host to contribute to funding in cash or in kind. Key sources of funding will include governments / public institutions, contributions from corporates and philanthropic donations. Donors will be recognized for their contribution, but will not obtain any rights or privileges associated with their funding.

Steady state

In the steady state, funding needs will amount to approximately USD 7 to 10 million per year to cover expenses. The final decision on the steady state funding model will be taken by the Board of Directors. Funding can for example be secured from membership fees and / or a service-based user fee (e.g., fee based on CCP cred-it issuance or retirement (potentially levied on buyers purchasing CCPs) per ton CO2). The funding needs correspond to less than 0.4 percent of the predicted VCM market size in 2024 (and less in subsequent years), assuming that the market will grow by a factor of 6-7 between 2020 and 2024 (following the market size analysis in TSVCM report from January 2021). Potential additional sources are contributions from Founding Sponsors / Executive Secretariat Host, public funding, and philanthropic donations. Donors will be recognized for their contribution, but will not obtain any rights or privileges associated with their funding.

B.I | Terms of reference for new governance body – Exec. summary (6/6)

Operating principles, transparency and grievance mechanisms

Operating principles

The governance body will adopt key operating principles ensuring both short- and long-term success of the organization. The principles build on the values and operating principles established during the setup of TSVCM and include highly collaborative (e.g., unites players across the value chain), building on current momentum of VCMs, aiming to obtain buy-in from private sector, transparency in decision making and high integrity in managing conflicts.

Participant rights

Across the governance body, care should be taken to ensure due process / procedural fairness. Elements of process / procedural fairness include independence, freedom from bias and from conflicts of interest, right to expertise and the rights for proponents to be heard, make submissions, receive notice of pending decisions that affect them, get written reasons for decisions, and have a right of challenge for the most serious decisions.

Transparency mechanism

The governance body will put measures in place to ensure full transparency of

- The body's procedures: All recommendations from the Expert Panel and Executive Secretariat and decisions taken by the Board of Directors will be disclosed transparently to the public. The member consultation group and broader public can provide comments and suggest modifications in a consultation process. The body will provide full disclosure on financials, provide the market and the public with annual reports on its activities and hold annual general meetings with all its members.
- Trades of carbon credits: The governance body will strive to ensure transparency of trades in the voluntary carbon market. The Board of Director will decide what kind of information should be publicly disclosed (e.g., ownership / retirement of credits and parties participating in trades should be publicly disclosed) and how (e.g., in real time).

Grievance mechanism

The governance body will define a grievance mechanism that includes

- A process to address complaints of stakeholders about procedures and decisions of the governance body (including a process for legal arbitration). The governance body will provide a publicly available complaint form to bring forward grievances about the body. All complaints and answers from the governance body will be disclosed publicly.
- Appropriate mechanisms to ensure privileges and immunities for individuals serving in a role for the governance body. Possible complaints that may be brought against individuals serving on the governance body can include acting outside of the delegated, substantially incorrect decisions, conflict of interest, breach of confidentiality, violation of procedural or bias in decision-making.
- A process to resolve conflicts among market participants (suppliers, VVBs, standard setters). The standard assessment framework will require standard setters to have a grievance mechanism in place in order to apply for eligibility under the CCPs. Furthermore, the governance body will mediate conflicts that cannot be resolved among market participants on topics such as adherence to CCPs. The governance body will also set up a process for how grievances about market participants inform the decisions of the body.

B.II | Call for initial engagement from (potentially) interested parties – Executive summary

Timeline for the implementation of the governance body

In this consultation document, TSVCM publishes the preliminary governance design and recommendation guidelines for Founding Sponsors, Independent Board Members, the Executive Secretariat Host and Expert Panel Members. This will be open for public consultation between May 21st and June 21st. During the public consultation, the TSVCM is calling for:

- **Responses to the survey**, which can be accessed on www.IIF.com/TSVCM
- **Initial engagement from parties that are (potentially) interested** to become a Founding Sponsor, Independent Board Member, Executive Secretariat Host and Expert Panel Member. Interested parties are encouraged to engage with TSVCM until June 21st via TSVCM@iif.com. Further details can be found in section *Call for initial engagement from (potentially) interested parties*.

TSVCM offers to facilitate meetings with (potentially) interested parties to answer questions and explain the recommendation process. On June 21st, after the end of the public consultation, the Taskforce will refine the governance documentation and recommendation guidelines and publish them in its final report in mid-July. Afterwards, parties (including those who have not yet engaged during the public consultation phase in May / June) can submit their final expression of interest until August 9th to TSVCM@iif.com.

In September, the Advisory Board will recommend[1] Founding Sponsor(s), Independent Board Members, Executive Secretariat Host and members of the Expert Panel.

Recommendation guidelines for Founding Sponsors, Independent Board Members, Expert Panel and Executive Secretariat Host

The TSVCM has set out preliminary guidelines to inform recommendations on who could be a Founding Sponsor, Independent Board Member, Expert Panel Member and Executive Secretariat Host.

Organizations submitting their interest to become a Founding Sponsor and / or Executive Secretariat Host as well as individuals seeking independent Board membership or an Expert Panel position will need to endorse the main positions of TSVCM, have limited conflicts of interest and be able to demonstrate their legitimacy and expertise (e.g., deep understanding of the sector, including supplier and buyer needs, track record in carbon methodology, knowledge on how carbon markets can work to mitigate climate change, awareness of parallel initiatives, etc.).

In addition, there are some recommendation guidelines specific to elements of the umbrella governance body:

- **Founding Sponsors** preferably contribute to funding of the Governance body (in cash or kind, not a mandatory requirement).
- **Independent Board Members** should ideally bring experience as a Board Member from a comparable organization.
- **Expert Panel Members** will need to demonstrate extensive specialist expertise to (collectively) assess standard setters for eligibility and develop eligibility guidelines for all relevant methodology types.
- **Executive Secretariat Host** preferably contributes to funding (in cash or kind, not a mandatory requirement).

Questions for interested parties to consider

Interested organizations and individuals might consider a range of questions in order to prepare for a potential submission of interest in July / August. The questions can be found in section *Questions for interested parties to consider in preparation for a potential submission of interest*. They are oriented around the preliminary guidelines that will inform recommendations on who could be a Founding Sponsor, Independent Board Member, Expert Panel Member and Executive Secretariat Host. TSVCM offers to facilitate meetings with (potentially) interested parties to discuss these questions and the broader recommendation process. Interested parties are encouraged to engage with TSVCM until June 21st via TSVCM@iif.com. All parties (including those who have not yet engaged during the public consultation phase in May / June) can submit their final expression of interest in July / August.

1. Advisory Board members who submit interest to become a Founding Sponsor, Independent Board Member, Expert Panel Member or Executive Secretariat Host will be excluded from the decision process

B | The TSVCM thanks the members of the Governance Working Group for their contributions

- Lucy Naydenova, African Development Bank
- William Pazos, AirCarbon
- Marc-Gregor Czaja, Allianz
- Christina Magerkurth, American Carbon Registry
- Virender Kumar Duggal, Asian Development Bank
- Ricardo Laiseca, BBVA
- Dewey McLemore, BCarbon
- Sandra Boss, BlackRock
- Jeff Swartz, BP
- Antonio ValleNeto, Bunge
- Magda Korpal, Carbon Trade Exchange (CTX)
- Phillipa Desiderio, Carbon Trade Exchange (CTX)
- Robin Green, CIBC
- Ryan Fan, CIBC
- Carla Sateriale, City of London
- Edoardo Bertin, ClimateSeed
- Jose Lindo, ClimateTrade
- Agustin Silvani, Conservation International
- Peter Renner, Foundation Development and Climate Alliance
- Gesa Schöneberg, Foundation Development and Climate Alliance
- Steven Gray, DLA Piper UK LLP
- Edwin Aalders, DNV
- Stephen J. Donofrio, Ecosystem Marketplace
- Eron Bloomgarden, Emergent
- Pavan Kumar, EnKing
- Sachhin Patra, EnKing
- Yash Lakhotia, EnKing
- Kelley Kizzier, Environmental Defense Fund
- Christa Ogata, Environmental Defense Fund
- Jan-Willem van de Ven, European Bank for Reconstruction and Development
- Brian Rice, ever.ag
- Deborah North, FIA
- Richard Stephenson, Gestion Maritime
- Wayne Sharpe, Global Environmental Markets
- Olivier Levallois, Hamerkop Climate Impacts
- Joseph Azrack, Harvard University
- Alexia Kelly, High Tide Foundation
- Grace Hui, Hong Kong Exchange
- Jeremy Manion, ICROA
- Dirk Forrister, IETA
- Takashi Hongo, Mitsui & Co. Global Strategic Studies Institute
- William McCoy, Morgan Stanley
- Jonathan Shopley, Natural Capital Partners, ICROA
- Naresh Vyas, NatWest
- Bill Gilbert, NatWest
- Angelica Kemene, Optima-X
- Taku Ide, Origin Energy
- Scott Mather, PIMCO
- Mark A Wilson, Preservation Advisors
- Mark Kenber, Quadrature Climate Foundation
- Bryony Worthington, Quadrature Climate Foundation
- Barbara Baarsma, Rabobank
- Charles Cannon, Rocky Mountain Institute
- Valentina Guido, Rocky Mountain Institute
- Xing'an GE, Shenzhen Green Finance Committee
- Jim Butterworth, Solidatus
- John Tobin, Solidatus
- Christopher Webb, The Nature Conservancy
- Guy Turner, Trove Research
- Wendy Miles, Twenty Essex
- Judson Berkey, UBS
- Justin Macinante, University of Edinburgh
- David Antonioli, Verra
- Anna Lehmann, Wildlife Works
- Chandra Shekhar Sinha, World Bank Group
- John Holler, WWF

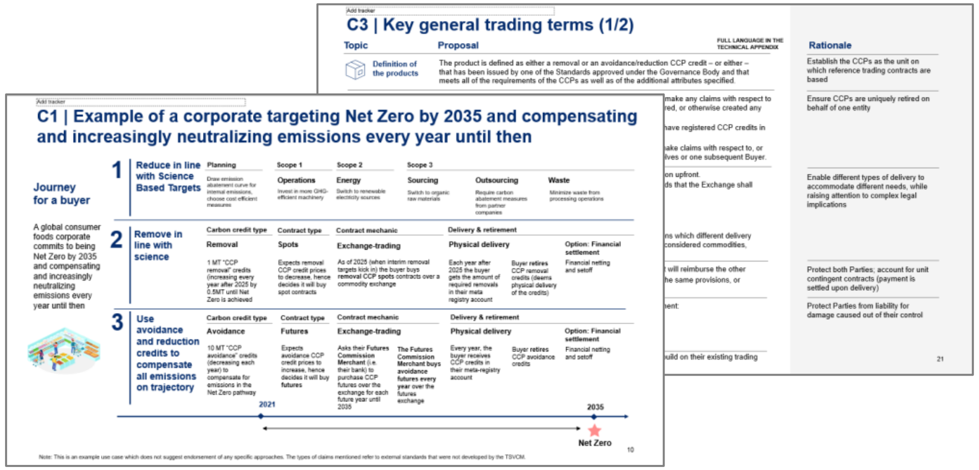
Contents of this document

C | The Legal Working Group produced recommendations gathered in this report…

I Example **use cases** illustrating how standard clauses and procedures can help scale the market

II Overview of **pain points** associated with the current lack of standardization; overview and rationale of **operational requirements for Standards' Terms of Use**

III Overview and rationale of **key general trading terms** which the TSVCM proposes

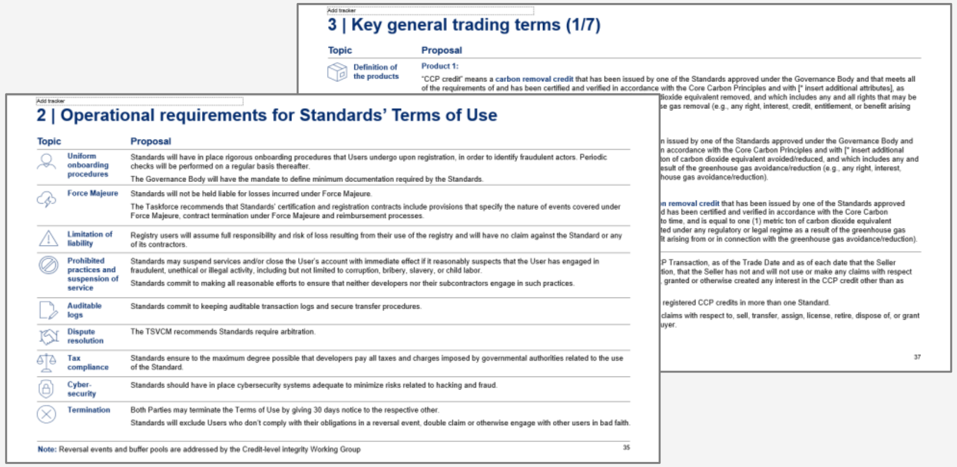


… and in its technical appendix

Additional **use cases**, covering a broader range of potential buyer needs

The full **language on operational requirements for Standards** to include in their Terms of Use in order to to issue CCPs

The full **language on key general trading terms** which can be adapted to Parties' needs and readily integrated into OTC and Exchange trading contracts



C | Legal principles and contracts – Executive summary

Introduction

Rationale: Currently, voluntary carbon markets are highly complex and fragmented. On the one hand, uncoordinated Terms of Use across Standards (different onboarding requirements and rules of dispute resolution; uncertainty over limitation of liability and indemnity clauses) stand in the way of creating, and thereby trading, a truly fungible product. On the other hand, an ambiguous and uncertain legal landscape – unclear legal nature of carbon credits, differences across geographies, heterogenous supply chains, ambiguous liabilities, and diverging risks including fraud – creates a significant burden for market participants and limits access to carbon credit trading.

