

Provisional VCMI Claims Code of Practice

Road test feedback synthesis

Foreword to the road test feedback synthesis

The Voluntary Carbon Market Integrity Initiative (VCMI) was established last year to bring integrity to the demand side of voluntary carbon markets.

VCMI's mission is to help ensure these markets deliver real and additional benefits to the atmosphere, help protect nature, and accelerate the transition to ambitious, economy-wide climate policies and regulation.

In other words, the voluntary use of carbon credits must augment rather than substitute for the decarbonisation needed if we are to curb the climate crisis and keep global temperature increases below 1.5°C.

In particular, VCMI seeks to answer two key questions:

1. When, and under what circumstances, can companies and other non-state actors credibly make voluntary use of carbon credits; and
2. What claims can they credibly make about this use.

After a year of deliberation, consultation and analysis, we published the VCMI provisional Claims Code of Practice on 7th June 2022 ('Claims Code'). This was put out for public consultation and road testing by a group of companies interested in potentially using VCMI's guidance. We received over 130 responses to the public consultation and over 70 companies participated in the road test.

Feedback was broadly supportive and reiterated the importance of VCMI's guidance to put guardrails around use and claims involving carbon credits.

Detailed and thoughtful contributions have enabled us to identify several priority issues which clearly require further work. We are extremely grateful to all those who provided their feedback, and for raising outstanding issues to be addressed.

To help provide a strong basis for continued dialogue and collaboration on priority issues, we are publishing this synthesis of feedback received during the road-testing process during July and August this year.

We are very grateful to all the companies that participated, providing their honest feedback on what worked, what didn't and what we need to change. We are also extremely grateful to Boston Consulting Group for their sterling work in guiding companies through the road test and producing this synthesis.

VCMI's Steering Committee and Expert Advisory Group will now consider the information received, commission additional analysis where needed and engage further with stakeholders, with the aim of finalising the Claims Code in the first half of 2023.

We encourage everyone to keep working with us to help us refine and finalise the Claims Code over coming weeks and months.

Please do sign up to our newsletter on our website to keep up to date on the progress we are making and information on engagement opportunities.

Thank you very much for all your support.

As part of the VCM Claims Code development, a road test and auditor landscape assessment were completed



Road-test process

- 76 participants
- 31 survey respondents
- 4 webinars
- 19 1:1 engagements

Participants cover a range of different industries (e.g., tech, mining, chemicals, professional services), regions and engagement with voluntary carbon markets. Most already have a net zero goal



Auditor landscape assessment

- 8 participants
- 9 deep-dive interviews

Participating firms include 'big four' accounting and audit firms, ESG- and climate-focussed audit and consulting firms, and boutique firms branching into ESG audit

Executive summary (I)

Across stakeholder groups, participants generally agree with the overall Claims Code design and methodology

- Of the 31 respondents to the survey, 91% agree that the provisional Claims Code provides clear guidance on when companies can credibly make voluntary use of carbon credits, and 78% agree that the Claims Code will ensure the credibility of claims made regarding use of credits
- However, only 30% think claims provide an accessible on-ramp, and only 39% think claims clearly differentiate between levels of achievement
- Most consider current prerequisites (84%), enterprise-wide claims (96%), & brand-, product-, service-level claims (74%) ambitious enough
- Most agree with VCMI Gold (83%), Silver (57%), and Bronze (67%) claims requirements, those that disagree raised issues about inclusion of scope 3, lack of sectoral specificity and calibration of required credit thresholds
- 57% of demand-side companies don't agree with current brand-, product-, and service-level claim requirements, highlighting that requirement for prerequisites to be met at the enterprise level may limit uptake
- Companies don't want claims differentiated based on CAs but do want claims differentiated based on credit types, especially net zero claims

Only 20% of participants would utilize the current version of the Claim Code, key adoption barriers highlighted across 5 themes:

1) **Accessibility**, (2) **Operability**, (3) **Resource intensiveness**, (4) Treatment of **Scope 3** emissions, (5) **Claims marketability**

1. Prerequisite and claims requirements are effectively inaccessible for some emissions profiles

- Half of demand side companies don't expect to be able to meet all current Claims Code prerequisites. Most cite difficulties meeting requirement to set science-aligned targets and including Scope 3
- 54% of demand-side companies don't think claims include accessible 'on-ramp' for companies across range of sectors/geographies. Covering >20% of unbated emissions required for lowest claim is prohibitively or unjustifiably expensive for hard-to-abate¹ or high-value chain emitters²
- Companies are concerned enterprise-wide claims hierarchy doesn't sufficiently reflect and reward their level of climate achievement because it differentiates based only on credit spend relative to emissions footprint without provisions for hard-to-abate or high-value chain emitters

2. Claims Code currently lacks required clarity for companies and auditors to operationalize requirements and assure compliance

- Companies and auditors aren't clear what constitutes compliance with prerequisites and request clear definitions/frameworks to audit against

1. Defined as companies and/or industries with low profit per unit of CO2 emitted; 2. Defined as companies with large or predominantly scope 3 emissions profiles

Executive summary (II)

- While 71% of companies want to make annual claims, they require further guidance to determine and verify progress between target years
- ~50% of participants don't consider the Claims Code guidance sufficient to make high-quality credit purchasing decisions. Most call for clear alignment with an existing or upcoming standard (e.g. IC-VCM's CCPs) to ensure unconflicted guidance
- Some raise concerns that meeting transparent reporting requirements may involve public disclosure of commercially sensitive data, for example projected growth as part of disclosing plans and strategies

3. Making a claim may require significant incremental resource requirements beyond current climate processes

- Many companies have obtained SBTi interim target for 2030 and don't want to repeat lengthy process to set another target for 2025
- Uncertainty about how to set targets or disclose plans, and process to make claims mentioned frequently as adding to resource requirements
- Current and upcoming standard/regulation requirements suggest may provide opportunities reduce incremental costs of adopting

4. Scope 3 issues are raised across Claims Code, intersecting accessibility, operability, and resource intensiveness adoption barriers

- Scope 3 emissions measurement, reporting, and control issues may hinder ability to set and make progress towards interim targets
- Companies and auditors may find it particularly difficult to determine and verify progress towards Scope 3 interim targets
- Furthermore, companies with high-value chain emissions profiles may be unable to cover unabated Scope 3 emissions with carbon credits

5. Marketability of claims may not be strong enough due to unclear or confusing claims terminology

- Companies are concerned VCMi Gold, Silver and Bronze will be difficult to communicate effectively with consumers. Metal ratings are intuitive but don't connect naturally to existing claims or clearly summarize what achievement they represent
- 66% of supply-side & observer and 33% of demand-side companies don't think VCMi Gold can credibly be associated with 'Net Zero', some suggest altering the name to suggest on a journey aligned with net zero

Most respondents agreed that the Claims Code is easy to understand; both the How to Guide and road test process were rated highly

- Participants suggested simplifying the language and visualisations and including additional guidance to operationalise the Claims Code

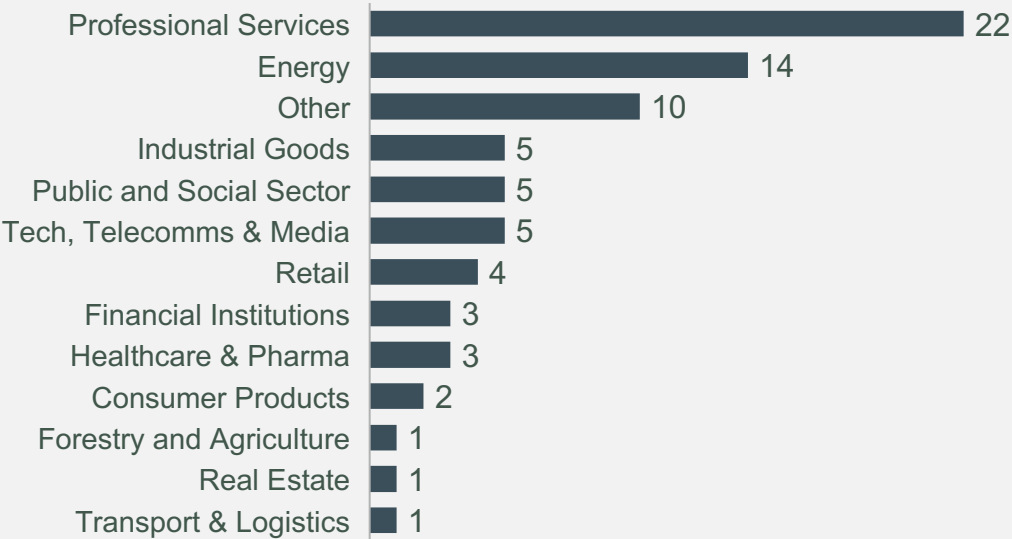
Deep dive – Road test feedback

Context | Road-testing feedback received from diverse set of participants across multiple engagements

