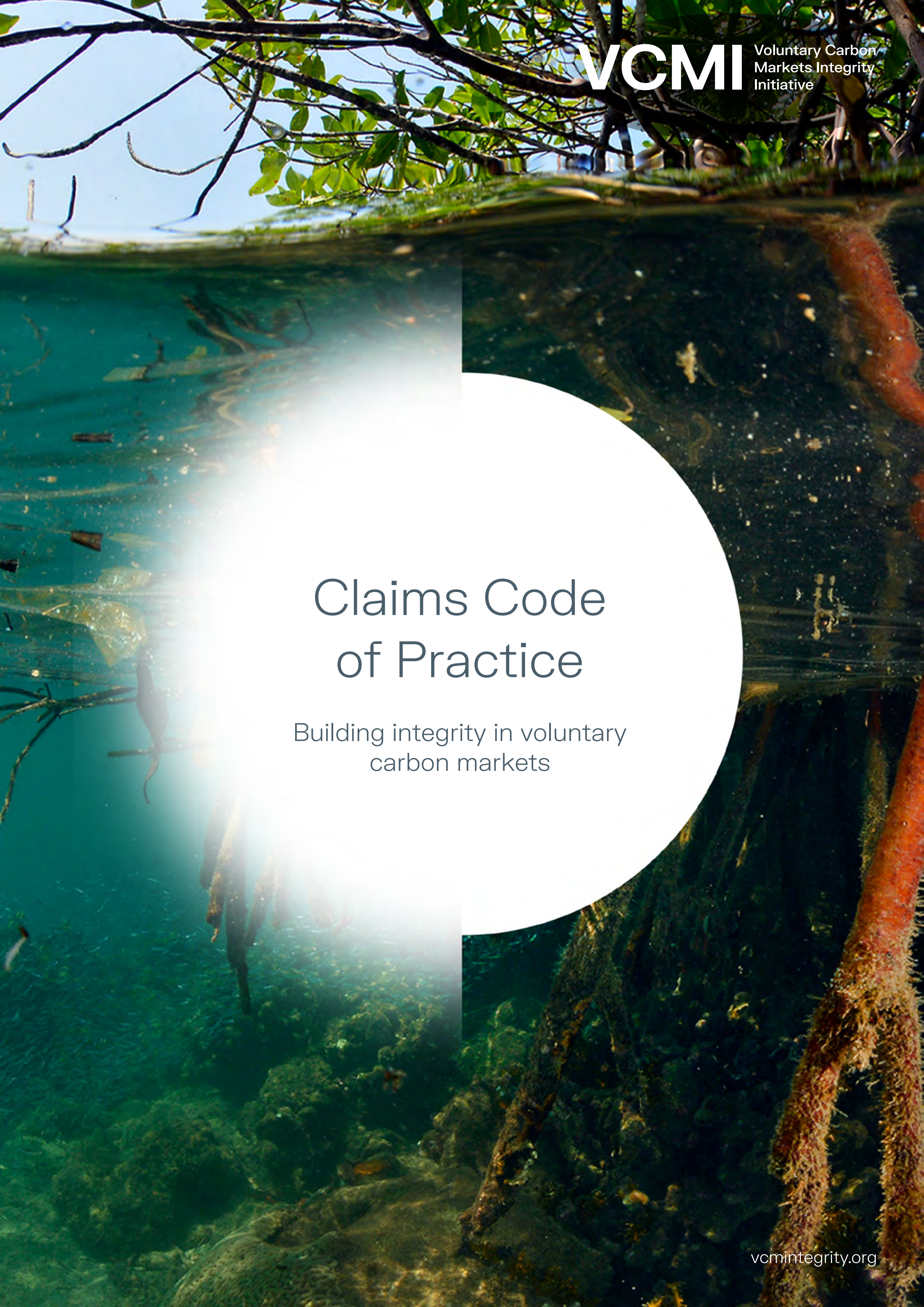
VCMI Voluntary Carbon Markets Integrity Initiative



Claims Code of Practice

Building integrity in voluntary carbon markets

vcmintegrity.org

ABOUT VCMI

VCMI is an international initiative to drive credible, net zero-aligned participation in voluntary carbon markets. VCMI was established to help ensure that voluntary carbon markets make a significant, measurable, and positive contribution to achieving the Paris Agreement goals, while also promoting inclusive and sustainable development. The imperative of keeping global average temperature increase below 1.5 degrees Celsius requires the world to avoid, reduce, and remove as large a quantity of greenhouse gas (GHG) emissions as possible, as quickly as possible.