Objective: the Working Group on Legal principles and contracts seeks to contribute to **streamlining the legal landscape for Standards' Terms of Use and for trading of CCPs**, by providing clarity over use cases, operational requirements for Standards, as well as general trading terms.

I Use cases

The end ambition is for buyers to be able to use CCP credits and integrated contract mechanics to **fulfill specific corporate claims (Net Zero, Carbon Neutral, Carbon neutral on the path to Net Zero)**. A set of **example use cases** illustrates how harmonized contracts and practices could help **simplify buyer companies' customer journeys** towards that goal, including in future scenarios featuring a meta-registry.

Example use cases illustrate how standardized contracts help satisfy needs along different **contract dimensions**:

- **OTC** for complex needs not covered by additional attributes; **exchange trade** for large volumes satisfied by additional attributes and/or hedging against price risk
- **Immediate delivery** to fulfill imminent claims; **future delivery** to fulfill long-term claims and to adjust to changing prices
- **Specific buyer and seller needs** (e.g. point-of-sale claims, cash delivery, collectivizing risk and/or externalizing it to insurers, upfront project funding)

II Operational requirements for Standards' Terms of Use

Operational requirements for Standards' Terms of Use to issue CCP credits are aimed at enhancing the fungibility of credits on top of their adherence to Core Carbon Principles. Implementation of these common practices would contribute to harmonizing the legal implications around the origins of the CCPs, thereby creating a **more uniform and hence more easily tradable product**. Key elements include recommendations on *(non-exhaustive)*:

- Threshold **onboarding procedures, prohibited practices and cybersecurity systems**, aimed at reducing risks with respect to bad actors in the market
- Threshold **provisions on force majeure**, protecting Standards from liability before credits have been issued
- The use of **arbitration for dispute resolution**, aiming at maximizing harmonization and contributing to reduce legal expenses.

III General trading terms

Key general trading terms for OTC and exchange contracts are aimed at providing a harmonized contractual basis for the VCM, enhancing clarity over key elements and helping market participants – especially smaller players with lower capabilities – circumvent complex and redundant drafting procedures and associated legal expenses. They address crucial contract dimensions, accounting for differences, for instance, between **existing credits and credits still in development**. Key elements include recommendations on *(non-exhaustive)*:

- **Elements specific to carbon products**, such as the definition of products (removal vs avoidance/reduction CCPs, with other additional attributes as needed), the risk of double counting/claiming/use, failure to deliver, or different possible settlement mechanisms, clarifying complex legal implications for a different options
- **Dispute resolution mechanisms**, leveraging existing standard language to increase buyer confidence and prevent "reinventing the wheel"
- Risks and options for the VCM emerging from **Article 6** and compliance markets.

C | The Legal Working Group builds on the new CCP product definition to enable trading at scale

Working Group on Legal Principles and contracts | CCP credit | Reference contract

A B C Different Standards approved by the Governance Body

Core Carbon Principle Credit

(Defined by the Working Group on Credit-level integrity)

CCP credit issued by Standard A, B, or C

- **1 ton CO_2 eq either avoided / reduced or removed**
- **Certified by a Standard approved by the Governance Body**
- **Additional attribute tags:**

R/A	N/T	XX	CA	ESG[1]
Type (Removal or Avoidance/Reduction)	Method (Nature / Tech)	Storage method	Corresponding adjustment	Co-benefits

- Fungible, high-quality carbon credit
- Complies with Core Carbon Principles and with specific additional attributes as defined by the future Governance Body to be established
- Represents a ton of CO_2eq avoided/reduced or removed

1. Co-benefits can encompass ESG and social benefits (environmental, community, gender equality, etc) or tech catalyst benefits

CCP Reference contracts

Removal contract

CCP credit A	CCP credit B	CCP credit C	…
R … … … …	R … … … …	R … … … …	

Nature-based removal contract

CCP credit A	CCP credit B	CCP credit C	…
R N Bio … …	R N Bio … …	R N Bio … …	

Avoidance, corresponding adjustments contract

CCP credit A	CCP credit B		…
A … … CA …	A … … CA …	A … … CA …	

…

…

CCP credits with the same additional attributes but issued by different Standards traded under reference contracts

- Contracts to trade CCP credits at scale
- Enabled by contract mechanics and standard language defined by the Working Group

C | Path forward for the Working Group on Legal principles and contracts

Focus of this report

Phase I (until Jan 2021):

Recommendation to create CCP key contractual terms and conditions

In Phase I the Taskforce issued a high-level set of recommendations introducing the **need for standardization in the VCM legal landscape:**

Recommendations:

- Introduce core carbon spot and futures contracts
- Establish an active secondary market
- Increase transparency and standardization in over-the-counter (OTC) markets

Initial definition of the products

Phase II (Feb – Jul 2021):

Use Cases, requirements for Standards, and general trading terms

In Phase II, the Taskforce enacted Phase I recommendations along three actions lines:

- I **Use cases** and underlying contract mechanics
- II **Operational requirements** for Standards' Terms of Use
- III **Key general trading terms**

Detailing out of the products

Implementation (Jul – Oct/Nov 2021):

Governance Body and other bodies hosting and updating recommendations

The Governance body will host and update operational requirements for Standards' Terms of Use recommended by the Taskforce

External bodies (e.g. IETA, ISDA, EFET etc.) will be able to **integrate key general trading terms** recommended by the Taskforce into their contract templates

Application of the products

C | Working Group on Legal principles and contracts

I Use cases and underlying contract mechanics

II Operational requirements for Standards’ Terms of Use

III Key general trading terms and implications from Article 6

C.I | Standard clauses and procedures can help simplify use cases along different contract dimensions

● In this report (yellow)
● In the technical appendix to this report (blue)

	OTC	Exchange
Immediate delivery	● (yellow) **Broker-led transaction for immediate retirement** : Logistics player wants to fulfil a Net Zero Pledge in 2030 and a Carbon Neutral Pledge every year until then with credits from its home country	● (blue) **Spot contracts**: Consumer foods player wants to fulfil a Net Zero pledge through spot contracts ● (blue) **Point of sale:** Airline offers carbon neutral flight options to customers upon ticket sale ● (blue) **Carbon Index Fund through an Asset Manager**: Clothes retailer buys carbon index fund to fulfil its Carbon Neutral pledge in 2022 ● (blue) **Carbon Index Fund through an Exchange**: Advanced electronics player wants to fulfil a Net Zero pledge through an initial contract for removal
		● (yellow) **Fulfilling corporate claims**: Example of a corporate targeting Net Zero by 2035 and compensating and increasingly neutralizing emissions every year until then
Future delivery	● (blue) **Upfront project funding through a prepayment and offtake agreement, supplier hedging against price risk:** Forestry project developer uses an offtake agreement with an O&G player to fund sapling reforestation	● (yellow) **End-user hedging against price risk**: Construction player buys futures contracts to fulfil its Carbon Neutral pledge in 2022 ● (blue) **Intermediary hedging against price risk:** A global retailer hires an intermediary to source carbon credits but requires a stable price throughout the year: the intermediary uses futures contracts to hedge against price risk ● (blue) **End-user hedging against price risk:** International bank uses futures contracts to hedge against price risk for part of its CCP credit needs ● (blue) **Swapping into spot contracts**: Airline uses a futures contract to swap into region-specific spot contracts close to retirement date ● (blue) **Collective portfolios**: Investors pool upfront funding for project developers through a financial intermediary and receive credits pro-rata

Note: These are example use cases which do not suggest endorsement of any specific approaches. The types of claims mentioned refer to external standards that were not developed by the TSVCM.

C.I | Example of a corporate targeting Net Zero by 2035 and compensating and increasingly neutralizing emissions every year until then

Journey for a buyer

A global consumer foods corporate commits to being Net Zero by 2035 and compensating and increasingly neutralizing emissions every year until then

1 Reduce in line with Science Based Targets

Planning	Scope 1	Scope 2	Scope 3		
	Operations	**Energy**	**Sourcing**	**Outsourcing**	**Waste**
Draw emission abatement curve for internal emissions, choose cost efficient measures	Invest in more GHG-efficient machinery	Switch to renewable electricity sources	Switch raw materials	Require carbon abatement measures from partner companies	Minimize waste from processing operations

2 Remove in line with science

Carbon credit type	Contract type	Contract mechanic	Delivery & retirement		
Removal	**Spots**	**Exchange-trading**	**Physical delivery**		**Option: Financial settlement**
1 MT "CCP removal" credits (increasing every year after 2025 by 0.5MT until Net Zero is achieved	Expects removal CCP credit prices to decrease, hence decides it will buy spot contracts	As of 2025 (when interim removal targets kick in) the buyer buys **removal CCP spots** contracts over a commodity exchange	Each year after 2025 the buyer gets the amount of required removals in their meta registry account	Buyer **retires** CCP removal credits (deems physical delivery of the credits)	Financial netting and setoff

3 Use avoidance and reduction credits to compensate all emissions on trajectory

Carbon credit type	Contract type	Contract mechanic		Delivery & retirement		
Avoidance	**Futures**	**Exchange-trading**		**Physical delivery**		**Option: Financial settlement**
10 MT "CCP avoidance" credits (decreasing each year) to compensate for emissions in the Net Zero pathway	Expects avoidance CCP credit prices to increase, hence decides it will buy **futures**	Asks their **Futures Commission Merchant** (i.e. their bank) to purchase CCP futures over the exchange for each future year until 2035	**The Futures Commission Merchant buys avoidance futures every year** over the futures exchange	Every year, the buyer receives CCP credits in their meta-registry account	Buyer **retires** CCP avoidance credits	Financial netting and setoff

2021 — 2035

Net Zero

Note: This is an example use case which does not suggest endorsement of any specific approaches. The types of claims mentioned refer to external standards that were not developed by the TSVCM.

C.I | Logistics player wants to fulfil a Net Zero Pledge in 2030 and a Carbon Neutral Pledge every year until then with credits from its home country

A logistics corporate makes a commitment to Net Zero for 2030 and wants to be Carbon Neutral every year until then, using carbon credits from its home country, as well as pursing science informed reduction towards net-zero

- To fulfil the Carbon Neutral commitment, it will need to compensate **2MT of CO_2eq** decreasing every year to 0 in 2030 through **avoidance / reduction credits**
- To fulfil the Net Zero commitment by 2030, it will have to compensate additional **0.1MT of CO_2eq of removal credits** by 2025, increasing to **0.5MT by 2030** equaling its residual emissions
- Company leadership wants to **increase its visibility on the domestic market** by purchasing **credits from its home country**, and therefore choose to leverage a **local broker**

The goal of the company is to buy credits for immediate **retirement**

Delivery method: retirement by broker

	Prior to trade	Initial contract agreement	Delivery	Retirement
Buyer	Selects a broker, communicates order of yearly avoidance / reduction credits and amount of removal credits by 2030. Even though not on exchange, buyer uses daily CCP base price and removals price to negotiate with the broker. Does not have any registry account	Signs contract with broker for sale of credits (based on general trading terms)	Pays the broker upfront	Receives confirmation of retirement from the broker
Broker	Vets buyers and suppliers to ensure compliance with KYC Selects credits in line with the buyer's request and with the CCP quality threshold	Signs contract with buyer for sale of credits (based on general trading terms) Signs contracts with project developers for purchase of credits (based on general trading terms)	Receives credits from supplier in its registry account and money from buyer	Retires credits on behalf of the buyer
Standards	Issues credits from suppliers it has vetted Validates projects and tags them as CCP compliant Tags credits with additional attributes (e.g. in this case removals)			Updates to reflect retirement of credits based on instruction from broker

Note: This is an example use case which does not suggest endorsement of any specific approaches. The types of claims mentioned refer to external standards that were not developed by the TSVCM.

C.I | Construction player buys futures contracts to fulfil its Carbon Neutral pledge in 2022

Delivery method: physical delivery to buyer

A leading construction corporate makes a commitment to be Carbon Neutral in 2022

To achieve this, it will need to compensate **5MT of CO_2eq** from emissions it is unable to abate

- It will require **avoidance/reduction credits** – in line with its Carbon Neutral ambition
- The marketing department would like to feature a **"tech-based compensation"** claim in communications to clients
- In order to efficiently purchase 5MT CO_2eq, it will seek **exchange-traded contracts**
- It will require **futures contracts** to **hedge against price risk**

	Prior to trade	Initial contract agreement	Delivery	Retirement
Buyer	Has an account with a futures exchange Opens an account with a carbon credit meta-registry	Selects 3MT of carbon futures (removal; tech- based) Posts collateral with the Clearing House Indicates meta-registry account to deliver the credits to	At maturity, pays the commodity exchange and receives the carbon credits at a meta-registry account	Retires the credits through the meta-registry
Futures Exchange	Vets the company to ensure compliance with KYC	Matches the buyer to a seller on the opposite side of the transaction (removal; tech-based; maturity 2025)	Checks the commodity exchange transaction has occurred	
Clearing-house		Validates that collateral from seller and buyer has been posted Updates collateral requirements based on credit price evolution	Returns collateral to each party	
CCPs Meta-registry	Displays credits across Standards		Reflects the transactions made between buyers, suppliers and commodity exchange (transfers the credits to the buyer's account)	Interfaces with the Standards to retire the credits
Standards	Issues credits from suppliers it has vetted in accordance to KYC Validates projects and tags them as CCP compliant Tags credits with additional attributes		Automatically updates through APIs linked to meta-registry	Automatically updates through APIs linked to meta-registry

For a deep dive on the role of meta-registries, see Technical Appendix

Note: This is an example use case which does not suggest endorsement of any specific approaches. The types of claims mentioned refer to external standards that were not developed by the TSVCM.