Engagements



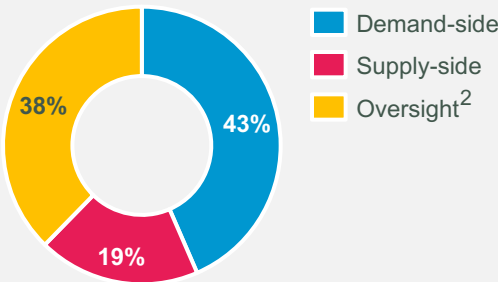
Participant sectors



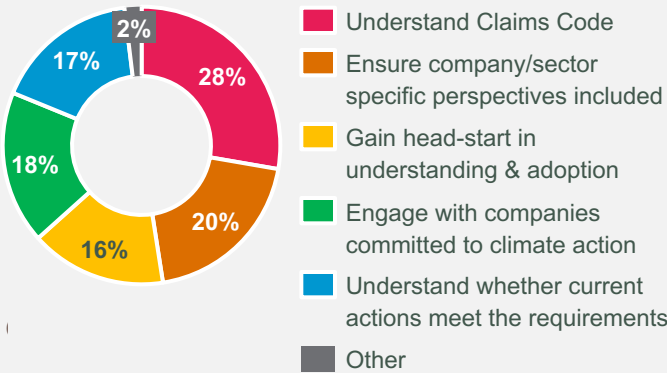
Geographies



Type of stakeholder

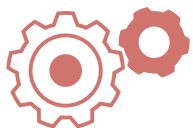


Motivations for engaging



1. Includes: road test office hours, deep dive and auditor interviews; 2. Includes 'VCM service provider', 'interested observer', & 'other'

This document synthesises road test feedback into three sections



Overall method and design

Feedback on the overall Claims Code methodology and design, including the claims schedule



Feasibility and key challenges

Feedback on company interest in using the Claims Code and where the biggest barriers/challenges in adopting lie



Materials and road test process

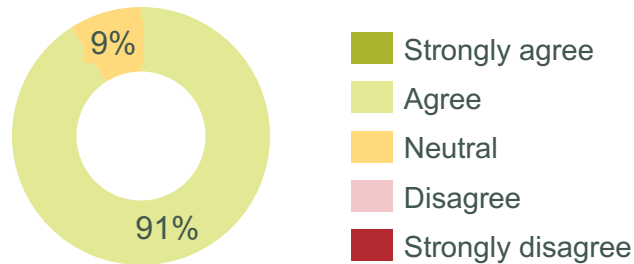
Feedback on the user-friendliness and clarity of each of the materials, as well as the helpfulness of the road test process



Primary aims | Claims Code meets primary aims to provide clear guidance on credible use of credits and ensure credibility of claims

General agreement that Claims Code provides clear guidance on credible use of credits...

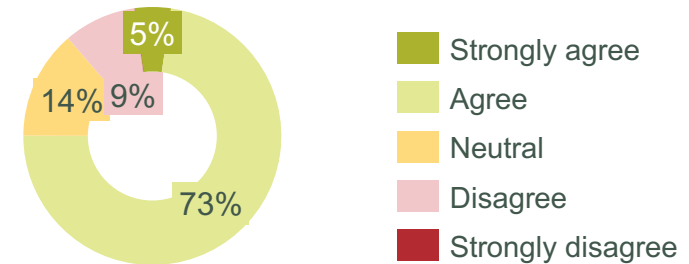
To what extent do you agree that: Overall, the Claims Code provides clear guidance to companies and other NSAs on when they can credibly make voluntary use of carbon credits as part of their net zero and/or other climate commitments and strategies? (N=22)



- “ Use of carbon credits after decarbonization
- Environmental Services Company
- “ [Agree] but need more specificity on what a high-quality credit is. And need guidance on use and reporting of RECs
- Tech & Entertainment Company

...and ensures credibility of claims made regarding the use of credits

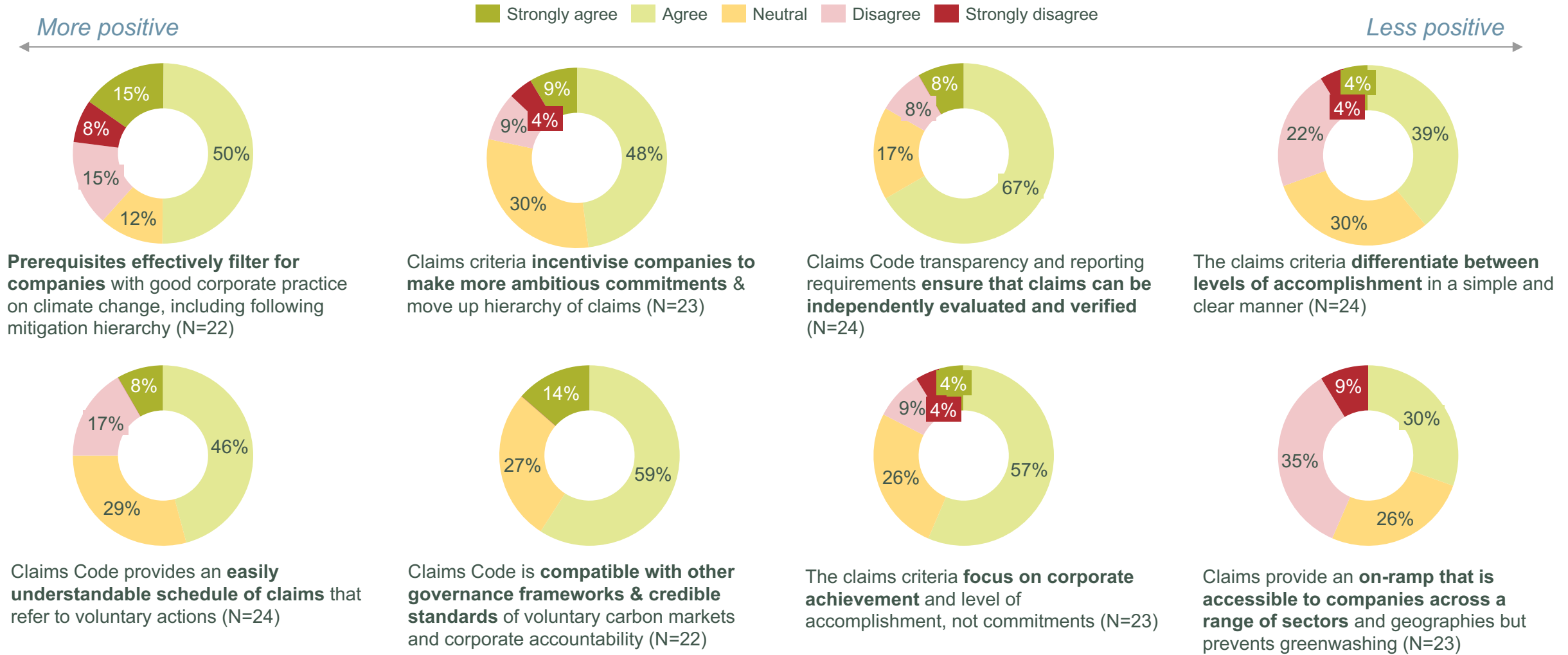
To what extent do you agree that: Overall, the Claims Code will ensure the credibility of claims made by companies and other NSAs regarding the use of carbon credits?(N=22)



- “ If remove 'Net Zero' from Gold award
- Professional services
- “ Depends on the used carbon credits and how they are managed after their duration
- Environmental Services Company
- “ I think the claims code will exclude a significant section of the economy and voluntary carbon market
- Mining Company



Design criteria | Participants agree Claims Code meets most design criteria; but improvements to claims differentiation & on-ramp wanted

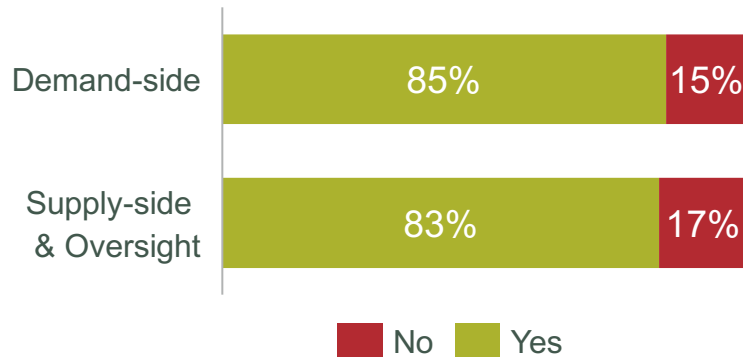


Ambition | Participants across stakeholder groups generally agree that the prerequisite and claims requirements are ambitious enough



VCMI prerequisites

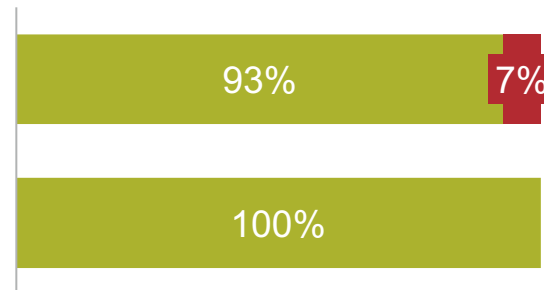
Do you consider the prerequisite requirements ambitious enough? (N=25)