To help do so, VCMI coalesces stakeholders around a shared vision for high-integrity voluntary carbon markets to make a meaningful contribution to climate action while also supporting the achievement of the UN SDGs. VCMI connects with and amplifies initiatives that share this vision.

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Executive Summary

THE PURPOSE OF THE CLAIMS CODE

Voluntary carbon markets have the potential to help fill gaps in financing for climate mitigation, enhance corporate efforts to transition to Net Zero and support the achievement of countries' Nationally Determined Contributions and sustainable development objectives. They can also support and accelerate the introduction of robust, well-designed climate policies.

However, this potential can only be realized if voluntary carbon markets operate with high integrity. This means that carbon credits must be generated by activities that truly go beyond business-as-usual and benefit host communities - the supply side - and that their use increases overall greenhouse gas mitigation rather than substituting for existing actions - the demand side. Without clear high integrity rules for both aspects, voluntary carbon markets will rightly continue to be viewed with suspicion, companies will be afraid to invest, and their potential will be lost.

The Claims Code addresses 'integrity on' the demand side by guiding companies and other non-state actors on how they can credibly make voluntary use of carbon credits as part of their climate commitments and on the associated claims they can make regarding the use of those credits. It provides clarity, transparency and consistency on what these commitments and claims mean and will give confidence to all those engaging with voluntary carbon markets.

The Claims Code is the result of two years of research and engagement with stakeholders across all sectors and regions, including road testing of a provisional version published in 2022 and two public consultations. This work has taken place in the context of an emerging coherent governance framework across voluntary carbon markets and corporate accountability. The Claims Code has deliberately been designed in coordination with existing standard setters to align with and complement their work, thereby increasing clarity for businesses, their stakeholders and the wider public.