C | Working Group on Legal principles and contracts

C.II | Operational requirements for Standards' Terms of Use could help address key pain points downstream

Key pain points

Standards

Standard A — **CCP credit**
Limitation of liability A
Dispute resolution A
…

Standard B — **CCP credit**
Limitation of liability B
Dispute resolution B
…

Standard C — **CCP credit**
Limitation of liability C
Dispute resolution C
…

Exchange

The Exchange trades a single contract type with credits from different Standards

Reference contract

Standard A — **CCP credit**
Limitation of liability A
Dispute resolution A
…

Standard B — **CCP credit**
Limitation of liability B
Dispute resolution B
…

Standard C — **CCP credit**
Limitation of liability C
Dispute resolution C
…

Buyer

The Buyer receives credits from one or more of the Standards and is bound by their different terms and conditions

Limitation of liability A, B, C

Dispute resolution A, B, C

…

Lack of standardization between the certification and registration services of Standards; resulting uncertainty for buyers

Elements proposed to be harmonized to address key pain points

- Uniform onboarding procedures
- Force Majeure
- Limitation of liability
- Prohibited practices & suspension of service
- Cybersecurity
- Termination
- Dispute resolution
- Auditable logs
- Tax compliance

Enhanced clarity for market participants and greater fungibility of CCPs

C.II | Operational requirements for Standards' Terms of Use

FULL LANGUAGE IN THE TECHNICAL APPENDIX

Topic	Proposal	Rationale
Uniform onboarding procedures	Standards should have in place rigorous onboarding procedures that Users undergo upon registration; periodic checks will be performed on a regular basis thereafter. The Governance Body will have the mandate to define minimum documentation required by the Standards.	Ensure Standards provide for uniform protection against risks from fraudulent actors
Force Majeure	Standards will not be held liable for losses incurred under Force Majeure.	Protect Standards from liability before credits have been issued
Limitation of liability	Registry users will assume full responsibility and risk of loss resulting from their use of the registry and will have no claim against the Standard or any of its contractors.	Avoid litigation due to losses indirectly related to the use of the Standards
Prohibited practices and suspension of service	Standards may suspend services and/or close the User's account if they reasonably suspect that the User has engaged in fraudulent, unethical or illegal activity; Standards make all reasonable efforts to ensure that neither developers nor their subcontractors engage in such practices.	Ensure an equal degree of protection against bad actors across Standards
Dispute resolution	The TSVCM recommends Standards require arbitration.	Ensure the maximum possible degree of harmonization among Standards
Auditable logs	Standards commit to keeping auditable transaction logs and secure transfer procedures.	Ensure transparency
Tax compliance	Standards ensure to the maximum degree possible that developers pay all taxes and charges imposed by governmental authorities related to the use of the Standard.	Ensure maximum degree of harmonization across Standards; enforce legal quality
Cybersecurity	Standards should have in place cybersecurity systems adequate to minimize risks related to hacking and fraud.	Ensure Standards provide for uniform protection against cyber risks
Termination	Both Parties may terminate the Terms of Use by giving 30 days notice to the respective other.	Ensure maximum degree of harmonization across Standards; enforce legal quality

Note: Reversal events and buffer pools are addressed by the Credit-level integrity Working Group

C.II | The legal nature of carbon credits is highly fragmented across methodology types, Standards, and jurisdictions

Detailed next

Differences in legal treatment of carbon credits		Examples
Across methodology types	Different project types make it more or less challenging to **ascribe rights over carbon credits created and issued** to Parties involved	**Energy and infrastructure**: Entities including the owner, operator, contractor, investor or off-taker of an installation may claim the right to the emission reductions, which defines another benefit from an investment and is allocated according to investment agreements **Land use**: weak or unclear land titles, statutory and customary rights relating to land ownership, and indigenous rights can create an uncertain and risky ground for the allocation of clear rights over mitigation outcomes
Across Standards	Standards have different definitions of **a carbon unit** and what rights are attached to it	**CDM:** Tradable units are defined under international law as a right to offset emissions **VCS**: A Verified Carbon Unit is described as "representing the right of an accountholder […] to claim the achievement of a GHG emission reduction or removal in an amount of one (1) metric ton of CO_2 eq" **FCPF**: Emission reductions include "all rights, titles and interests associated" (FCPF Charter), but not "beneficial, legal or customary interests or rights in the land" (General Conditions) **Gold Standard**: A Verified Emissions Reduction is defined as "a single unit (one ton) of CO_2 equivalent reduction captured as a carbon credit for use as a commodity within the voluntary carbon market" **ACR**: A Verified emissions reduction is described as "serialized and registered as an Emission Reduction Ton (ERT), denominated in metric tons of CO_{2e}," and includes "emission reductions and removal enhancements (i.e., enhanced sequestration)"
Across jurisdictions and financial regulatory frameworks	Different legal traditions have given rise to different legal **rights associated with carbon credits and the rights of governments and private stakeholders** to them	**U.S.**: Carbon credits are specifically not recognized as property rights[1]; applicable financial regulation depends on methods of delivery: when physically delivered, carbon credits are considered assets and transactions may qualify for the forward contract exclusion from the swap definition under the Commodity Exchange Act and the Dodd-Frank Act; if not physically delivered, they are considered securities and are regulated under the Commodity Exchange Act and the Dodd-Frank Act **EU**: Legal treatment of carbon credits is left to Member States to define (e.g. Germany considers them subjective public law rights, Sweden considers them financial instruments, Finland considers them intangible rights similar to patents); MiFID II covers carbon credits under the EU Emissions Trading Scheme and derivative contracts relating to carbon credits

1. Charlotte Streck, Who Owns REDD+? Carbon Markets, Carbon Rights and Entitlements to REDD+ Finance (2019)

Source: Charlotte Streck and Moritz Von Unger, Creating, Regulating and Allocating Rights to Offset and Pollute: Carbon Rights in Practice (2016); Matthew F. Kluchenek, The status of environmental commodities under the Commodity Exchange Act, 2015; VCS Program Definitions; Gold Standard website; ACR Standard

C.II | Consistent legal treatment of CCP credits could further increase liquidity and market scaling

Issues associated with fragmented and unclear legal nature of carbon credits	
Fungibility	Carbon credits may be treated differently under different legal regimes. This divergence of treatments hinders liquidity and trading
Market scaling	Unclear legal implications can make market participants hesitant to commit to transactions, hindering market scaling
Applicability of existing documentation	Current legal treatment is very uncertain and fragmented, hence providing the necessary legal underpinning to general trading terms by way of sound legal opinions is challenging.

Implications and recommended path forward

Current practice shows that it is possible to trade multiple Standards' credits under one reference contract; however, **more legally uniform products would help drive market scaling**

In the long-term, **making the legal nature of CCP credits more uniform across jurisdictions** would further clarify rules on their treatment with respect to protection, taxation, and financial regulation

The Taskforce calls on **international legal bodies** (e.g. ISDA) to issue positive legal opinions on the legal nature of carbon credits, and on **intergovernmental bodies** (e.g. UNFCCC, UNCITRAL, UNDROIT et al.) to provide respective recommendations, ideally in collaboration with market participants and regulators

The Taskforce invites **jurisdictional regulators to review their treatment of voluntary carbon credits** with the aim of providing further guidance on their legal nature, aligned across jurisdictions

C | Working Group on Legal principles and contracts

- I | Use cases and underlying contract mechanics
- II | Operational requirements for Standards’ Terms of Use
- III | **Key general trading terms and implications from Article 6**

C.III | General trading terms can help address key pain points in the legal environment of VCMs

Detailed next

Key pain points

Clarity and certainty about the nature of the products	**Heterogenous treatment of carbon credits**	Different laws and legal underpinnings apply in each country
	Unclear liabilities	In most contracts the legal liability sits with the verifier, which can make it an unattractive business model
Complexity and legal expenses	**Highly fragmented landscape**	The VCM landscape has heterogenous supply chain with small players, multiple trading venues, and different contracts
	Complexity from emerging services (e.g. DLT)	New services, in particular DLT (e.g. applied through a meta-registry or trading network), add further complexity to the legal underpinnings
	Access to financing	Access to financing is a key supplier pain-point and there can be a significant lag between a project receiving financing and credits being produced
	Limited access to exchange for suppliers	High volume of small suppliers make it costly and complex to interface with an exchange
Bad actors in the market	**Risks of fraud**	Potential for money-laundering, tax fraud (e.g. EU ETS related incidents), consumer fraud, double-counting

How general trading terms address key pain points

- Definition of the products

- Limitation of liability
- Change in law
- Indemnification
- Dispute resolution
- Failure to deliver
- Settlement and delivery
- Force Majeure
- Benchmark price / source

- Avoidance of double counting / claiming / use
- Tax compliance

C.III | General trading terms prepared by the Legal Working Group include specific language for some of the relevant dimensions

Dimensions of trading contracts		Implications for the general trading terms
OTC vs Exchange	**OTC:** over-the-counter contract between Sellers and Buyers **Exchange trade contract:** contract that governs credit transactions mediated by an Exchange	**Delivery, settlement and arbitration terms** specific for **OTC transactions** given that Exchanges will define their own delivery rules
Existing credit vs in development	**Existing credit:** credit has been issued by a Standard **Credit in development:** credit which has not yet been issued	**Optional distinction** for some terms, e.g. failure to deliver: ▪ Where credits already exist, failure to deliver results in one of the Parties covering the replacement cost for the other Party ▪ Where credits are in development, Parties either apply the same provisions, or negotiate appropriate remedies for non-delivery **CCP credits' fungible nature** facilitates replacement by providing a **clear price signal**
Spots vs futures	**Spots contracts** **Futures contracts**	**No specific terms**: Exchanges are expected to set their own trading terms for futures contracts (see example in the Technical Appendix)
Article 6	**Link to and convergence with compliance markets:** specific provisions linking to Article 6 (e.g. corresponding adjustments)	**Optional provision** for CCP credits with a **letter of authorization and/or corresponding adjustment** to outline associated risks and dependencies

C.III | Key general trading terms (1/2)

FULL LANGUAGE IN THE TECHNICAL APPENDIX

Topic	Proposal	Rationale
Definition of the products	The product is defined as either a removal or an avoidance/reduction CCP credit – or either – that has been issued by one of the Standards approved under the Governance Body and that meets all of the requirements of the CCPs as well as of the additional attributes specified.	Establish the CCPs as the unit on which reference trading contracts are based
Avoidance of double counting / claiming / use	The Seller warrants the Buyer that they have not and will not use or make any claims with respect to the CCPs being traded, and that they have not sold, transferred, retired, or otherwise created any interest in the CCPs other than as contemplated by the Agreement. In a primary sale, the Seller commits not to double count, i.e. not to have registered CCP credits in more than one Standard. Upon being transferred the CCP credit, the Buyer commits to use, make claims with respect to, or further sell the credit exclusively one time on behalf of either themselves or one subsequent Buyer.	Ensure CCPs are uniquely retired on behalf of one entity
Settlement and delivery	For OTC: Parties hold accounts in one specific Standard, agreed upon upfront. For Exchange-traded contracts: Parties hold accounts in all Standards that the Exchange shall transfer them credits from. Parties are given two options: i) Physical delivery / deemed delivery (retirement by the Buyer) ii) Financial settlement / retirement without deemed delivery Parties are expressly encouraged to be aware of the legal implications which different delivery mechanisms have in different jurisdictions (resulting in CCPs being considered commodities, securities, or other types of assets).	Enable different types of delivery to accommodate different needs, while raising attention to complex legal implications
Failure to deliver	i) Where credits already exist, the Party breaching the Agreement will reimburse the other ii) Where the credits are in development, the Parties either apply the same provisions, or negotiate appropriate remedies for non-delivery	Protect both Parties; account for unit contingent contracts (payment is settled upon delivery)
Force Majeure	The Parties choose one among three modalities of termination payment: i) No termination payment ii) Partial termination payment iii) Full termination payment	Protect Parties from liability for damage caused out of their control

Note: These general trading terms apply primarily to OTC contracts. Exchanges are expected to build on their existing trading rules, although they may follow the above recommendations.

C.III | Key general trading terms (2/2)

FULL LANGUAGE IN THE TECHNICAL APPENDIX

Topic	Proposal	Rationale
Limitation of liability	Neither Party is liable for any loss of income, loss of profits or loss of contracts, or for any indirect or consequential loss or damage.	Avoid litigation due to losses indirectly related to trading of CCPs (e.g. reputational damage in case of other Parties' wrongdoing)
Compen-sation	Each party compensates the other for claims directly incurred in connection with i. any violation of applicable law, regulation or order by such party; and/or ii. any breach of a representation or warranty by such party.	Avoid litigation due to losses indirectly related to trading of CCPs (e.g. reputational damage in case of other Parties' wrongdoing)
Change in law	Parties are given two options: i) If changes in law don't materially impact on the quantity of credits to be delivered, it is the Seller's responsibility to comply with those changes; if they do, the Buyer may terminate the Agreement. ii) If any of the Parties is prevented by the change of law from complying with its obligations under the Agreement, the Parties seek to agree on amendments in good faith; if such agreement cannot be found, either Party may terminate the Agreement.	Provide a choice to Parties and allow for minimization of legal expenses
Dispute resolution	Parties are given two options based on standard ISDA language, which they can adjust to their needs (choice of court, choice of jurisdiction, Arbitration Body): i) Jurisdictional clause (exclusive / non-exclusive) ii) Arbitration clause	Give Parties the choice to select the mechanism they find most suitable, while providing standard language for each; minimize legal expenses
Benchmark price / source	In the long term, if a benchmark price is used for CCP credits, it should comply with IOSCO principles.	Ensure a high quality standard for benchmark prices used
Tax compliance	The Seller will pay all taxes arising prior to delivery; the Buyer will pay all taxes after delivery. Where the Seller is required by law to pay taxes that are the Buyer's responsibility, the Buyer will reimburse the Seller.	Avoid uncertainty emerging from different jurisdictions involved

Note: These general trading terms apply primarily to OTC contracts. Exchanges are expected to build on their existing trading rules, although they may follow the above recommendations.