- “ Some definitions focus on 'ambition' or 'commitments' rather than action
- Carbon accounting (demand-side)
- “ You should really consider the goal of the claims code
- Professional services (observer)

Enterprise-wide claims

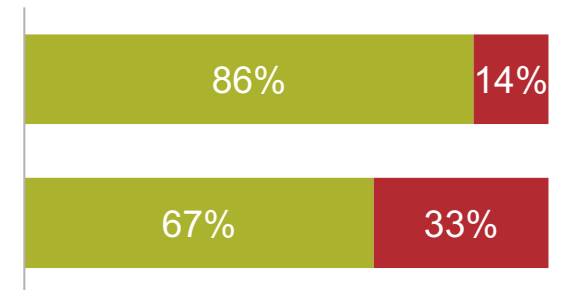
Do you consider the "VCMI Enterprise-wide" claim requirements ambitious enough? (N=26)



- “ Negative emissions with long-duration storage should be explicit part of [top claim]
- Energy transmission (demand)

Brand, product, service claims

Do you consider the "VCMI Carbon Neutral" claim requirements ambitious enough? (N=19)



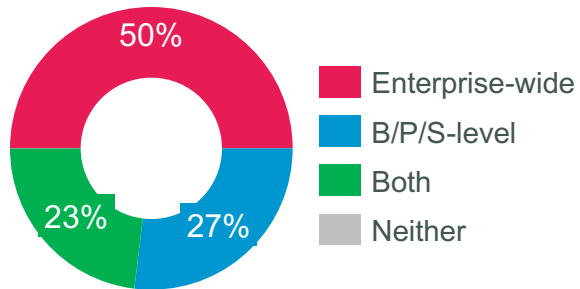
- “ Code should be more prescriptive as to the type of offsets that can substantiate claims
- Law (observer)
- “ Ill fitting to grow climate action, too wrapped up in "looking good" v. driving doing good
- Professional services (observer)



Claims design | Companies predominantly interested in making enterprise-wide claims but value inclusion of both types of VCMI claim

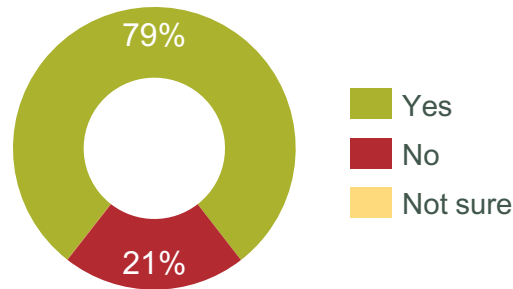
Companies predominantly interested in enterprise claims...

Which claims are you interested in? (N=26)



...but most consider both claim types useful, concerns about greenwashing cited by those that don't

Do you think having a brand-, product-, and service-level claim is a useful aspect of the Claims Code? (N=19)



- Companies that don't consider the brand-, product-, and service-level claim useful are concerned that climate action should only be rewarded at the enterprise-level to reduce risk of greenwashing.

“ Action on climate change should not be limited to just one product or service - it should to be enterprise wide or there could be suspicion of greenwashing
- Healthcare and Pharma (demand-side)

“ Confusing, plus misleading. Companies should have a root and branches approach and not pick and choose one good product, but not address their wider impacts
- Real estate (demand-side)

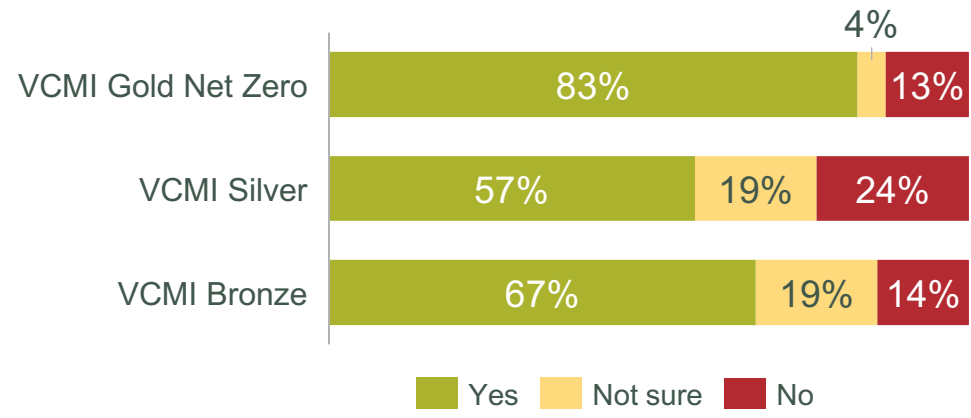
“ Is it useful to have a product claim, but the brand is not compatible with climate goals?
- Law (demand-side)



Claims design | Most companies agree with general design of the enterprise-wide claims schedule; key issues raised around accessibility

Most companies agree with the general design of the claims schedule...

Do you agree with the requirements required to achieve the following VCMI claims? (N=23)



...but issues raised about inclusion of scope 3, lack of sectoral specificity, and claim thresholds

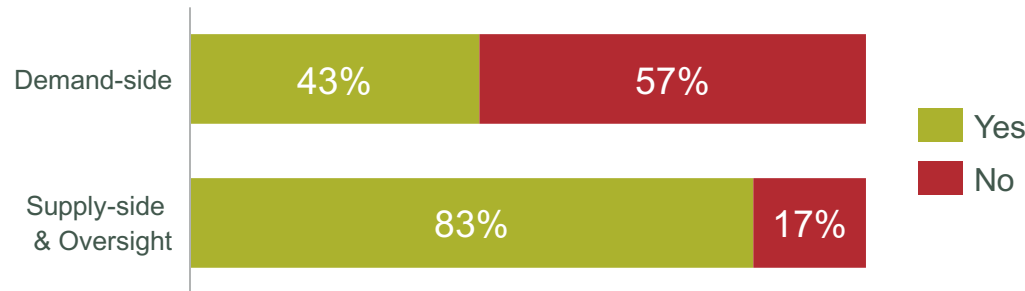
- “ Not a measure of how good a corporate citizen we are, but simply how affordable it is... unfortunate consequence of the industry we're in
- Energy transmission & distribution (high-value chain emitters)
- “ GHG protocol is not granular or mature enough...up to interpretation for company to assess their S3. May punish ambitious companies, like us, [with] 95% of emissions in S3 downstream after thorough assessment
- Energy transmission & distribution (high-value chain emitters)
- “ [Silver] should be 50% not 20%
- Real estate
- “ Agree with principle [of] flexibility around S3, considering it's a new topic to companies. just doubt whether this should be only at Bronze
- Energy transmission & distribution (high-value chain emitters)
- “ Doesn't consider complexity of each industry – some sectors are hard to abate and can't achieve gold or silver. It is nearly impossible for companies with large Scope 3
- Fossil fuel
- “ Given high proportion of S3 emissions (99%), Bronze isn't that different for us than silver. All three levels are not feasible for us
- IT ((high-value chain emitters))



Claims design | No consensus on the brand-, product-, service-level requirements; but agreement that enterprise claim shouldn't be required

Most demand-side companies don't agree with brand, product, service-level requirements...

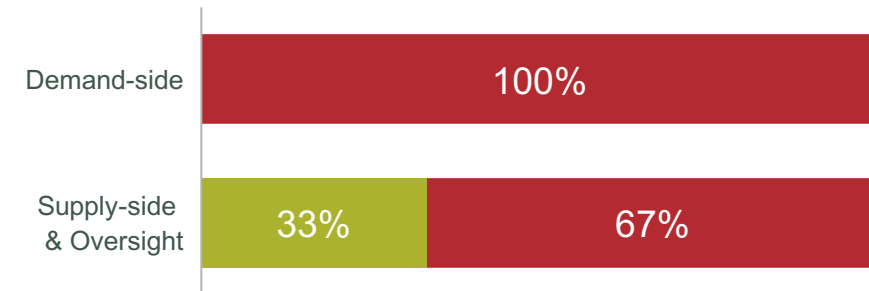
Do you agree with the requirements that a company must meet before making a "VCM Carbon Neutral" brand-, product-, and service-level claim? (N=26)



- “ Prerequisite to have an SBT for all scopes across the whole company is too onerous when making a claim related to an individual product
- Mining (demand-side)
- “ Rather than providing incentives, those [requirements] would potentially discourage from contributing to healthy growth of VCM or decarbonized society. Secondly, including scope 3 seems to be unrealistic
- Fossil fuel (demand-side)

...but general agreement that an enterprise-level claim should not be a prerequisite requirement

Should company as a whole be required to make an enterprise level claim before being eligible to make a brand-, product-, service-level claim? (N=19)



- “ Claims must encompass and reflect performance and commitment of the whole value chain before disaggregating products or services
- NGO (observer)
- “ We need momentum and early adopters. Let brands/products lead first
- Professional services (demand-side)
- “ Product level claims still need to comply with the prerequisites, so company is still doing the right things overall
- Energy transmission & distribution (demand-side)



Claims design | Most agree with current treatment of CAs; few think claims should be differentiated based on CAs at this stage