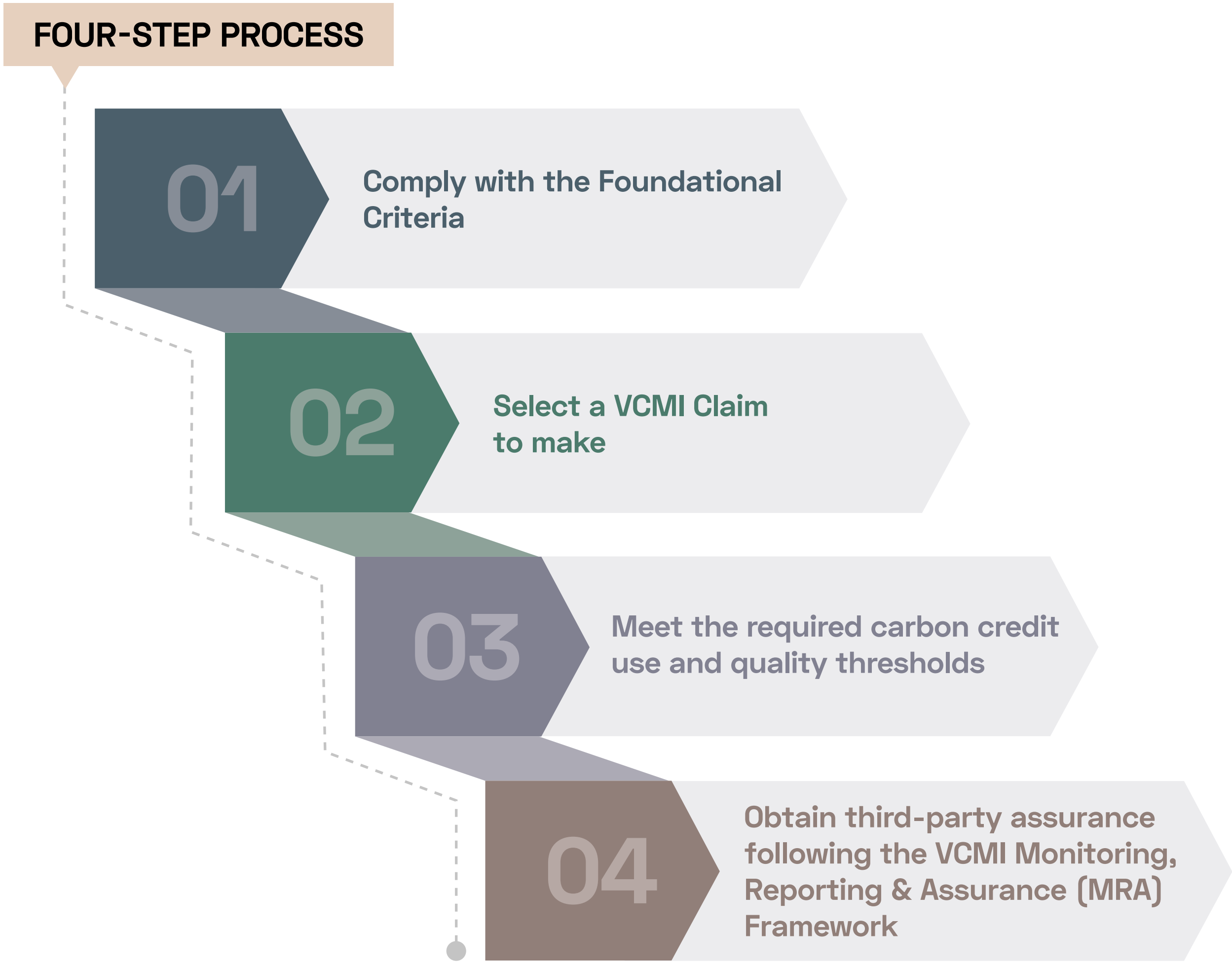
WHO THE VCMI CLAIMS CODE OF PRACTICE IS FOR

The Claims Code of Practice is designed for:

- companies seeking to make credible, voluntary use of carbon credits and receive validation in the form of a VCMI Claim;
- individuals, businesses, and other buyers of goods and services seeking to make climate-friendly purchases;
- investors and other stakeholders who want to judge the credibility of a company's climate ambition and its actions, including its use of carbon credits alongside broader decarbonization efforts; and
- governments and their regulatory agencies considering how to incentivize non-state actors to use carbon credits credibly and structure claims to be truthful, clear and informative, through government-developed or endorsed corporate reporting requirements, advertising and consumer protection standards and other policies, and measures or guidance on the use of carbon credits.

How the VCMI Claims Code works:

The Claims Code is based on a four-step process.



To make an enterprise-wide VCMI Claim, companies must:

1: COMPLY WITH THE FOUNDATIONAL CRITERIA

These are designed to be aligned with the long-term goals of the Paris Agreement and represent current corporate best practice. They require companies to:

- Maintain and publicly disclose an annual greenhouse gas emissions inventory;
- Set and publicly disclose validated science-based near-term emissions reduction targets, and publicly commit to reaching net zero emissions no later than 2050;
- Demonstrate that the company is on-track towards meeting a near-term emissions reduction target and minimizing cumulative emissions over the target period;
- Demonstrate that the company's public policy advocacy supports the goals of the Paris Agreement and does not represent a barrier to ambitious climate regulation.

2: SELECT A VCMI CLAIM TO MAKE

VCMI has defined three tiers of Claims that companies and other non-state actors can make. All represent action above and beyond companies' internal decarbonization efforts:

- VCMI Silver is the most accessible tier, requiring the purchase and retirement of high-quality credits in an amount equal to or greater than

- 20%, and less than 60%, of a company's remaining emissions once it has demonstrated progress towards its near-term targets;

- VCMI Gold requires the purchase and retirement of high-quality carbon credits in an amount equal to or greater than 60%, and less than 100%, of a company's remaining emissions once it has demonstrated progress towards its near-term targets;

- VCMI Platinum is the most aspirational tier, requiring the purchase and retirement of high-quality carbon credits equal to or greater than 100% of remaining emissions.