C.III | In the future, CCPs could have tags linking to compliance elements

	Letter of Authorization (LoA)	Corresponding adjustment (CA)
CCP credit	Letter of Authorization	Corresponding adjustment (actual or indicative)
		No corresponding adjustment
	No or pending Letter of authorization	
Timing:	Before credit issuance	Up to 1 year after credit issuance

Potential future issues to be addressed for VCMs (not by the Taskforce in this phase)

Standards

Standards should provide **registry data infrastructure and general trading language** anticipating different possible outcomes for intergovernmental negotiations on Article 6

LoA / CA tagged CCPs

In the future, credits with specific Article 6 attributes may receive respective tags

- If the project from which a CCP is issued has obtained a **Letter of Authorization by the Host Government**, the Standard may be able to attach a respective attribute to it (LoA-tag)
- If the Host Government performs a **corresponding adjustment** on a CCP, the Standard may be able to attach a respective attribute to it (CA-tag)

Liability for corresponding adjustments

Liabilities will need to be addressed in the event that **Governments fail to perform corresponding adjustments** which the Buyer had reasons to expect

Nationalization / Expropriation

Liabilities will need to be addressed in the event that a project is **nationalized or expropriated by the Host Government**

Note: Implications from future compliance markets are contingent upon the outcomes of still ongoing intergovernmental negotiations on the operationalization of Article 6. As a Taskforce, we do not issue recommendations as to what these outcomes should be.

Efforts by Trove Research, EDF, and IETA & Pollination go into further depth on issues related to Article 6

C | The TSVCM thanks the members of the Legal Principles and Contracts Working Group for their contributions

- William Pazos, AirCarbon
- Bahram N. Vakil, AZB & PARTNERS
- Ilona Millar, Baker McKenzie
- Mérida de la Peña, Bank of America
- Allison Fleming, Bank of America
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- Robin Green, CIBC
- Belinda Ellington, Citi
- Mathias Elspass , Clifford Chance
- Jessica Denoyelle, ClimateSeed
- Julie Winkler, CME Group
- Mikkel Larsen, DBS
- Markus Hüwener, EEX
- Jan Haizmann, EFET
- Daria Nochevnik , EFET
- Aygul Avtakhova, EFET
- Angela Delfino, European Bank for Reconstruction and Development
- Athena Eastwood, FIA / Willkie Farr & Gallagher
- Wayne Sharpe, Global Environmental Markets
- Grace Hui, Hong Kong Exchange
- Anthony Belcher, ICE
- Stefano De Clara, IETA
- Domenic Carratu, Independent
- Peter Werner, ISDA
- Joshua Were, KenGen
- Hugo Brodie, London Metal Exchange
- Ed Zabrocki, Morgan Stanley
- Esteban Mezzano, Nestlé
- Elisa de Wit, Norton Rose Fulbright
- Andrew Hedges, Norton Rose Fulbright
- Julian Richardson, Parhelion
- Kate Brown, Parhelion
- Islay Lord, Parhelion
- Lisa DeMarco, Resilient LLP
- Charles Cannon, Rocky Mountain Institute
- Valentina Guido, Rocky Mountain Institute
- Tom Enger, SGX
- Zack Parisa, SilviaTerra
- Harriet Hunnable, Soft Power Capital
- Anne Jenkins, Soft Power Capital
- Josh Brown, TASC
- Jason Norman Lee, Temasek
- Rodica Buda, Total
- Raluca Dirjan, Total
- Jonathan Gilmour, Travers Smith
- Wendy Miles, Twenty Essex
- Guillaume Quiviger, Vitol
- Ingrid York, White & Case
- Adam Linton, Xange
- Esteban Van Goor, Xange
- Steven Witte, Xange
- John Melby, Xpansiv

Contents of this document

D | Credit-level Integrity – Executive summary

Introduction

The Taskforce for Scaling Voluntary Carbon Markets has the mission of creating a market for **high-quality carbon credits traded in robust, transparent and liquid markets**. The consultation survey at the end of Phase I showed that **credit quality was at the heart of buyers' hesitancy in carbon markets**, with 45% of buyers surveyed identifying it as a pain point.

The Credit-level Integrity Working Group was established to **support the future governance body**, by providing input on the key documentation this governance body will need. In particular the governance body will need to develop the **Core Carbon Principles** (CCPs) which define high-quality Standards as well as high-quality carbon credits.

This will be operationalized through an **assessment framework for Standards** as well as a set of **credit eligibility guidelines**. Furthermore, to enable trading at scale, exchanges need to be able to identify key attributes of carbon credits which they would use to develop a small set of reference contracts. Hence the working group has developed a set of **Additional Attributes** that need to be identified for each CCP credit (e.g. whether the credit is an avoidance / reduction or removal credit).

I Assessment Framework for Standards

The Assessment Framework for Standards will be used by the Future Governance Body to **evaluate whether Standards may issue CCP credits.** It will cover both credit-level principles (e.g. additionality) and Standard-level principles (e.g. governance). In this second phase, the Working Group has built on the high-level CCPs from Phase I to define the next level of detail for each CCP.

In preparing the Assessment Framework **we have sought to surpass quality standards currently in the market.** Among other principles, the TSVCM recommends the **obligation to demonstrate financial additionality** through profitability or return on capital considerations, the **requirement to adopt baselines set by third parties** and the **requirement for Standards to maintain collective buffer pools** in line with their project-portfolio risk.

II Current eligibility guidelines analysis

The TSVCM envisions a future governance body with the mandate to set credit-eligibility guidelines (e.g. by defining guardrails and exclusion rules) at a **methodology type level**. In order to facilitate this task, the TSVCM will handover to the future governance body an analysis of the current credit eligibility guidelines utilized by some of the key Standards in the market. In addition, reference points from academic literature have been included for key methodology types.

The analysis focuses on the **CCPs that are most relevant to key methodology types.** We have selected the methodology types to evaluate based on the **volume of credits in the market today** and based on the **future relevance of the methodology types**. For the most relevant CCPs and methodology types, we have identified **suggested questions** regarding the eligibility of carbon credits **that the Future Governance Body would answer.**

III Additional attributes

Additional attributes are mandatory tags with which all registries must list CCP credits so buyers and sellers can distinguish between different types of CCP credits (e.g. removal and avoidance/reduction credits). Additional attributes **boost the liquidity of the market** by providing exchanges with a standard list of labels that is common to CCP credits from all registries. By distinguishing credits, additional attributes **enable price differentiation** for CCP credits with specific characteristics.

The current proposal for a standard taxonomy of additional attributes includes **credit type** (removal or avoidance/reduction), **removal/avoidance/reduction method**, **type of storage** (or no storage), **co-benefits** and a **corresponding adjustments** tag whose implementation will depend on the outcome of this November's COP26.

The Future Governance Body will be tasked with revising and updating the standard taxonomy of additional attributes; exchanges in turn will be able to base reference contracts for CCP credits on categories it includes.

D | Setting Core Carbon Principles is key to driving the Taskforce's dual ambition

High-integrity carbon credits...

Develop core carbon principle threshold standard for what constitutes a high-integrity credit and ensure robust governance for overseeing it

Allowing companies to pursue corporate claims that require specific credit types e.g. removals

The Taskforce will not exclude any credits from the market and simply label high-quality CCP credits

Dual ambition for the TSVCM

...Traded in robust, transparent and liquid markets

Catalyze market players to develop infrastructure and solutions that promote data transparency, funding availability, ease of access and price transparency

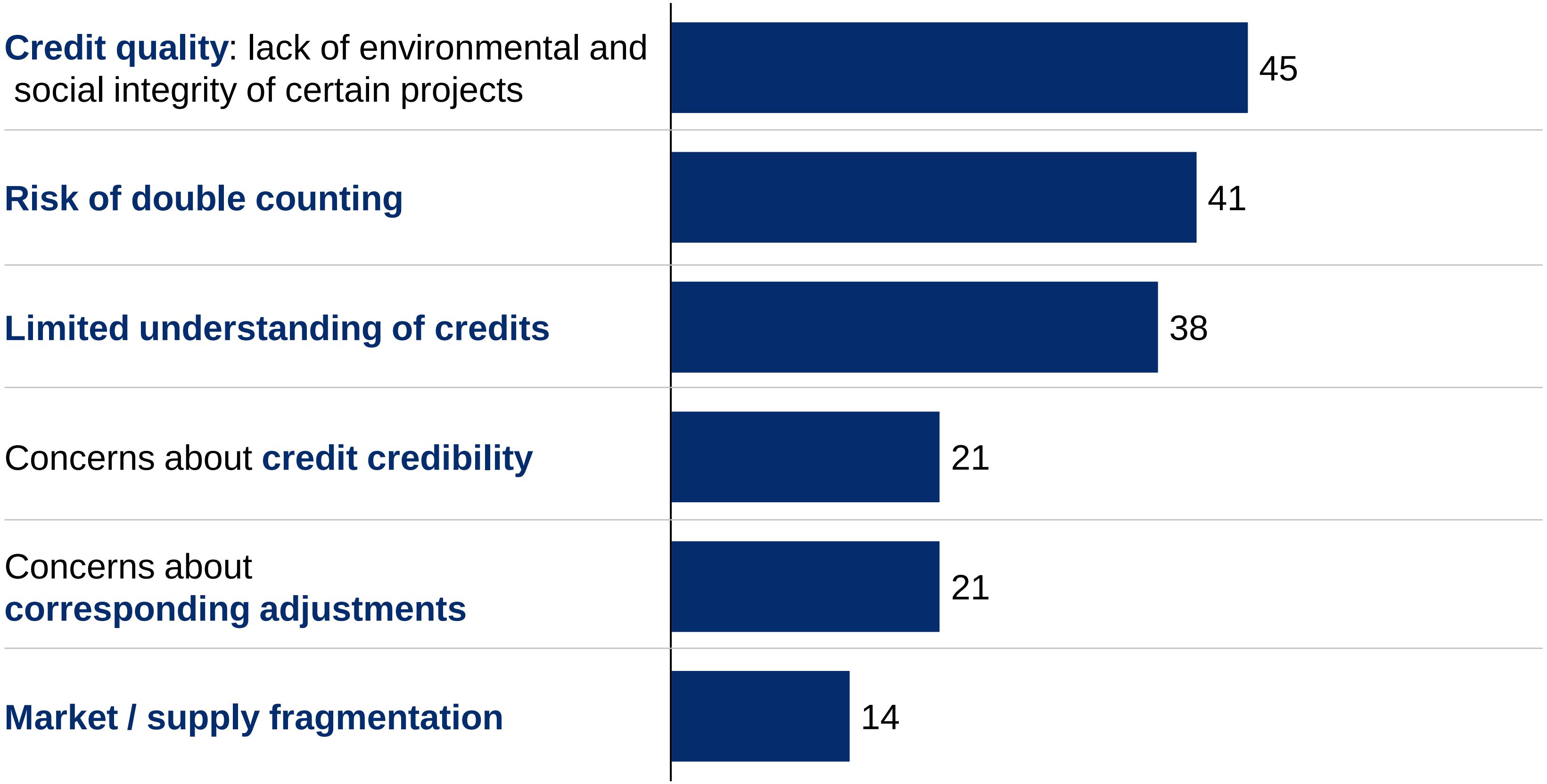
---

Companies' internal decarbonization and emissions reporting remain the priority with offsetting playing an important but complementary role

D | In Phase I we identified Members’ views on pain points and open questions regarding carbon credits

Pain points expressed by current or future buyers[1]

% of buyers who commented on the survey



1. Based on buyers' comments expressed in TSVCM Phase I survey, with results as of October 2020. More buyers answered the survey but did not comment on the topics.
2. Replies to the question: should the "Core Carbon Principles" exclude certain project types, or only allow them with additional safeguards? (independent of project vintage)?
3. Replies to the question: should the “Core Carbon Principles” exclude projects of a certain vintage? 46% of respondents would exclude all projects from a certain vintage; 11% would exclude some projects of specific vintages

A majority of survey respondents back restrictions on vintage and methodology types

58%

of all respondents would **exclude** or impose **additional safeguards** on **methodology types[2]**

57%

of future participants in voluntary markets back **project exclusions of certain vintages[3]**

D | In the January Report, the Taskforce defined a set of high-level CCPs with both credit-level and operational principles

✓ TSVCM Taskforce dimensions ● ICROA dimensions ● CORSIA dimensions

Core Carbon Principles (CCPs) are **high level principles of credit integrity** that become tangible through an Assessment Framework for Standards and a set of credit-eligibility criteria

They were defined to be comparable to ICROA and CORSIA dimensions

Credit-level principles[1]

	Credit-level principles	Taskforce	ICROA	CORSIA
Principles	Real	✓	●	●
	Based on realistic and credible baselines	✓	●	●
	Monitored, reported and verified	✓	●	●
	Permanent	✓	●	●
	Additional	✓	●	●
	Leakage accounted for and minimized	✓	●	●
	Only counted once	✓	●	●
	Do no net harm	✓	●	●
Specific rules	Earliest project start date 2016[2]			●
	Only jurisdictional or nested REDD			●

Operational principles

	Operational principles	Taskforce	ICROA	CORSIA
Principles	Program governance	✓	●	●
	Program transparency and public participation provisions	✓	●	●
	Clear and transparent requirements for independent third-party verification	✓	●	●
	Legal underpinning	✓	●	●
	Publicly accessible registry	✓	●	●
	Registry operation	✓	●	●
Specific rules	Inclusion of Clean Development Mechanism			●