Most agree with current treatment of CAs. Of those that disagree, few want claims to be differentiated based on CAs at this stage

Do you agree with treatment of CAs in the Claims Code? (N=24)



If not or unsure, should claims be differentiated based on credits with CAs? (N=9)



Yes Unsure No

- Some participants don't support differentiation of claims based on CAs at this stage because they acknowledge that the required international systems and mechanisms are not yet in place

Key issues / suggestions

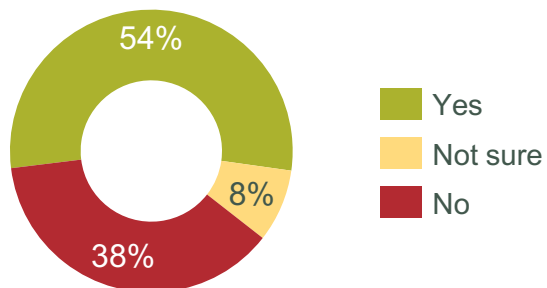
- “ A credit without CA cannot be used as an offset, however, it could be use to demonstrate [contribution] towards climate action. The risk of double claiming is too high not to require CAs
- Law
- “ Company claims of carbon neutrality are separate from any government targets/NDCs. Would rather avoid [this complexity] in order to make utilising credits as easy and accessible as possible
- Energy
- “ [Differentiating] could further fracture the market and confuse the public
- Mining
- Claims especially regarding neutrality aren't accurate unless credit is adjusted, emission reduction / removal would be double counted. Should be a limited time period for using credits without CA. Once an international solution is established we should encourage having CA
- Environmental services
- We support using CAs as a mechanism to enhance the ambition of national pledges on a voluntary basis WHEN those systems are clearly in place and easily accessible to voluntary carbon market participants
- Tech and entertainment

Claims design | No consensus on whether guidance should restrict use of certain credit types, vintages, or geographies



No clear consensus on carbon credit restrictions

Should Claims Code restrict permitted credit types, vintages or geographies? (N=24)



Key issues / suggestions

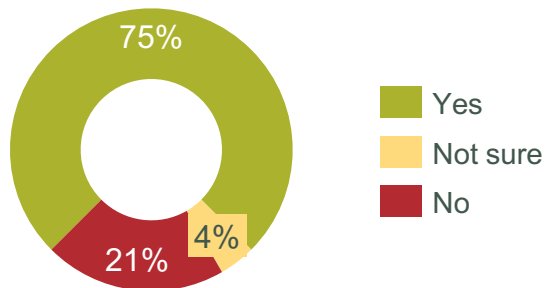
- “ Would be useful to understand whether credits are avoidance, reduction or removal, as this makes a difference to quality of the credit and certainly a difference in the eyes of investors/stakeholders
- *Energy transmission and distribution*
- “ Could encourage the support of [removal] projects...necessary to limit global warming to 1.5°C
- *Environmental services*
- “ Limit on vintage e.g. 3 years max prior to claim date
- *Finance*
- “ Renewable energy credits (and other similar industrial type projects that are a legacy of the CDM) should not be included due to their dubious environmental quality
- *Carbon accountant*
- “ Reliance should be placed on standard setters and working with them to ensure that quality is high
- *Energy & commodities*
- “ VCMi should rely on CORSIA, IC-VCM and ICROA for this
- *Mining*
- “ Flexibility in terms of types of credits and geographies would help us purchase credits that meet a variety of different needs (e.g. customer preference for service or product claims)
- *IT*
- “ We believe that types, vintages, & geographies are not seen as components of high-quality criteria
- *Fossil fuel and heavy industry*

Claims design | Most companies think claims should be differentiated based on credit type, especially for net zero claims



Majority want claims differentiated by credit type

Should claims be differentiated based on credit types (e.g., removals vs reductions)? (N=24)



- Response distribution broadly the same across demand-side, supply-side, and observer company groups

Key issues / suggestions

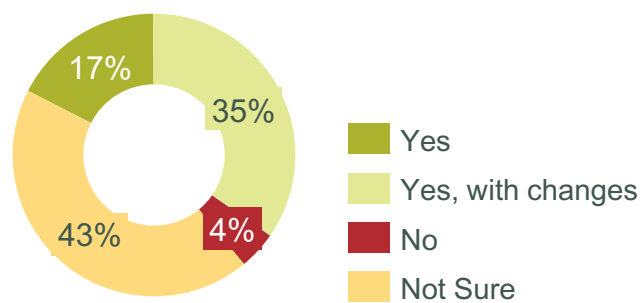
- “ Yes - these credits have different mitigation results
– Tech, Telecom and Media
- “ Net zero claims should limit credit type to removals. Carbon neutral claims should allow all types
– Finance
- “ Should be a ramp-up of the minimum proportion of the removals in the mix, increasing to 100% of residual emissions at NZ target year
– Finance
- “ Maybe a further level...if there is a premium associated with removals it may stimulate purchase
– Energy & commodities
- “ Should be a [reward to reflect] premium for removal over reduction
– Professional services
- “ Negative emissions with long-duration storage must be part of top claim
– Energy distribution
- “ Not all SMEs today have the funds and accessibility to pricy removals
– Professional services
- “ We don't want to see a deeper bifurcation in the market. I expect we'll see this in pricing anyhow
– Radicle
- “ There is need for both high quality avoidance and removal credits currently and the focus should be on quality and not type
– Professional services



Adoption | Less than 20% of participants would use Claims Code in current form, key adoption barriers identified across 4 themes

~80% of participants are unsure or want changes

Going forward, do you plan on using the Claims Code? (N=23)



- Only 1 demand-side company (retail) would use current claims code, while 11 others aren't sure or require changes, and 1 does not plan to use the claim code (fossil fuel)

Issues with accessibility, operability, Scope 3, and resource intensiveness mentioned often

What changes would be required before you adopt? (N=22)



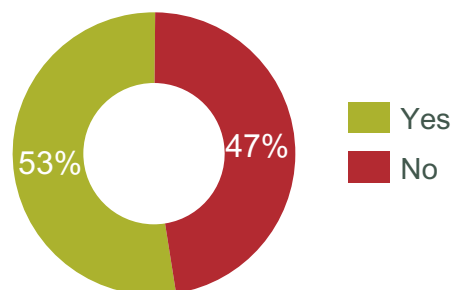
- “ Prerequisites are too challenging for our type of business...
- Commodities (demand-side)
- “ Increased clarity for third party verification and what standards they should verify/validate against for target progress tracking. Increased clarity for definition of high-quality carbon credit
- Tech & entertainment (demand-side)
- “ Scope 3 accounting challenge is really difficult and will lead to low adoption
- ESG Accountants

Accessibility | ~50% of demand side companies don't expect to be able to meet all prerequisites



Half consider at least one prerequisite to be not feasible

Do you consider this prerequisite feasible? Asked of each prerequisite in turn and aggregated (N=22)



Companies that considered unfeasible were typically:

- Fossil fuel and energy companies
- High-value chain emitting
- High growth

Ability to set science aligned targets and covering Scope 3 mentioned often

Why changes would be required before you adopt? (N=22)

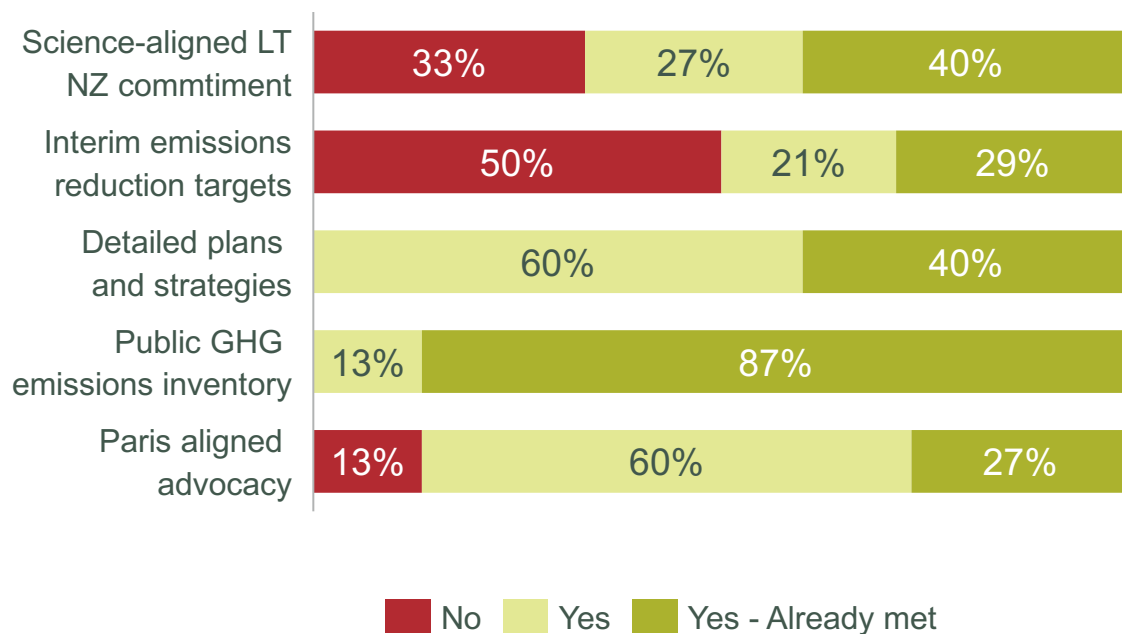
- “ Prerequisites... will filter for companies with good corporate practices. However, they may be too stringent, and may discourage companies from participating
– Tech & entertainment
- “ Need to clarify position and provisions for Scope 3 Category 15 (financed emissions)
– Financial institution
- “ Depending on clarifications, prerequisites might be overly exclusive
– Tech & consumer goods
- “ Referring to SBTi or asking everybody to have interim target... narrows the entrance [precluding] certain industries. How can we show we are science aligned?
– Conglomerate with fossil fuel activities
- “ This works for energy consumers; but less for the producers
– Fossil fuel producer
- “ Given the emphasis on scope 3, the prerequisites primarily filter for companies with low carbon footprints by excluding those in energy and industry
– Mining company