Detailed definitions of the CCPs in the Assessment Framework for Standards

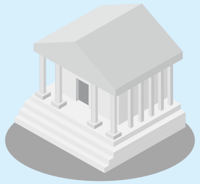
1. The Taskforce also recognizes that there are other initiatives ongoing (eg, World Bank, WWF/EDF/Oko-Institut, etc.)
2. Under CORSIA, current vintage rules refer to credits issued due to activities that started their first crediting period from 1 January 2016 and in respect of emissions reductions that occurred through 31 December 2020

Source: ICROA, CORSIA, WWF/EDF/Oeko Institut

D | Suggested implementation mechanics for the Core Carbon Principles

Role of each body in the implementation of the CCPs

Focus of the TSVCM, detailed next

	Future governance body 	Standards 	VVBs 
I Standard-level CCPs	**Assesses which Standards may issue CCP credits** **Standard Assessment Framework** Standard 1 ☑ Standard 2 ☒		
II Credit-level CCPs	**Assesses which methodology types may issue CCP credits** **Credit eligibility guidelines** Methodology type 1 ☒ Methodology type 2 ☑ Only vintages after x year	**Design individual methodology protocols** **Evaluate and identify which individual methodologies** comply with the governance body's **credit eligibility guidelines**	**Evaluate specific projects** to determine whether they fulfil the **Standard's methodology protocol**
III Additional attributes	**Defines the additional attributes that CCP credits must be tagged with** **Standard taxonomy of Additional Attributes** Attribute 1 ☐ Attribute 3 ☐ Attribute 2 ☐ ... ☐	**Provide the registry infrastructure** to accommodate for additional attributes **Identify which additional attributes are applicable to each individual methodology** (e.g. nature-based capture)	**Evaluate specific projects** to determine whether they fulfil requirements to be tagged with **additional attributes**

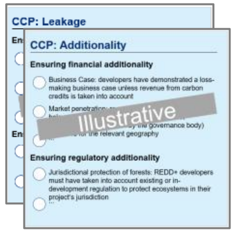
In addition, the Governance Body will adopt an overseer role performing spot checks on the Standards

D | The Working Group has a mandate to provide three key pieces of input to the future governance body

Three key documents for the future governance body to implement the CCPs

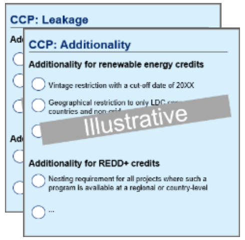
I Assessment framework for Standards

- Framework to evaluate whether Standards may issue CCP credits
- Applies to both credit-level principles (e.g. additionality) and to standard-level principles (e.g. governance)



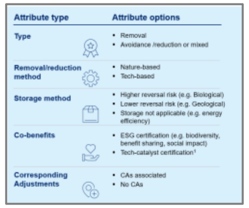
II Credit eligibility guidelines

- Framework to evaluate whether methodology types may issue CCP credits
- Will define both guardrails on methodology types and exclusion rules



III Standard taxonomy of additional attributes

- Full list of additional attributes that CCP credits must be labelled with by the Standards
- Forms the basis of reference contracts



Three inputs from the Credit-level Integrity Working Group

Draft assessment framework for Standards:

- Next level of detail for the Phase I high level CCPs: operational considerations for Standards

Analysis of current credit eligibility criteria enforced by Standards:

- Analysis of current Standard guardrails by methodology type
- Academic review of quality concerns for existing methodology types
- Suggested questions to the future governance body

Initial Standard taxonomy of additional attributes

- Five initial additional attribute types to be refined by the governance body

The governance body's expert panel will be tasked with evaluating Taskforce input and finalizing the initial three outcomes for the governance body by November 2021

D | The consultation input of the Credit-level Integrity Group contains 3 key parts...

I Draft Assessment Framework for Standards

- Detailed first proposal of Standard-level CCPs
- Further operational considerations

II Analysis of current credit eligibility criteria enforced by Standards

- Analysis of current Standard guardrails by methodology type
- Academic review of quality concerns for existing methodology types
- Suggested questions to the future governance body

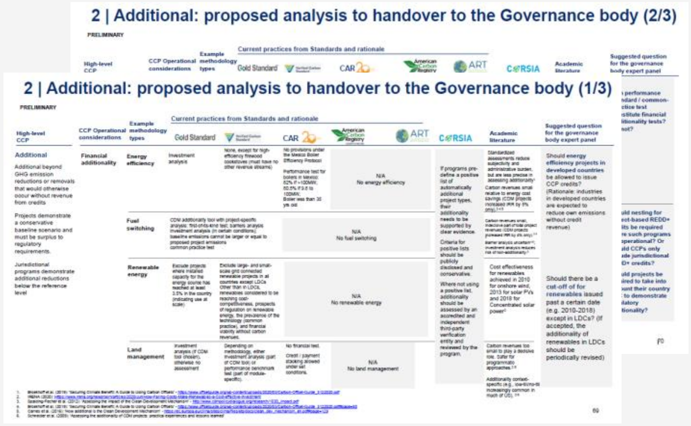
III Initial Standard taxonomy of additional attributes

- Five initial additional attribute types to be refined by the governance body

+ Questions for public consultation

... with the current practices analysis detailed in a separate document

The analysis of **current Standard guardrails** and the **academic review** of quality concerns by methodology type can be found in the **technical appendix to this document**



Technical Appendix can be accessed at iif.com/tsvcm

D | Credit-level Integrity Working Group

Key Objectives

I **Input to the Assessment framework for Standards**: Operational considerations to the CCPs

II **Input to the Credit-eligibility guidelines:** analysis of current practices

III **Standard taxonomy of additional attributes**: proposal for the governance body

D.I | The Assessment Framework details out operational considerations to the credit-level CCPs identified in Phase I

Phase I CCPs	Operational considerations
Real	No ex ante crediting
Additional	Financial additionality Jurisdictional additionality
Monitored, reported and verified	Accuracy of measurement Conservative measurements Accredited VVBs Oversight of VVBs MRV frequency and reporting content
Permanent	Long term permanence Buffer requirement and reversal compensation Risk assessment and mitigation measures Notification of loss event Safeguards after crediting period
Leakage accounted for an minimized	Leakage assessment and mitigation measures Leakage deduction Leakage monitoring
Do no net harm	Prior and ongoing impact assessment Ongoing stakeholder consultation Safeguards Grievance mechanisms
Based on realistic & credible baselines	Baseline-setting approach Revision frequency and adjustments

Example detail for an operational consideration

Financial additionality

[For Project-based approaches]

Defined as ensuring the CO_{2eq} avoidance/reduction/removal for which credits have been issued would not have taken place without revenue from carbon credits.

Financial additionality may be demonstrated by passing either of the following tests.

- Negative profitability without credit revenue
- Sufficiently low return on capital without credit revenue compared to equivalent investments available to the developer so as to preclude the investment decision or otherwise constitute a barrier to funding. This may be demonstrated in a variety of ways (e.g. business case).

And, for avoidance/reduction credits:

- Activity penetration of project activity below an appropriate threshold to demonstrate low availability

Further Standard-level operational principles (e.g. program governance)

The following proposal is a first draft that the future governance body will refine and take to the next level of detail

D.I | Assessment framework for Standards (1/6)

The following proposal is a first draft that the future governance body will refine and take to the next level of detail

CCP

Additional:

Additional beyond GHG emission reductions or removals that would otherwise occur without revenue from credits

Projects demonstrate a conservative baseline scenario and must be surplus to regulatory requirements.

Jurisdictional programs demonstrate additional reductions below the reference level

TSVCM members have provided strong views both for and against the proposal, which requires both a financial additionality test **and** a penetration level test. Please see detailed survey questions to contribute to this debate

Operational considerations

All activities or projects that yield Core Carbon Credits **must demonstrate additionality before any credits are issued** to them. The Standard issuing credits should implement additionality test(s) appropriate for the scale and nature of the offset to demonstrate financial and regulatory additionality.

Additionality **tests at regular intervals** are required to account for market and technological developments and **ongoing financial need**, with the minimum frequency being at crediting period renewal.

Additionality tests must be reviewed and **approved by accredited third party validation/verification bodies** according to requirements and procedures in place by standards or programs. Key input parameters for financial analysis (e.g. sector specific benchmarks), incentives, and subsidies received by the project must be publicly disclosed by the Standard.

Financial additionality is defined as ensuring the CO_{2eq} avoidance/reduction/removal for which credits have been issued would not have taken place without revenue from credits. When determining the financial additionality of a project, all revenues including governmental and philanthropy must be considered although their existence does not preclude a positive assessment of additionality.

Financial additionality may be demonstrated by passing either of the following tests.

- Negative profitability without credit revenue
- Sufficiently low return on capital without credit revenue compared to equivalent investments available to the developer so as to preclude the investment decision or otherwise constitute a barrier to funding. This may be demonstrated in a variety of ways (e.g. business case, unit cost analysis).

And, for avoidance/reduction credits only:

- Activity penetration level of project activity must be below an appropriate threshold to demonstrate low availability

Jurisdictional programs exception: These provisions do not apply to jurisdictional programs that may demonstrate additionality through performance vs. benchmarks tests

Financial additionality must be demonstrated at every new crediting period – this can be done through an assessment of ongoing financial need.

Regulatory additionality is defined as demonstrating that the activity or project or its outcome wouldn't occur without project certification due to legal or regulatory requirements:

- The project is not in response to legal or regulatory obligations under existing laws and regulations in a jurisdiction

AND

- The project is not in response to legal or regulatory obligations arising from laws that have already been approved but have not yet taken effect

While required for projects, a regulatory additionality test is not appropriate for jurisdictional crediting since governments put in place laws and regulations to achieve outcomes. Jurisdictional projects will still be required to comply with financial additionality tests

D.I | Assessment framework for Standards (2/6)

The following proposal is a first draft that the future governance body will refine and take to the next level of detail

CCP	Operational considerations
Permanent: Only issued for GHG reductions or removals that are permanent or, if they have a reversal risk, must have requirements for a reasonable multi-decadal term and a comprehensive risk mitigation and compensation mechanism in place	**Long term permanence** of emissions reduction or removals must be a requirement by standards. Standards must adhere to minimum permanence timeframe set out by the CCPs (number of years to be determined) for carbon stored to be considered permanent. Standards must indicate liability conditions or considerations applicable to the project developer or the standard itself in case of a reversal event.
	Standards have the **obligation to maintain a buffer pool or insurance or equivalent mechanism** to **respond and compensate for any reversal events** for methodology types that include storage. Standards must adhere to the minimum buffer requirements by methodology type that will be defined by the future governance body and will vary by the reversal risk associated to different methodology types (and can be zero).The **future governance body will conduct stress tests** on Standards' buffer pools to ensure they are sufficient for their project portfolio risk Buffers must be held at the Standard-level to compensate reversals, with **separate pools for removal CCP credits and avoidance/reduction CCP credits**. In case of a reversal event, the Standard will be required to retire the same number of credits as are affected by the reversal event from the pool that the invalidated credits belong to (i.e. removal credits are compensated with removal credits and vice versa). **The requirement to compensate for reversals applies to both intentional and unintentional reversals**. Standards must replenish buffers where necessary in order to maintain buffer volumes in line with their portfolio risk. Standards may make developers liable for replenishing buffer credits (for example, in the case of intentional reversals). Standards must compensate for any reversal events that occur during the credit's permanence period (the minimum duration of which, will be defined by the future governance body)
	Permanence risk assessment and mitigation. Standards must require monitoring for any reversals for the duration of the minimum permanence timeframe. If no monitoring report is submitted: it should be assumed that reversals occurred and the reversal compensation procedure applies. Standards must require risk assessment and risks mitigation measures that are appropriate to the nature of the offset. Risks mitigation measures should differentiate between intentional and unintentional reversals.
	Notification of loss event. Standards must include the requirement for project or activity owners to notify any likely reversals within 30 days of their discovery. The notification should indicate if the reversal was avoidable or unavoidable.
	Safeguards after crediting period. Safeguards must be in place to encourage long term permanence after the crediting period.

D.I | Assessment framework for Standards (3/6)

The following proposal is a first draft that the future governance body will refine and take to the next level of detail

CCP	Operational considerations
Leakage accounted for and minimized: Assessed, mitigated, monitored, and estimated considering any potential increase in emissions outside of the boundary, attributable to the credited activity, including taking appropriate deductions.	**Leakage assessment and risk mitigation**. Standards must require leakage assessments for any activity or project under any methodology type where leakage is a risk (as defined by the CCPs). The assessment must identify materials sources of leakage and quantify existing leakage risks. Standards must indicate the direct or indirect assessment methods or options acceptable for leakage assessment and quantification.
	Leakage deduction. Standards must require that credit issuance volumes are adjusted to mitigate for any increases in emissions outside the boundary of the project or activity which is attributable to that project or activity, either based on estimated leakage or based on confirmed leakage. Leakage deductions should be determined either through default deductions appropriate for the nature and scale of the activity, direct quantification or through an analysis of risk factors. The Standard must indicate the requirements or measures applicable to activities or projects in the event of recurrent leakage, including any increase on default deductions, any additional leakage reduction measures, or halting the issuance of core carbon credits until leakage is resolved. Standards must not allow crediting of “positive” leakage where emissions decrease or removals increase outside of the project boundary
	Ongoing monitoring. In cases where Standards are using the confirmed leakage approach for deductions, monitoring is required on a continual and systematic basis throughout the crediting period. Standards must require the publication of leakage estimates and any material leakage monitoring results for the benefit of transparency.