Accessibility | Requirement to set science-aligned targets particularly difficult, especially for some sectors or emissions profiles



Significant fraction of companies don't consider it feasible to meet target prerequisites

Do you consider it feasible to meet the VCMI prerequisites? (N=15)



Key issues / suggestions

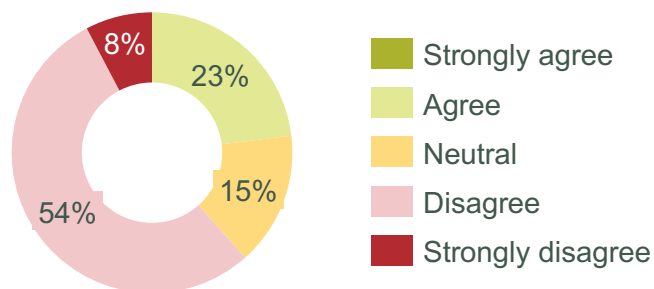
- “ Require further guidance on how to establish a 1.5 °C compatible path
- Energy distribution (high-value chain emitters)
- “ SBTi haven't managed to develop methodologies for oil & gas and many other sectors including some of the energy and heavy industries
- Energy & commodities (high-value chain emitters)
- “ Long term requirement [will] limit uptake (only ~40 companies committed via SBTi). For businesses with primarily indirect emissions it's very challenging to develop meaningful LT target and plan over LT horizons given uncertainty regarding business growth and decarb tech
- Professional services (demand-side)
- “ Can't set 2025 targets, our emissions won't have peaked by then. Also, what about high-growth companies, can intensity reductions be used?
- Tech (high-value chain emitters)
- > Suggest only Scope 1 and 2 coverage for the long-term NZ target
- Tech & Entertainment
- “ Given SBTi net zero standard only came out late in 2021, [we] might not be [the only ones] struggling to meet the first two prerequisites
- Consumer Goods
- “ [Not] realistic to go back and develop 2025 scope 3 target
- IT company
- > Company with 2030 [target] should allowed to show projected pathway¹⁹
- Retail



Accessibility | Most companies want a more accessible on-ramp; covering >20% of unabated emissions prohibitively expensive for some

Demand side companies want a more accessible on ramp

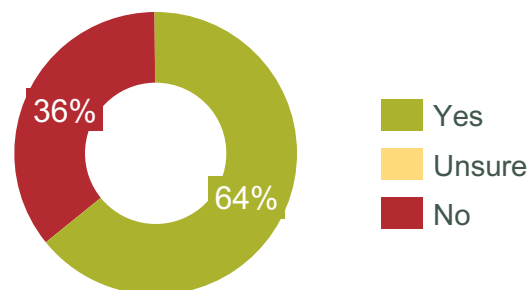
To what extent do you agree that the claims criteria provide an on-ramp that is accessible to companies across a range of sectors and geographies but prevents greenwashing? (N=13)



- “ There doesn't seem to be an on-ramp
- Consumer Goods
- “ Companies in different [stages of] target setting. Guidance assumes we're much further along
- Mining and retail

Covering >20% of unabated emissions unaffordable or unjustifiable for hard-to-abate or high-value chain emitters

Do you consider it feasible to purchase and retire carbon credits to cover at least 20% of your remaining unabated emissions? (N=13)



- Companies from hard-to abate industries or high-value chain emitters including mining, energy, and consumer goods cite issues with affording and justifying spend

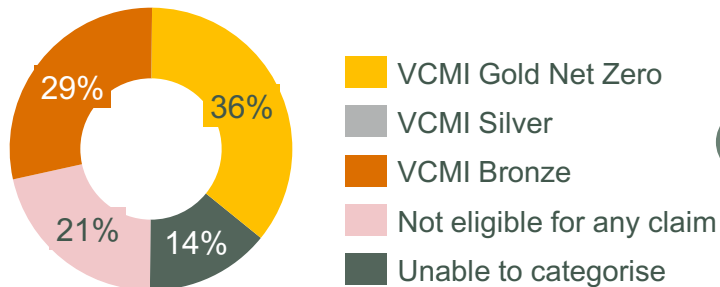
- “ Too costly for hard-to-abate companies
- Fossil fuel company
- “ [Given scope 3 is 99% of emissions] all three levels are not feasible for us
- IT (high-value chain emitters)
- “ I'd rather focus on supply chain action & product design to drive emissions down - not offsets
- Energy Company (high-value chain emitters)
- “ Inclusion of scope 3 emissions makes this unfeasible for us (emissions exceed current total issuance of carbon offsets)
- Mining company (high-value chain emitters)
- “ For companies whose products don't consume energy, it may be relatively cheap for them to achieve gold; isn't so much a question of credibility as of cash flow & resources
Economically impossible for us to achieve VCMI claim. Our S3 emissions are ~500x larger than S1 & 2. At \$10 per credit, covering emissions would cost almost \$1Bn
- Energy transmission (high-value chain emitters)

Accessibility | Indexing enterprise-wide claims criteria to emissions footprint may fail to reward climate achievement across different sectors



Most companies able to determine claim eligibility...

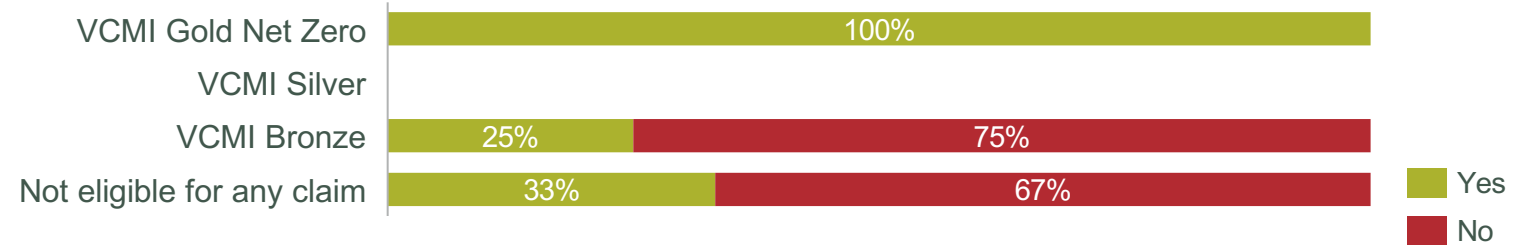
Which Enterprise-wide claim do you think you will be eligible for? (N=14)



- Companies that consider themselves to be amongst the climate leaders in the mining, consumer goods, and financial industries are either not eligible or unable to categorise

...but highlight concerns the result only reflects how much they can spend and not level of climate achievement

Is this consistent with how you see your level of climate achievement? (N=12)



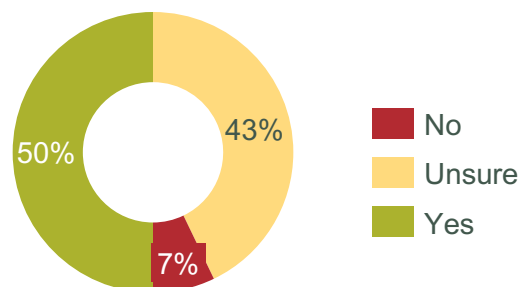
- “ Not sure we could even afford Bronze...[not] a fair reflection of our achievements. We help integrate renewables into grid but still get "punished" for emissions in the very same grid we help decarbonize – *Energy Company (high-value chain emitters)*
- “ Bronze looks poor, yet clients are doing more than the majority of companies – *VCM Service provider (observer)*
- “ For some companies it may be relatively cheap to achieve gold; does this mean they use credits in a more credible way? I like the colour names, I just think they're measuring the wrong thing – *Energy*
- “ Difference between levels seems to be how much you are willing to spend; is there a better differentiation that reflects achievements rather than just spending?
- Would be clearer to make the second option based entirely on scopes covered, e.g. operations – *Climate impact partners*



Operability | Companies and auditors want tighter definitions of what constitutes compliance with prerequisites and how they will be verified

Most companies consider verifying compliance feasible...

Do you consider the requirement to confirm your compliance with all the prerequisites with a credible, independent third party feasible? (N=14)



...but need clearer definitions of what constitutes compliance and who/what can be used to obtain assurance

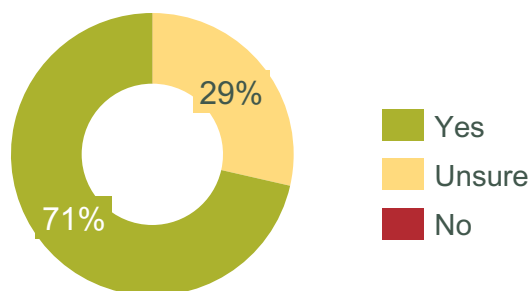
- “ Is there a specific audit methodology that you can point us toward or is this determined by auditor
- Mining and Retail
- “ It certainly seems feasible ... it's just a case of cost. Can you better define what is meant by credible? Can it be made more objective?
- Energy
- “ Don't yet know how to decarbonise S3, we don't have a plan yet. What does a detailed plan mean?
- Tech
- “ ...seems quite vague, if you give us parameters, we could validate against them
- Auditor
- “ These...are subjective. How will they be audited?
- Auditor
- Liaise with auditors to understand their needs and if they require additional guidance. Have partners to provide this service so it is undertaken in a standard manner. Similar to SBTi and CDP
- Professional Services
- Point to specific standards that company performance can be verified against, particularly for the hard to operationalize criteria like advocacy, additional to legislation, and not misleading
- IT
- VCMi should set out a list of third parties they believe are credible and independent, or a list of examples to help guide businesses on this prerequisite
- Consumer Goods

Operability | Companies want to make annual claims, but require further guidance on how to determine or verify progress between target years



Demand side companies want to make a claim annually...

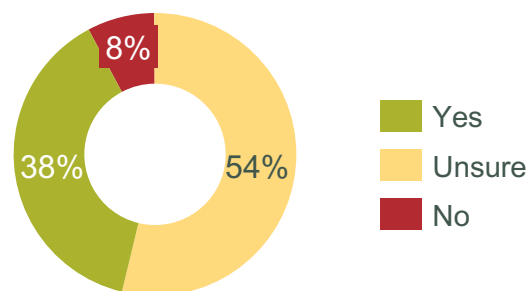
Do you agree that claims should be allowed in any year, provided that the claimant can demonstrate they have met the prerequisites and are on track for their interim targets? (N=14)



- Those that responded 'unsure' raised concerns around the resource requirements required to make annual claims

...but companies and auditors are unclear how to determine and verify whether they are on track for interim targets

Are you able to determine whether you are on track for your next interim emission reduction targets? (N=13)



- How does a company demonstrate “on track”? How do you account for the non-linear nature of progress?
- IT company

- Determining if targets are met is factual, in between is hypothetical
- Auditor

- How will you determine on track? Not trivial when high growth. What should we use before SBTi MRV...?

- Tech & Entertainment

- Very difficult to prove company is 'on track' for target on annual basis (esp. for Scope 3). Methodologies & data sources change, business decisions result in temporary increases. Could consider progress bi-annually or on emissions have control over

- Retail

- Could require company to have met last interim target

- Tech Company

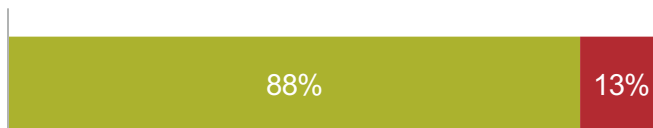
- [Process needs to] account for growth, availability of tech/decarb levers, and lag between implementation & reductions. For now, recommend requirement to transparently report progress following accepted best practice (e.g. GHG Protocol's project level accounting guidance) - Tech and Entertainment

23

Operability | Only 46% of participants consider Claims Code sufficient to make high-quality credit purchasing decisions

Participants agree with basic criteria and support alignment with existing standards...

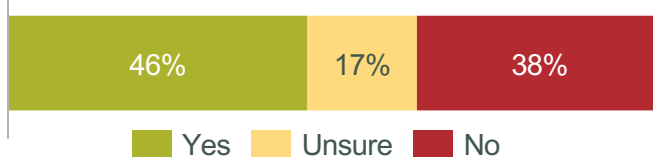
Do you agree with VCMi's basic criteria for high-quality credits? (N=24)



Should Claims Code align with supply-side quality standards? (N=23)



Is Claims Code sufficient to determine high-quality credits? (N=20)



- Response distribution is broadly the same across stakeholder groups

“ We believe alignment between supply-side quality standards and demand-side ones brings clarity to corporates wanting to utilize VCM
- Fossil fuel & industry

...but request further guidance to help identify and purchase eligible carbon credits

- “ What does 'acknowledging CORSIA and IC-VCM' mean?
- Fossil fuel and industry (demand-side)
- “ Use of 'high-quality'...without proper understanding has a big impact on what we have to audit, and on what the clients have to demonstrate
- Auditor
- “ Very difficult for businesses to navigate multiple standards that all claim they define high quality but aren't aligned
- Consumer goods (demand-side)
- “ Other than "Associated standard-setting body" the credit quality guidance is very high-level and hard to validate
- Retail (demand-side)
- “ Claims on this front should point to a single source
- Professional services (observer)
- VCMi should utilize existing supply side quality standard such as IC-VCM so there is clear and [un]conflicting guidance
- Professional services (demand-side)
- Interim guidance before IC-VCM guidelines become finalized required
- Tech and entertainment (demand-side)²⁴



Operability | Some companies want additional guidance to ensure finance can flow to nascent credit projects which currently aren't eligible



Key aspect to consider is how to encourage organizations investing in nascent technologies which might not meet the required quality standard as they are yet to have a methodology finalized

Professional services (*demand-side*)



Requiring for corporates to only purchase from certified projects, limits the emerging technology that haven't yet been certified.

Suggest introducing a limit ~10% that can be not certified [associated with standard], so you can choose to support emerging technology, helping the market evolve. Still requiring the list to be provided would help limit the risks

Professional services (*demand-side*)



Not enough attention is dedicated to new carbon removal projects. Needs to be a framework (either provided by the VCMI or other suitable body) that determines what 'high-quality' here is

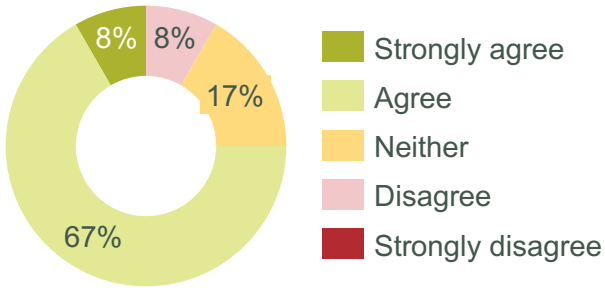
Carbon Accountants (*demand-side*)



Operability | Companies agree with reporting requirements, but some are concerned about stringency and disclosure of sensitive data

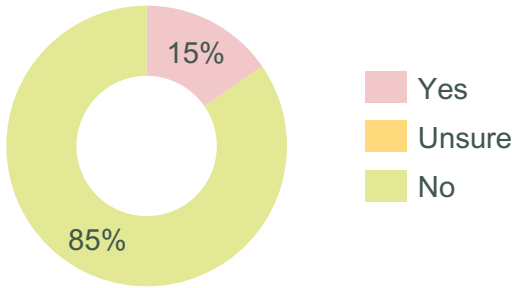
~75% agree reporting requirements ensure claims are verifiable

To what extent do you agree that the Claims Code transparency and reporting requirements ensure that claims can be independently evaluated and verified? (N=24)



Some companies concerned requirements may be too high and may require disclosure of commercially sensitive information

Do you have reservations about putting any of the components required by the Claims Code into the public domain? (N=13)



- Reasons cited by those that have reservations include sharing business information and lack of clarity about what companies are required to disclose

“ Need to ensure requirements aren’t so high that companies are discouraged from reporting
- Tech and entertainment

“ The information is necessary but too complex for understanding by the public
- VCM service provider

“ We’re comfortable in producing a public report but not sure senior management [will be too]
- Energy

“ Need clarity on what is required. Can only report what we are allowed. Detailed plans with growth estimates won’t be allowed. Consider some level of confidentiality to avoid releasing to public
- Tech company