D.I | Assessment framework for Standards (4/6)

The following proposal is a first draft that the future governance body will refine and take to the next level of detail

CCP	Operational considerations
Based on realistic and credible baselines Credited only beyond performance against a defensible, conservative baseline estimate of emissions in the absence of the activity. Baselines should be recalculated on a regular, conservative timeframe. TSVCM members have provided strong views both for and against the proposal on baselines for forestry projects. Please contribute to this debate through the public consultation survey	**Baseline-setting approach**: the Standards must require the estimation and use of conservative baselines for any activity or project aiming to receive CCP credits. Baselines must be independently audited and endorsed by third party specialist experts with the appropriate expertise to do so and be open to public scrutiny Baselines shall consider market developments beyond a business as usual scenario such as: technological developments, government measures etc. Forestry projects have the additional requirement of using baselines established by external third parties with no financial or commercial interests in the project (all other requirements continue to apply).
	Revision frequency and adjustments. The Standard must require developers to revise the baseline at minimum with every new crediting period. In addition, the Standard must also indicate the circumstances that trigger a revision of a baseline and the need for its update or adjustment. No core carbon credits shall be issued to activities or projects lacking a conservative and updated baseline or one that has not been available for public scrutiny. The future governance body will define a minimum crediting period that Standards must adhere to (e.g. 4-6 years).

D.I | Assessment framework for Standards (5/6)

The following proposal is a first draft that the future governance body will refine and take to the next level of detail

CCP	Operational considerations
Monitored, reported, and verified: Calculated in a conservative and transparent manner, based on accurate measurements and quantification methods. Must be validated/verified by an accredited, third-party entity. MRV should be conducted at specified intervals.	**Accuracy of measurement:** Accuracy of measurement requires specifications on data collection methods. These may include: sampling approaches and inventory specifications, calibration of meters, calibration and validation of biogeochemical models, specifications for the use of remote sensing tools. The calculation of uncertainty for any method must be defined by the Standard. **Conservative measurements:** Standards must ensure that measured results are estimated conservatively **Accredited validation/verification bodies**: Activity or project designs and monitoring of emissions reductions and removals must be validated/verified by accredited validation/verification bodies. These must be independently accredited for the scope of the activity or project and comply with ISO 14065. **Rotation requirements for the VVBs:** In order to ensure VVBs' independence, developers must rotate the VVBs employed so that the same VVB does not validate/verify the project in adjacent verification periods. The developer's MRV plan submitted during the certification process must outline the rotation schedule for VVBs. Standards can require the inclusion of additional VVBs where the rotation schedule is insufficient and there are high-integrity VVBs available in the region. Standards must have in place specific requirements applicable to the accreditation of validation and verification bodies, including independence of action, limitations to project developers suggesting or endorsing VVBs, the capabilities, procedures and processes for conducting their activities, and the specificities applicable for the accreditation under each scope. **Oversight of validation/verification bodies**: Standards must provide oversight through spot checks on the work of validation / verification bodies. Appropriate sanctions, such as exclusions from future work must be in place for validation / verification bodies that fail spot checks. **MRV frequency and reporting content:** The Standard must require ongoing MRV checks on additionality, permanence and leakage (every crediting period or every 5 years, whichever is most frequent) until the end of the committed permanence period The VVB report must evaluate compliance with the methodology protocol [which must incorporate provisions for all the CCPs] and include the parameters verified, how they were verified (process- site visit/filed checks, independent literature review etc.) and when they were verified. The verifier's assessment should draw from direct measurements and external benchmarks wherever possible in order to minimize reliance on information supplied by the developer.
Real: Measured, monitored and verified ex-post to have actually occurred.	**No ex-ante crediting allowed.** Core carbon credits must be issued only to quantifiable, reportable and verifiable emissions reductions or removals that have occurred. No core carbon credits are issued on an ex-ante basis on the basis of potential emissions reductions or removals.

D.I | Assessment framework for Standards (6/6)

The following proposal is a first draft that the future governance body will refine and take to the next level of detail

CCP	Operational considerations
Do no net harm: The Standard must have requirements to ensure that all projects and programs consider related environmental and social risks and take actions to prevent and mitigate associated harm.	**Prior and ongoing impact assessment:** The ultimate purpose of impacts assessments and community or stakeholder consultations is to prevent any net social or environmental harm. Any emission reductions or removal against which core carbon credits are issued must be the result of activities or projects that at a minimum do no net environmental or social harm. The standard must require impact assessments of social and environmental conditions related to or in connection with the activity or project to be registered. For projects that involve or impact communities, the assessments must, at minimum, cover human welfare, biodiversity and natural resources preservation. Impacts assessment and related initial consultations must be carried out prior to the registration of the activity or project, and to the start of any crediting period. **Ongoing stakeholder consultation:** Standards must also require frequent community consultations for project activities that span the certification process and crediting period, where the frequency is determined by the Standard, as is applicable to the nature of the activities being undertaken. The approved social impact assessment should identify all stakeholder groups with an interest in the project and place particular emphasis on community/local interest groups, including different interest groups within a community (e.g. women, indigenous population, minorities and other vulnerable groups) and proposed mechanisms for ongoing consultation. No core carbon credits shall be issued to activities or projects lacking impacts assessments, in non-compliance of the established requirement, or to those which, by way of the assessment, have identified a net social or environmental harm. **Safeguards:** The standard must indicate the measures required to address any social and environmental harm and for net harm to be resolved before the issuance of any core carbon credit. Standards must indicate the applicable safeguards in place to prevent risks to the environment or community identified in the impact assessment. In the case of REDD+ related activities or projects, safeguards must be at minimum in conformance with the UNFCCC REDD+ Safeguards adopted in the Cancun Agreements or in subsequent decisions. Similar efforts should be undertaken for all forestry-related methodologies. **Grievance mechanisms to receive feedback at different levels:** the Standard must define the applicable feedback and dispute resolution mechanisms to address matters related to net social or environmental harm. Such mechanisms must allow for feedback from employees, from the local communities, and from regional or national authorities; be easily accessible to the public and sufficiently advertised. The grievance mechanism must be in place before the registration of the project, guaranteeing access to all stakeholders. Standards should require disclosure of any environmental or social harm that may be attributable to an activity, and of measures undertaken to do no net harm. Measures should go beyond regulatory compliance and aim to include additional criteria that create opportunities (e.g. build assets or capabilities) to ensure no social and environmental harm .

D.I | Further operational considerations for Standards (1/3)

The following proposal is a first draft that the future governance body will refine and take to the next level of detail

Criteria	Description
Program Governance	The Standard must be managed by a government or non-profit organization that sets out in a transparent manner the governance of the program, including: • Roles and responsibilities of the organization, management and staff that are responsible for the program, as well as the board that oversees the organization • Enforcement of rules to guard against conflict of interest by the board, management, and staff • Published grievance and redress mechanisms
Program Transparency and Public Participation Provisions	The Standard's regulatory documents (e.g. standards), core normative references (e.g. statutes, bylaws, principles), and quantification methodologies and protocols must be made publicly available. The Standard must have in place provisions for public stakeholder consultation on: • Development of program rules and procedures • Accounting methodologies • Projects and governmental programs (the latter in the case of jurisdictional crediting) Stakeholder comments should be transparently addressed.
Clear and Transparent Requirements for Independent Third-Party Verification	The Standard must publish requirements for independent third-party verification, including provisions to assess and avoid conflicts of interest, and for accreditation and oversight of validation and verification bodies. Further, the independent standard should require validation and verification bodies to be accredited to ISO 14065 by an accreditation body that is a member of the International Accreditation Forum.

D.I | Further operational considerations for Standards (2/3)

The following proposal is a first draft that the future governance body will refine and take to the next level of detail

Criteria	Description
Legal Underpinning	The Standard has requirements to ensure that there is a robust legal framework underpinning the creation and ownership of all units issued, including: • Requirements that project and program developers submit legal representations to accept legal responsibility for the documentation being submitted • A clear definition of the legal nature of the units issued, underpinned by appropriate legal opinions • Registry Terms of Use that set out further requirements in respect of interactions with the program's registry • Legal agreement with project / program sponsors and credit buyers that establish requirements in respect of interactions with the program's registry
Publicly Accessible Registry	The Standard must have a publicly available registry that tracks the units issued and with the basic functionality to: • Provide access to all underlying project/program information, including program documentation, verification statements, and legal representations • Transparently issue, retire, and cancel units • Individually identify units through unique serial numbers that contain sufficient information to avoid double counting (project to which the carbon credit was issued, country where the activity or project was implemented, vintage, methodology type) • Identify unit status (issued, retired, canceled) and the purpose in case of unit retirement or cancellation • Track chain of custody, from creation to retirement and keep auditable transaction logs and secure transfer procedures
Registry Operation	The Standard must have rules and procedures in place to ensure that: • All account holders: – Pass rigorous onboarding procedures upon registration, in order to identify fraudulent actors with spot checks performed thereafter – Agree to the legal requirements regarding the use of the registry, as set out in Terms of Use • The Registry: – Guards against Registry Service Provider conflicts of interest • Has robust registry security and provisions for redundant data storage, regular security audits, systems backups

D.I | Further operational considerations for Standards (3/3)

The following proposal is a first draft that the future governance body will refine and take to the next level of detail

Criteria	Description	
Liability for credit permanence	Standards will maintain separate buffer pools for removal CCP credits and avoidance/reduction CCP credits and will be liable to retire CCP credits from the corresponding buffer pool (i.e. removal CCP credits for removal CCP credits and vice versa) when a reversal event (voluntary or involuntary) affects credits it has issued. The Standard may retire buffer credits from a different developer than the one affected by the reversal event The buffer kept by the Standard shall be sufficient to insure against the percentage probability of reversal events occurring in its project portfolio, according to the latest relevant science. In the event that reversals are greater than the buffer (or that the credit was otherwise not valid e.g. fraudulent), the Standard commits to replace lost credits with equivalent replacement credits to cover any shortfall. Standards may hold developers liable for replenishing the buffer where individual projects run deficits against it.	
Registry Terms & Conditions	Dispute resolution	For trading CCPs, the Taskforce provides both jurisdiction and arbitration clauses for Parties to choose from to govern dispute resolution. With regards to certification and registration, the Taskforce recommends Standards require arbitration in order to allow for the maximum degree of harmonization among Standards
	Tax compliance	Standards ensure to the maximum degree possible that developers pay all taxes and charges imposed by governmental authorities related to the use of the Standard
	Termination	Both Parties may terminate the Terms of Use by giving 30 days notice to the respective other. Standards will exclude Users who don’t comply with their obligations in a reversal event, double claim or otherwise engage with other users in bad faith
	Prohibited practices and suspension of service	Standards may suspend services and/or close the User’s account with immediate effect if it reasonably suspects that the User has engaged in fraudulent, unethical or illegal activity, including but not limited to corruption, bribery, slavery, or child labor Standards commit to making all reasonable efforts to ensure that neither developers nor their subcontractors engage in such practices

D | Credit-level Integrity Working Group

Key Objectives

I | **Input to the Assessment framework for Standards: Operational considerations to the CCPs**

II | **Input to the Credit-eligibility guidelines: analysis of current practices**

III | **Standard taxonomy of additional attributes**: proposal for the governance body

D.II | This analysis focuses on the largest methodology categories today (>90% of market) and categories with future relevance

X% Percentage of total

Focus of the analysis

Methodology type	Credits issued, tCO_2 | 2019	% of total	Inventory, tCO_2 | 2020	% of total
Avoided Ecosystem Damage[1]	33	22%	103	32%
Other Nature-based avoidance	1	1%	0	
Energy efficiency / **Fuel switching**	16	11%	59	18%
Renewable energy generation	74	49%	108	34%
Land management	7	5%	13	4%
Waste management	9	6%	24	8%
Carbon Capture and Storage				
DACCS / **BECCS**	DACCS and BECCS do not appear under the 5 largest voluntary Standards, but are already operational and issuing credits outside of main Standards			
Afforestation / **Reforestation**	10	7%	14	4%
Other removal & sequestration				

Three largest existing methodology categories

Important growth categories relevant for short-to-mid term scaling of removals

Only removal category currently at scale

1. Includes REDD+ and IFM

Source: Public registry data from VCS, GS, CAR, ACR and Plan Vivo market registries

D.II | For each methodology type, the analysis evaluates the CCPs with higher assessment need

xx Category covered due to present volume or future relevance
xx Category not covered in the analysis
✓ Covered in the technical appendix

Need for assessment: High | Medium | Low

CCP

Methodology type	Additionality	Permanence	Leakage	No net harm	Baselines	MRV	Counted once	Real
Avoided Ecosystem Damage (Project and Jurisdictional REDD+, IFM)	Medium ✓	High ✓	High ✓	Medium ✓	High ✓	Medium ✓	Does not vary by methodology type but by credit use (e.g. developers double-listing credits, buyers double-claiming credits)	Does not vary by methodology type, only requires no ex-ante crediting
Energy efficiency	High ✓	Low	Low	Low ✓	High ✓	Medium ✓		
Fuel switching	High ✓	Low	Low	Medium ✓	High ✓	Low		
Renewable energy generation	High ✓	Low	Low	Medium	Medium	Low		
Land management	High ✓	Medium	Medium	Low ✓	Medium ✓	High ✓		
Waste management	Medium	Low	Low	Low	High	Medium		
Carbon Capture and Storage	Medium	Medium	Low	Low	Low	Low		
DACCS	Low	Medium	Low	Low	Low	Low		
BECCS	Low	Medium	High ✓	Medium	Medium	Medium		
Afforestation	High ✓	High ✓	Medium	Medium ✓	Low ✓	Medium ✓		
Reforestation	Medium ✓	High ✓	Medium	Medium ✓	Low ✓	Medium ✓		

Source: Operating team analysis

D.II | The analysis covers current practices and academic literature for the key operational considerations to each high level CCP