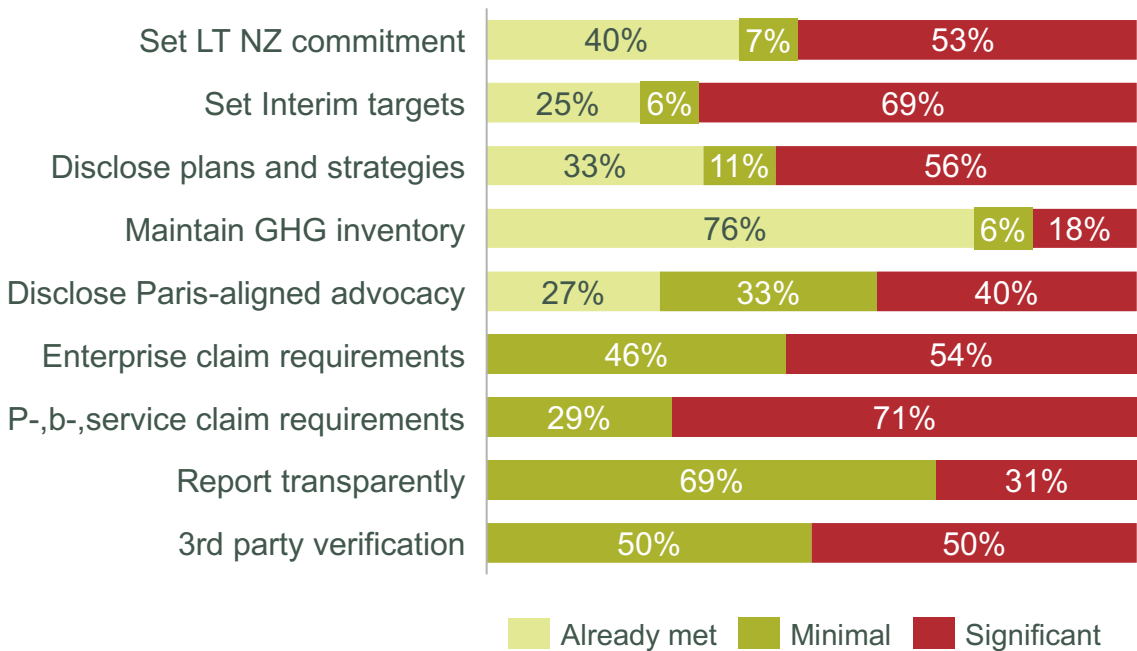
➤ Consider providing good practice guidance on the location/structure of [required] reporting
- Mining



Resource intensiveness | Significant additional resources required to make a claim with VCMI may make process unappealing

Setting targets, disclosing plans, obtaining 3rd party verification, and process of making claim expected to be particularly resource intense

What lead times and/or additional resources did it (or do you expect it to) take to meet the Claims Code requirements? (N=15)











































Key issues / suggestions

- “ Significant effort [required]... might be difficult for SMEs to achieve
- Professional services
- “ This will be very resource intense, expensive, and cumbersome. It's a balance between credible and no body using it
- Tech
- “ Existing requirements [already] overwhelming, can we reuse SBTi target?
- Mining and trading
- > [Interim target] timeframes could be aligned with SBTi's criteria
- Energy
- “ Already report/assure our targets and plans as part of TCFD, does disclosing these suffice?
- Energy provider and retailer
- > Ensure burden isn't so great, especially given upcoming US and EU mandatory regulation. Limit the frequency of 3rd party assurance so that it's not annual - not feasible from cost and time perspective
- Tech and entertainment
- > Integrate into existing audit and reporting requirements so can use existing processes and third parties to minimise additional resource
- VCM service provider
- “ If what we already do to fulfil regulatory requirements could be used to meet VCMI's criteria, we'd be more likely to try to meet them 27
- IT company



Resource intensiveness | Opportunities exist to align Claims Code assurance requirements with upcoming regulatory disclosures

					
Claims Code requirement	SEC Climate-Related Disclosures (from FY 2023)	European Commission CSRD (replacing NFRD from FY 2023)	UK Government TPT Gold Standard (expected from FY 2023)	TCFD Recommendations (existing framework)	CDP Voluntary Annual Disclosure (existing framework)
• Long-term science-aligned net-zero commitment	 1	 2,3	 4,5	 1	 1
• Public interim emission reduction targets	 1	 6,3	 4,5	 1	 1
• Detailed plans and strategies adopted to reach targets	 1	 7,3	 4,8	 1	 1,7
• Public GHG inventory	 9,10	 3	 4,9	 9	 9
• Public declaration of Paris-aligned advocacy activities		 3			
• On track for target achievement	 1	 11,3			 1
• High-quality carbon credits	 12	 3	 4,12	 12	

1. If a net-zero or similar target exists 2. 2050 Paris-aligned target 3. Limited assurance required initially; possibility for later transition to mandatory reasonable assurance 4. Publication and auditing alongside financial report, further details on specific assurance requirements to be published 5. Alignment with government's net-zero commitment required 6. Disclosure of a GHG emissions reduction target for 2025 or 2030 7. Details of climate-related changes in business plan 8. TCFD and UK Green Taxonomy aligned plan; to follow TPT framework when published 9. Scope 1 and 2; exemptions for Scope 3 10. Limited assurance required until 2026; reasonable assurance from 2026 11. Changes in emissions against targets set 12. Reporting required on where credits have been used; not necessarily on credit quality

 No requirement  Disclosure  Limited assurance  Reasonable assurance

Scope 3 | Inclusion of Scope 3 highlighted as a cross-cutting adoption barrier for a wide range of companies



Participants highlighted Scope 3 issues in 5 key places



Setting science-aligned targets



Making progress/ control



Determining 'on track'



Volumes of carbon credits



Assurance

Key issues / suggestions

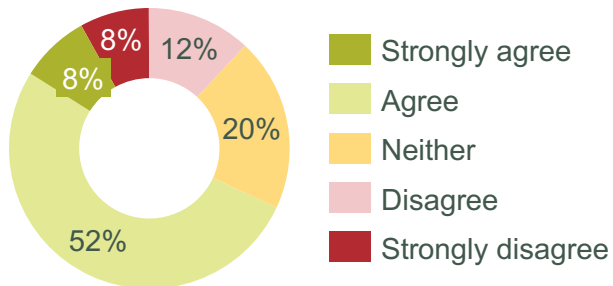
- “ [Prerequisites] emphasis on scope 3 exclude those in energy & industry, large % of global emissions
- Mining (high-value chain emitters)
- “ ...scope 3 accounting challenge is really difficult and will lead to low adoption
- ESG Accountants (observer)
- Difficult to get leadership buy-in on long-term target, especially on Scope 3. Consider remove scope 3 requirement for long-term target
- Tech & entertainment (high-value chain emitters)
- “ Our scope 1 and 2 is just 2%, we can't move the needle on reductions with that
- Consumer goods company (high-value chain emitters)
- “ Scope 3 downstream is too uncertain for makers of intermediate goods
- Professional services (demand-side)
- “ Difficult to prove "on track" to meet Scope 3 target. So many variables/ things change yr-to-yr
- Retail
- “ Inclusion of scope 3 makes this unfeasible for us, our emissions exceed total issuance of [credits]
Mining (high-value chain emitters)
- A more pragmatic approach to scope 3 - enabling action along a timeframe. e.g. prerequisite to[baseline] and report scope 3, and then include stages of action on scope 3
- IT (high-value chain emitters)
- “ Nobody will be able/willing to assure Scope 3 to reasonable level of assurance
- Tech



Marketing | Gold, Silver, and Bronze enterprise-wide claims hierarchy could be challenging to communicate to consumers

Most participants consider claims names suitable...

To what extent do you agree that VCM Gold, Silver and Bronze are suitable names for the enterprise-wide claims and will effectively incentivize companies and NSAs to apply the VCM Claims Code? (N=25)



...but concerns that claims may not be intrinsically understandable to consumers are highlighted frequently

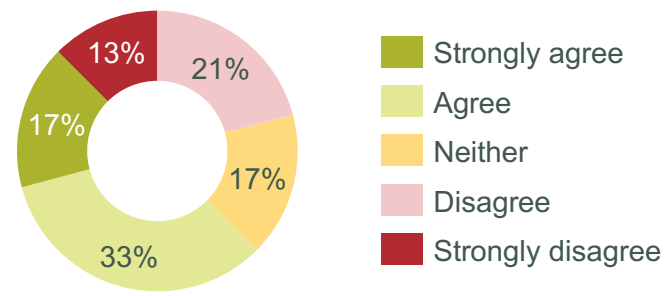
- “ A hierarchy is apparent, progress is rewarded
- Environmental services
- “ Yes, they are globally understandable
- Technology, Telecommunications and Media
- “ It depends on who the key stakeholder for these claims might be. Three tiers with technical nuances will be too much for consumers, but may be helpful for investors and regulator
- Retail
- “ Don't mean anything to consumer. Carbon & climate neutrality are understood and already used
- VCM service provider
- “ I don't find the names very strong. Very ambiguous what they refer to
- Financial institution
- “ Not sure how consumers will be able to understand what VCM gold, silver, bronze mean
- Law firm



Marketing | Renaming VCMI Gold 'Net Zero' to 'Net Zero – On Track' would be more consistent with existing terminology

No consensus on whether using 'Net Zero' is credible

To what extent do you agree that VCMI Gold can be credibly associated with a net zero claim? (N=24)



• 66% of demand-side companies agree that VCMI Gold can credibly be associated with Net Zero, compared with 33% of supply-side and observer