High-level CCP	CCP Operational considerations / Example methodology types	Current practices from Standards and rationale: Gold Standard, Verified Carbon Standard, CAR, American Carbon Registry, ART, CORSIA / Academic literature	Suggested question for the governance body expert panel
Leakage accounted for and minimized	1 **Next level of detail for the CCPs: considerations (e.g. leakage assessment method) and example methodology types to which they apply**	2 **Overview of current practices across Standards by methodology type** **Academic literature review of challenges to address** *Both by methodology type for each CCP consideration (e.g. leakage assessment method in IFM)*	3 **Key suggested questions for the governance body to address**

D.II | Example analysis: Leakage accounted for and minimized

Current practices from Standards and rationale

High-level CCP	CCP Operational considerations	Example methodology types	Gold Standard	VERRA	CAR	American Carbon Registry	ART	Forest Carbon Partnership	CORSIA	Academic literature	Suggested question to the governance body expert panel
Leakage accounted for and minimized Assessed, mitigated, and calculated considering any potential increase in emissions outside of the boundary, including taking appropriate deductions	**Leakage assessment method**	**Project-based REDD+**	REDD+ not eligible	Required. Checking changes in activity for deforestation agents, or via leakage belts Where illegal logging included in baseline, use IFM discount factors for domestic market leakage. International leakage not considered	REDD+ not eligible		N/A – only jurisdictional	N/A – only jurisdictional	System must have measures in place to assess and mitigate incidences of material leakage. Require national level implementation where project-level leakage.	Kyoto Protocol set precedent not to consider international leakage, even though it remains a risk[3]	**What dimensions should the required leakage assessment method contemplate?** (e.g., monitoring via leakage belts or indirect calculations based on scientific peer-reviewed articles)? **Should there be a required reference area setting-method for leakage or should this be left up to Standards / developers?**
		Jurisdictional REDD+		Required. Direct measurement or indirect calculations. Jurisdictions decide how to address leakage for nested projects. Leakage to wetlands considered. Sources of international leakage identified for national projects.			States both activity shifting and market leakage considered if subnational project, but no risk assessment undertaken	Assessment of low, medium or high displacement risk, but no quantification. International leakage considered		As above	
		IFM	Required.	N/A – only REDD+ considered	Required (market leakage) Compares baseline and project carbon harvested in trees. Leakage if project harvest below baseline harvest.	Required: Compares baseline and project wood product production levels. Leakage if project decreases wood product production by >5% relative to baseline.	No IFM				

We would like to invite public consultation respondents to submit feedback on the full analysis (to be found in the technical appendix at iif.com/tsvcm)

High-level CCP: Leakage accounted for and minimized: Assessed, mitigated, and calculated considering any potential increase in emissions out-side of the boundary, including taking appropriate deductions. Only counted once. Not double-issued or sold

2. Warman and Nelson (2015): 'Forest conservation, wood production intensification and leakage: an Australian case' - https://www.cabdirect.org/cabdirect/abstract/20163115217
3. Chagas et al. (2020): 'A close look at the quality of REDD+ carbon credits' - https://www.climatefocus.com/publications/close-look-quality-redd-carbon-credits
4. Schwarze et al. (2002): 'Understanding and managing leakage in forest-based greenhouse-gas-mitigation projects' - https://pubmed.ncbi.nlm.nih.gov/12460492/

D.II | Suggested questions for the governance body expert panel (1/2)

Assessment Framework for Standards

The following proposal is a set of suggested questions that the future governance body may take into account when defining credit-eligibility guidelines

CCP	Methodology Type	Suggested Questions
Permanence	Methodologies with carbon storage	Should the governance body mandate a **reversal compensation mechanism** (e.g. buffers) or should Standards be left to choose how they compensate for reversals?
Additionality	All	**Should credit developers be required to operate carbon neutral legal entities by a defined year (e.g. 2025, 2030, 2050)** in order for these to issue CCP credits? When should this transition take place? (Rationale: ensure developers who receive credit revenue are not themselves net contributors to global emissions)
		Do CCP methodologies need to be financially additional?
		Can financial additionality be proved without financial analysis tests (e.g. through common practice, performance or barriers tests)?
		Should developers be required to publicly disclose financial parameters linked to their fulfilment of additionality tests?
	Removal credits	In order to ensure we drive funding into highly permanent removals while ensuring high market integrity, which of the following provisions should define the **financial additionality of removal CCP credits**? i. Credits are non-additional where the developer fails financial analysis test, due to sufficient alternative funding ii. Developers may sell removal credits to the VCM even if they have a buyer of last resort (e.g. government) iii. No financial analysis tests should be required for removals iv. None of the above
Crediting period	All	Should there be a maximum crediting period for CCP projects? How long should its duration be?
Baselines	All	Should developers be required to host all baseline-setting data and assumptions **in public logs**?
MRV	All	Should Standards require that **VVBs are not chosen by the developers**? If so, who should choose the VVB for a specific project?
		How can the final Assessment Framework accommodate **digital MRV approaches** and potentially encourage their use?
Do No Net Harm	All	Should Standards require developers to **actively benefit the communities** they operate in where feasible? Should **gender and social co-benefits** be an additional attribute or a requirement for CCP status?
Corresponding adjustments	All	Should CCP credits be required to have associated **corresponding adjustments**?

D.II | Suggested questions for the governance body expert panel (2/2)

Credit-eligibility guidelines

The following proposal is a set of suggested questions that the future governance body may take into account when defining credit-eligibility guidelines

CCP	Methodology Type	Suggested Questions
Additionality	Renewables	Should there be a **cut-off of for renewables** issued past a certain date (e.g. 2010-2018) except in LDCs? How often should the decision be revised for LDCs?
	Energy efficiency	Should **energy efficiency projects in developed countries** be allowed to issue CCP credits? (Rationale: industries in developed countries are expected to reduce their own emissions without credit revenue)
Baselines	Forestry	Should developers be required to use **baselines drawn up by third-parties**? Should they only be required to use conservative baselines with downward-curving emissions? Should the third party set baselines requirement also apply to **jurisdictional programs**?
	REDD+	Should **project-based REDD+ credits be required to nest into jurisdictional accounting frameworks** where such frameworks are operational? Or **should CCPs only include jurisdictional REDD+ credits?** How and when should **REDD+ projects that nest into jurisdictional programs** adjust their baselines?
Permanence	REDD+, Reforestation, IFM	Should **permanence for nature-based storage** be set at a fixed amount of time (e.g. 10, 30, 40, 100 years)? Should it vary by methodology type or should it be left up to the Standards?
		Should the volume of credits that a project can issue be **pro-rated based on a standardized permanence length** (e.g. a developer that accepts 40 years of liability may issue only 40% of the credits than a developer who accepts 100 years of liability for the same CO_{2eq} captured)
		Should projects **require a minimum risk assumption** (e.g. 15%, 20%) in order to issue CCP credits? Should projects not be allowed to issue CCPs if their **estimated risk is above a maximum threshold**? (e.g. 50%, 60%)
Leakage	REDD+, Reforestation, IFM	What dimensions should the **method for leakage assessment require**? (e.g., monitoring via leakage belts or indirect calculations based on scientific peer-reviewed articles)?

D | Credit-level Integrity Working Group

Key Objectives

I | **Input to the Assessment framework for Standards: Operational considerations to the CCPs**

II | **Input to the Credit-eligibility guidelines:** analysis of current practices

III | **Standard taxonomy of additional attributes: proposal for the governance body**

D.III | Additional Attributes can enable price differentiation for CCP credits with specific benefits, and drive liquidity through standardization

Two objectives for the standard taxonomy of additional attributes

Drive scale and liquidity through standardization

Facilitate exchanges' creation of CCP contracts by standardizing the attributes Standards use on CCP credits

Create contracts that utilize the **same underlying additional attributes** and hence drive liquidity and allow a clear price signal

Enable a price differential for CCP credits with specific benefits

Buyers can use CCP credits with additional attributes to **pursue specific claims**

- Carbon neutral / Net Zero claims
- Individual corporate claims (offsetting within your value chain, supporting a specific region)

Suppliers are incentivized to develop projects with specific benefits (e.g. removal tech)

D.III | Additional Attributes could be operationalized within current registry structures as mandatory information labels attached to CCP credits

Registry interface (illustrative, partial view)

Date issued	Proj-ect ID	Project Name	Project Develo-per	Project type	Product version	CORSIA Qualified	Vint-age	Total Credit Issued	Credits Issued to Project	Credits Issued to Buffer Pool	Project Site Location	Project Site state	Project Site Country	Sustainable Development Goal(s)
3/19/2021	XXX001	...	...	Ozone Depleting Subs-tances	Nov. 14, 2014	No	2021	100,000	100,000	0	...	OHIO	US	Industry, Innovation and Infrastructure
7/29/2020	XXX002	...	...	Ozone Depleting Subs-tances	Nov. 14, 2014	No	2020	81,000	81,000	0	...	OHIO	US	Responsible Consumption and Production; Climate Action
12/21/2020	XXX003	....	....	Industrial Process Emissions	Version 1.1	Yes	2020	21,000	21,000	0	...	OHIO	US	Industry, Innovation and Infrastructure
10/29/2020	XXX004	...	...	Forest carbon	Version 1.0	No	2020	113,000	113,000	20,000	...	OREGON	US	Clear Water and Sanitation; Climate Action; Life and Land
12/18/2020	XXX005	...	...	Livestock Waste Manage-ment	Nov. 14, 2014	No	2020	29,000	29,000	0	...	OHIO	US	Zero Hunger; Climate Action

Additional attributes

CCP comp-liant	Removal or Avoid-ance/ reduction	Removal or avoid-ance/ reduction method	Storage method	Co-bene-fits	Corres-ponding adjust-tments
Yes	Avoidance / reduction	Tech-based	N/A	No	No
No					
Yes	Avoidance / reduction	Tech-based	N/A	Tech-catalyst	No
Yes	Removal	Nature-based	Biological	ESG	Yes (e.g. Letter of Authoriza-tion)[1]
No					

- Additional attributes **do not substitute the information attached to a carbon credit** – they are mandatory additional labels added to categorize CCP credits
- They are **similar to tags like "CORSIA-qualified"**
- **Standards would ultimately be responsible** for labelling CCP credits with additional attributes; the future governance body would perform spot checks

Source: Adapted from ACR's public registry website as of April 2021

1. Will depend on outcome of Article 6 negotiations

D.III | The Credit-level Integrity Working Group proposes a first standard taxonomy of additional attributes

Preliminary proposal for the future governance body to refine into a Standard Taxonomy of Additional Attributes

Attribute type	Attribute options		Rationale
Type	• Removal • Avoidance /reduction or mixed	Whether a CCP represents a ton of CO2e avoided/reduced or removed is an integral characteristic of the CCP that must be labelled by Standards on all CCPs. Standards are expected to increasingly tag credits within a methodology into removal and avoidance/reduction Where not possible, credits would automatically belong to the "avoidance/reduction or mixed" category	Distinguishing removal credits enables **claims that only allow removal credits** (e.g. SBTi Net Zero)
Removal/reduction method	• Nature-based • Tech-based		There is buyer **demand for credits from nature-based and tech-based methodology types**
Storage method	• Biological • Geological • Products (e.g. building materials) • No storage		Different storage methods carry different levels of **reversal risk** that buyers should be able to select for The combination of removal/reduction method and storage method creates broad categories that **describe the type of credit** without introducing a new structure of methodology types that would add complexity and limit liquidity
Co-benefits	• Co-benefits associated (e.g. one or more of: tech catalyst benefits, SDGs, CBB or other accredited label etc.) • None	Existing credible ESG and social benefits certifications can be tagged in this attribute, for example, GoldStandard allows for up to 6 SDGs to be certified and VERRA tags its credits with a CCB standard based on benefits to Climate, Community and Biodiversity	Standards already distinguish credits with SDG benefits and there is **demand for both ESG-tagged credits and credits that boost innovation in climate technology**
Corresponding Adjustments	• Letter of Authorization • CAs associated • None	Preliminary pending guidance from COP	Buyers may in the future require credits with associated CAs or letters of Authorization

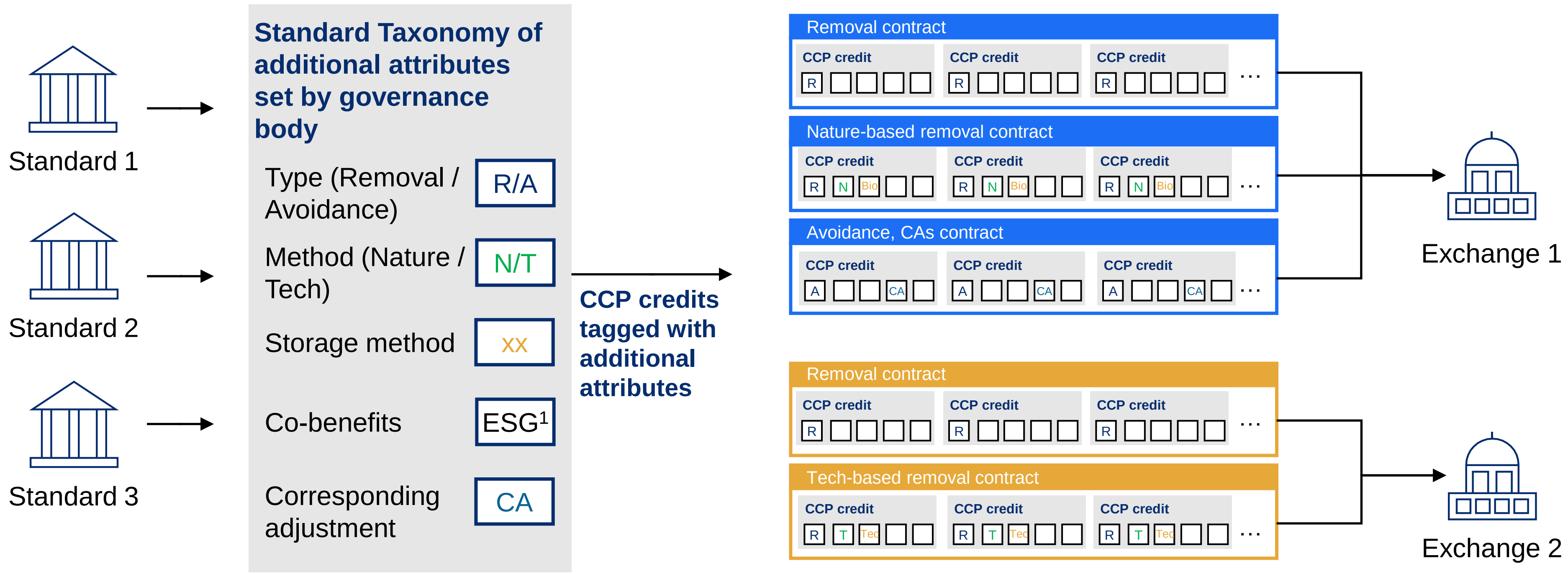
Standards already include the first crediting period start date / issuance date in credit data – but the Taskforce will recommend that it be **included also as an attribute** so that buyers can select credits based on the project's first crediting period