Key issues / suggestions

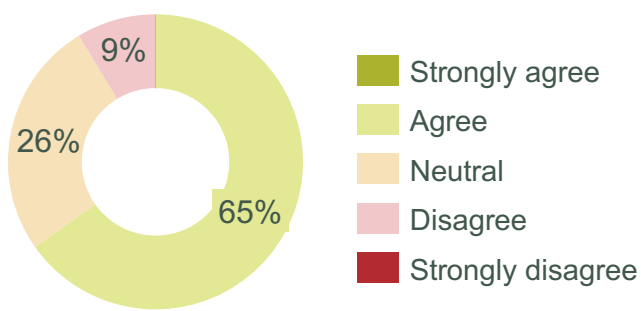
- “ It risks confusion because it conflicts with SBTi. It's a strong claim for being on the path to net zero but the SBTi definition of actual Net Zero is when you've achieved the reductions and the unabated footprint must be offset with removals
- VCM Service provider
- “ As no requirements for carbon credits to be removal credits VCMI Gold can not be associated with Net Zero. This would likely create a toxic brand for either the term Net Zero or VCMI
- Professional services
- “ 'Gold Net Zero' sounds like we are claiming to be at net zero now... the confusion with SBTi net zero makes marketing difficult
- Finance firm
- “ We are reserving “net zero” for the end state when we have maximized decarbonization and are only offsetting emissions that can't be abated. Calling VCMI gold “net zero” rather than a form of carbon neutrality will cause confusion
- IT
- Guidance should be very careful about allowing any claim of 'net zero'. Net zero is the end point, not a point on the journey. At best VCMI gold should say 'aligned with a pathway to NZ'
- Consumer goods
- VCMI Gold credibly equals "on track to net zero"
- Financial institute³¹



Claims Code | Overall, Claims Code is well structured and easy to understand, but language and visualisations could be simplified

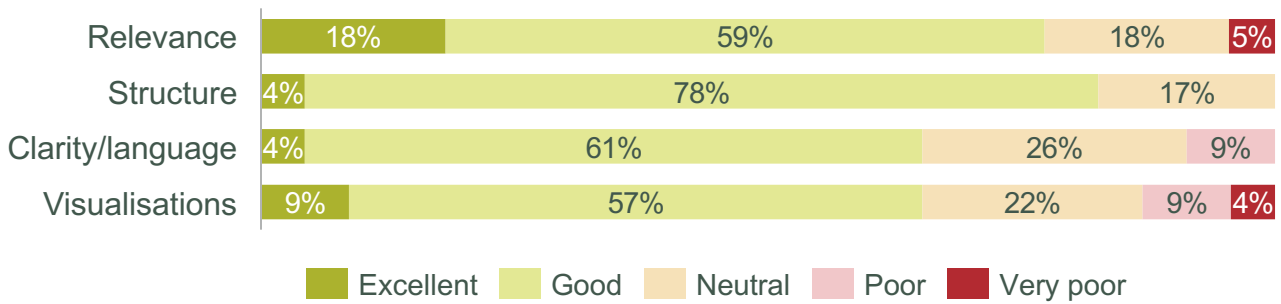
Most participants found the Code easy to understand

To what extent do you agree that the Claims Code was clear and easy to understand? (N=23)



Overall positive feedback on Claims Code

How would you rate the following aspects of the Claims Code? (N=23)



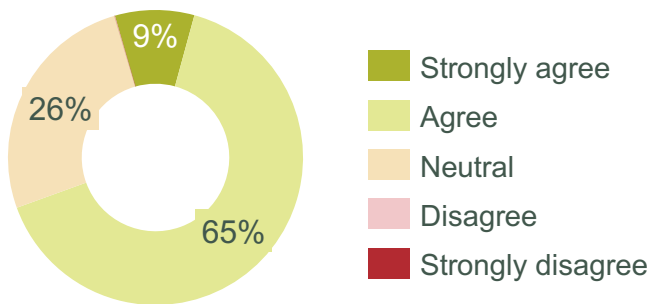
- “ Good readability and structure - Environmental services
- “ Had to read a couple of times to understand... simplify and clarify the language - Mining & retail
- “ Guidance needs additional material for how companies will be evaluated on prerequisites. Could maybe include a small 1-3 minute video to explain the basics? - Tech and entertainment
- “ Doughnuts for 3 claim levels claim take time to understand. I like the idea but the perhaps need a tweak to make them instinctively easy to understand. It would be great if the document could be designed for people who are reading it on a computer rather than on paper (avoid two columns)



How to Guide | How to Guide is a helpful resource, but requires readers to have some prior knowledge of the space

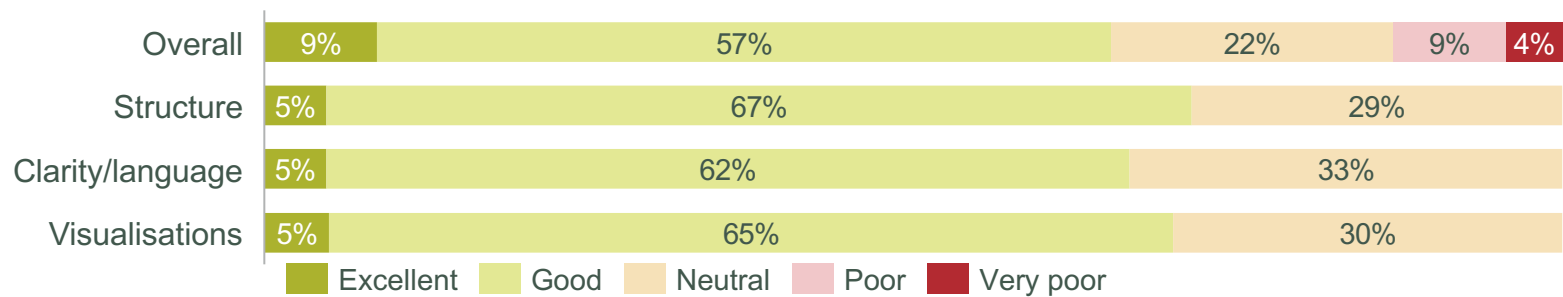
Most participants found the How to Guide helpful

To what extent do you agree that the 'How to Guide' was helpful? (N=23)



Overall positive feedback on How to Guide

How would you rate the following aspects of the How to guide? (N=23)



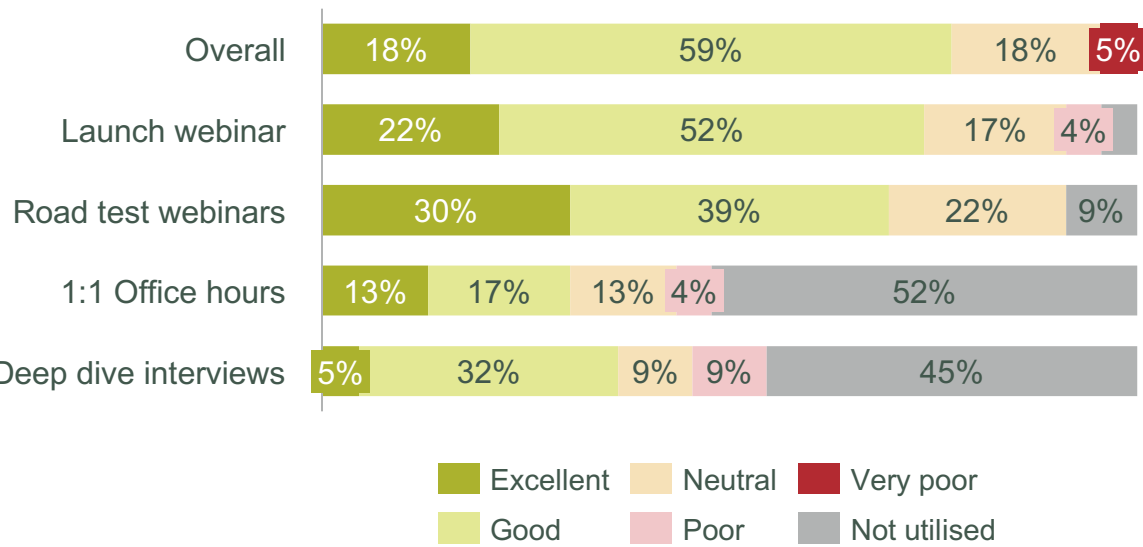
- “ Well written. Right volume of information and topics. Good outline and previews but could use more tables to summarize incrementally - Professional services
- Could use a simple technology backed visualization app - Professional services
- “ Clear steps with coherent structure, but a bit of background knowledge is needed. [Visualizations are] at first a bit confusing. - Environmental services



Road test process | Road test engagements were helpful, but office hours and deep dive interviews were underutilized

Overall positive feedback on road test process

How would you rate the following elements of the Claims Code road test? (N=22)



Selection of feedback to improve road test process

- “ The use of two time zone options for webinars was effective ...[but] my schedule has not allowed me to participate further. The emails worked well
- Professional services
- “ Organizers were reachable. Webinars and 1:1 office hours were very helpful. Outlining procedure. Helpful discussions. Clarification of questions
- Environmental services
- “ Interviewers were more interested in climate strategy than feedback on the Claims Code
- Mining & retail
- “ Most useful to discuss shortcomings and scope 3 weakness
- Professional services

THANK YOU!