D.III | Additional attributes would be defined by a future governance body to help standardize both OTC and exchange-traded contracts

Mechanics to operationalize additional attributes for CCP credits

Standards issue CCP credits tagged with additional attributes

Exchanges create contracts for CCP credits from different Standards that share additional attributes



A common set of attributes shared by CCP credits allows exchanges to create contracts based on the same underlying additional attributes

This enables in turn a clear price signal

Additional attributes allow credits traded in OTC transactions to have standard supplements with price signals from the exchange market

1. Co-benefits can encompass ESG and social benefits (environmental, social, community, gender equality, etc) or tech catalyst benefits

D.III | Exchanges could use additional attributes as the basis for different reference contracts

Example contracts that exchanges could develop based on the taxonomy of additional attributes:

	"Basic CCP"	"Tech removal CCP"	"Nature CCP"	"Premium recent removal CCP"	…
Component attributes	▪ Basic CCP	▪ Basic CCP ▪ Removal credit ▪ Tech-based capture	▪ Basic CCP ▪ Nature-based capture	▪ Basic CCP ▪ Removal ▪ Vintage (first crediting period start date) < 3years ▪ Letter of Authorization	

Exchanges will ultimately decide the number and type of CCP contracts they will trade

Standard additional attributes recommended by the Taskforce have the potential to **channel funding** to projects with:

- ESG benefits
- High green premiums
- Highly-permanent storage
- Letters of Authorization from their Host Countries (among others)
- …

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Contents of this document

How to participate in the public consultation survey

The TSVCM would **highly appreciate your perspectives** on our public consultation materials

You can participate in **one of two ways on the** :

- Filling out our structured public consultation survey
- Submitting an open letter with your feedback to be published on the TSVCM website

Survey can be accessed at https://www.iif.com/tsvcm. Please note that **all survey responses**, including who provided the input, **will be made public**

Survey questions for the public consultation (1/4)

B | Governance

All questions are optional: You may answer all questions or a sub-set of questions

Topic		Survey questions
I Terms of Reference	**Critical governance needs for the VCM**	**B.1)** Do you agree with the recommendations for improved governance of existing bodies to address pain points in the voluntary carbon market?
	Mission and mandate of the new umbrella governance body	**B.2)** Do you agree that the mandate of the body is suited to address the governance needs of the VCM? **B.3)** Do you agree with the phased approach for the roll-out of the governance body (i.e., focusing first on establishment of CCPs, incl. initial assessment of standards and development of credit eligibility guidelines)?
		B.4) Which specific linkages should the governance body have to financial regulators, expert bodies, standard setters for corporate claims, legal and accounting firms, governments and regulators of compliance markets, and other bodies?
	Organizational design	For Board of Directors, Expert Panel, Executive Secretariat and member consultation group: **B.5)** Do you agree with their tasks? **B.6)** Do you agree with the target mix of stakeholders in each group? **B.7)** Do you agree with the steady state nomination process?
		The governance body needs to balance the need to capture the expertise and ensure sufficient engagement from market participants with the need to avoid real and perceived conflicts of interest. Input from market participants is particularly valuable to inform decisions on the CCPs. However, final decisions should be taken by individuals with minimal conflicts of interest to ensure the integrity and authority of the governance body. Hence, the body needs to find a balance to ensure that market participants and their interests are overall adequately represented in the Expert Panel and on the Board of Directors. **B.8)** How should the governance body balance the need to avoid conflicts of interest with the need to represent interests of market participants on the Board of Directors? a) No market participants allowed on the Board of Directors b) Set guardrails for representation of market participants: i. Timing rule (ToR hypothesis): Market participants allowed after a cooling off period (e.g., 2 years) ii. Composition rule: Market participants allowed a maximum number of Board seats (e.g., 2 seats) iii. Equity rule: Market participants allowed if they have no equity interest (e.g., holding shares in company that is an active market participant) c) No rules for market participants (as many representatives allowed as desired)

Survey questions for the public consultation (2/4)

All questions are optional: You may answer all questions or a sub-set of questions

B | Governance

Topic		Survey questions
I Terms of Reference	**Organizational design** (continued)	**B.9)** How does the governance body ensure capturing expertise from market participants on the Expert Panel while avoiding conflicts of interests? a) No market participants allowed on the Expert Panel – inputs as member organizations only b) Set guardrails for representation of market participants on the Expert Panel: i. Timing rule (ToR hypothesis): Market participants allowed after a cooling off period (e.g., 2 years) ii. Composition rule: Market participants allowed a maximum number of Expert Panel seats (e.g., 4 members) iii. Equity rule: Market participants allowed if they have no equity interest (e.g., holding shares in company that is an active market participant) c) Include market participants in the Expert Panel as a sub-committee without guardrails **B.10)** Do you agree that the Executive Secretariat Host cannot be a Founding Sponsor? **B.11)** What nature of Board seat should the Executive Secretariat have? a) No representation on the Board b) Standing observer to the Board without voting rights (ToR hypothesis) c) Full Board seat
	Funding	**B.12)** Do you agree that the governance body could cover steady state funding needs of Expert Panel and Executive Secretariat through membership and / or user-based fees (e.g., based on credit issuance / retirement)?
	Transparency and grievance mechanisms	**B.13)** Do you agree with the mechanisms to ensure transparency of procedures and trades as described in the detailed ToR? **B.14)** Is there any other information that needs to be provided by the governance body and / or market participants on the following points to ensure full transparency? What is the best way of providing this information (e.g., should it be in real-time)? a) Procedures and decision-making of the governance body b) Projects and transactions in the market c) Other issues **B.15)** Do you agree with the grievance mechanisms to address complaints about the governance body and conflicts among market participants as described in the detailed ToR? **B.16)** Are there other grievance mechanisms that the governance body should put in place? Are there good examples of other relevant governance bodies that adopted these mechanisms? **B.17)** Should there be Key Performance Indicators (KPIs) to measure the success of the governance body (e.g., fraction of CCP credits in market, percentage of spot checks on CCPs confirming adherence to principles, etc.)? **B.18)** Which KPIs do you suggest?
II Call for initial engagement	**Recommendation guidelines**	**B.19)** Do you agree with the recommendation guidelines for who could be Founding Sponsor, Independent Board Member, Expert Panel Member and Executive Secretariat Host?

Survey questions for the public consultation (3/4)

C | Legal principles and contracts

All questions are optional: You may answer all questions or a sub-set of questions

Topic	Survey questions
I — **Use cases and underlying contract mechanics**	**C.1** Do the use cases reflect how you would like to trade CCPs in the future?
II — **Operational requirements for Standards' Terms of Use**	**C.2** Do you support a greater degree of standardization of Standards' Terms of Use?
	C.3 Do you agree on the specific recommendations proposed? Why / why not?
	C.4 Would you like to give comments on any specific operational requirements? [Possibility to comment on each one]
III — **Key general trading terms**	**C.5** Do you support developing updated general trading terms to facilitate scaling of the market?
	C.6 Do you agree on the specific elements and language proposed (including for compliance linkages)? Why / why not?
	C.7 Would you like to give comments on any specific general trading terms? [Possibility to comment on each one]

Survey questions for the public consultation (1/2)

D | Credit-level integrity

All questions are optional: You may answer all questions or a sub-set of questions

Topic	Survey questions
I Assessment Framework for Standards	D.1) Do you support the current proposal for an Assessment Framework for Standards?
	D.2) Do you agree with the proposed requirements for additionality? Are there any additions or changes that we should take into account?
	D.3) Do you agree with the proposed requirements for permanence? Are there any additions or changes that we should take into account?
	D.4) Do you agree with the proposed requirements for leakage? Are there any additions or changes that we should take into account?
	D.5) Do you agree with the proposed requirements for baselines? Are there any additions or changes that we should take into account?
	D.6) Do you agree with the proposed requirements for monitoring, reporting and verification (MRV)? Are there any additions or changes that we should take into account?
	D.7) Do you agree with the proposed definition of "Real"? Are there any additions or changes that we should take into account?
	D.8) Do you agree with the proposed requirements for "Do No Net Harm"? Are there any additions or changes that we should take into account?
	D.9) Do you agree with the proposed requirements for the further operational considerations to the Standards? Are there any additions or changes that we should take into account?
II Input to the Assessment Framework and the Credit-eligibility guidelines	D.10) Do you support the proposed ambition for the Credit-eligibility guidelines?
	D.11) Do you agree with the set of suggested questions to submit to the governance body's expert panel? Are there any additions or changes that we should take into account?
	Financial additionality assumes that access to carbon credit revenue is a decisive reason for pursuing projects to either avoid / reduce or remove emissions. This implies that the project faces either negative profitability or significantly lower rates of return than what a developer could otherwise obtain. Some TSVCM experts argue for stringent definitions of financial additionality as critical to protect the integrity of the market, in order to limit the number of actors that receive carbon credit revenue for projects that would anyways have been carried out. Other TSVCM experts argue against the requirement for financial additionality. These members argue that for many inherently profitable activities, there is in practice limited uptake (e.g. for new technologies, due to inertia, information barriers, split incentives). By allowing carbon credit revenue for these types of projects, it incentivizes further action than would otherwise have happened (or would have happened at slower pace). Because of this incremental positive impact, these practitioners claim that these credits demonstrate additionality. Another important consideration for the governance body to monitor going forward is how carbon credits eventually will be used by buyers, to make claims, used against carbon taxes or used as part of a cap-and-trade scheme, and whether these use cases will require credits with stringent financial additionality. D.12) What is your perspective on CCP methodologies needing to be financially additional?

Survey questions for the public consultation (2/2)

D | Credit-level integrity

All questions are optional: You may answer all questions or a sub-set of questions

Topic	Survey questions
II Input to the Assessment Framework and the Credit-eligibility guidelines	Beyond the question of whether financial additionality is needed or not, there is also significant debate on what tests are appropriate to demonstrate it. Some TSVCM experts argue that a financial / investment analysis should always be required, in conjunction with other tests (e.g. common practice, performance or barrier tests). The rationale for requiring multiple additionality tests is that they increase the likelihood of true additionality. Other TSVCM experts argue that common practice, performance or barriers tests can be sufficient to demonstrate financial additionality. Arguments against requiring a financial additionality test are that it adds workload and costs for developers. There are also questions on the accuracy and objectivity of financial additionality tests, in particular the potential for developers to game these tests. D.13) Can financial additionality be proved without financial analysis tests (e.g. through common practice, performance or barriers tests)?
	In many cases, proving financial additionality for removal credits tends to be easier, as there are often limited / no financial benefits beyond the carbon credit revenue. However, some removal projects rely on a mixed funding model, including government subsidies or government agreements to act as a buyer of last resort. Some experts argue there should be no difference in treatment of reduction vs. removal credits when it comes to financial additionality. Others argue that in order ensure funding for critically required permanent removals, financial additionality should not be required. D.14) Which of the following provisions should define the financial additionality of removal CCP credits?
	D.15) Should developers be required to publicly disclose financial parameters linked to their fulfilment of additionality tests? *We recognize that the debate on financial additionality extends beyond the detail that can be provided in these questions. We therefore encourage those wishing to engage further in the topic to read academic articles on financial additionality, among them:* ▪ Martins Barata, Pedro. "Carbon Credits and Additionality, Past, Present and Future", Partnership for Market Readiness (May 2016) ▪ Trexler, Mark C., Derik J. Broekhoff and Laura H. Kosloff. "A Statistically-driven Approach to Offset-based GHG Additionality Determinations: What Can We Learn?" Sustainable Development Law & Policy, Winter 2006, 30-40. ▪ Cames, Martin., Harthan, Ralph O. Füssler, Jürg., "How additional is the clean development mechanism?", March 2016 ▪ Schneider, Lambert. "Assessing the additionality of CDM projects: practical experiences and lessons learned", Climate Policy, 9:3 (2009), 242-254, DOI: 10.3763/cpol.2008.0533 ▪ Carmichael, D.G., Lea, K.A. & Balatbat, M.C.A. "The financial additionality and viability of CDM projects allowing for uncertainty". Environ Dev Sustain 18, 129–141 (2016).
III Standard taxonomy of additional attributes	D.16) Do you support the implementation of a Standard taxonomy of Additional Attributes?
	D.17) Do you agree with the initial proposal for five Standard Additional Attributes? Are there any additions or changes that we should take into account?

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