All claimants must have met the four Foundational Criteria, and demonstrate emissions reductions in comparison to the base year, whether on an absolute or intensity basis. In addition, the percentage of carbon credits to be purchased and retired must increase in each subsequent year after the company makes its VCMI Silver or Gold Claim.

3: MEET THE REQUIRED CARBON CREDIT USE AND QUALITY THRESHOLDS

Carbon credits a company uses must be of the highest quality, both to underpin the credibility of its claims and to help drive integrity across the market. VCMI defines these as those that meet the Integrity Council for the Voluntary Carbon Market (ICVCM) Core Carbon Principles and qualify under its Assessment Framework.

All VCMI Claims require the purchase of carbon credits representing mitigation—either emission reductions or removals—achieved outside the value chain of the company, also defined as 'beyond-value-chain mitigation', through which companies contribute both to their climate goals and to the collective global effort to reach net zero emissions.

4: OBTAIN THIRD-PARTY ASSURANCE OF REPORTED INFORMATION

To substantiate a VCMI Claim, **transparent reporting and assurance of information is essential.** Claimants must demonstrate that the Foundational Criteria and VCMI Claim-specific requirements have been met, and they must disclose key information related to the carbon credits purchased.

<u>Next Steps:</u>

The Claims Code will be expanded throughout 2023 and beyond with the development of additional modules and guidance. These include:

- A comprehensive monitoring, reporting and assurance (MRA) framework;
- Additional VCMI Claims tiers and updated claims names;
- Rules for claims made at the product, service, or brand level;
- Further guidance for purchasers of carbon credits; and
- Provisions for specific sectors, geographies and smaller entities, among others.

While VCMI Claims are limited to voluntary action, we believe that robust comprehensive policy and regulations are essential if the world is to avoid catastrophic climate change. VCMI hopes that the Claims Code will constitute a valuable contribution to this emerging policy architecture.

VCMI welcomes engagement and feedback. Please email: info@vcmintegrity.org

2.
Letter from VCMI Co-Chairs

Letter from VCMI Co-Chairs

On behalf of the Voluntary Carbon Markets Integrity Initiative (VCMI) Steering Committee and Secretariat, we are pleased to present this Claims Code of Practice on the voluntary use of carbon credits. Such guidance is essential to ensure the integrity of voluntary carbon markets. Integrity underpins trust and trust will underpin the growth, in the short, medium and long term, of high-value and purposeful voluntary carbon markets – markets that can make a meaningful contribution to the Paris Agreement goals while at the same time contributing to the UN Sustainable Development Goals (SDGs).

VCMI released our provisional Claims Code in 2022. We undertook a public consultation and road-tested the provisional Code with around 70 companies. Since then, VCMI has thoroughly evaluated the feedback received, processed all the comments and released an operable[1] Claims Code. In doing so, we clarify the main concepts and provide clear and practical guidance for companies to put the foundations in place for the credible use of carbon credits. Now, it's time for implementation.

The publication of this Claims Code will be complemented by additional modules and papers which will be released by November 2023. These will outline further guidance and recommendations for companies, as well as offer insights flowing from the analytical research VCMI will be conducting for the remaining part of 2023. Importantly, in November, VCMI will publish our Monitoring, Reporting and Assurance (MRA) Framework, which will provide essential, process-driven guidance on how companies can obtain a VCMI Claim.

This modular approach is intended to ensure that all outstanding issues identified during the consultation process are adequately addressed. This will include consultation with the VCMI Expert Advisory Group (EAG) and the VCMI Stakeholder Forum, the latter being launched alongside this document. VCMI is leading the way, leaning on the expertise, inputs and feedback from the experts and stakeholders who so generously devote their time to ensure that voluntary carbon markets can deliver real and additional benefits.

We are deeply grateful to all who have given their time and talent to the development of this Claims Code, particularly our EAG, as well as all the stakeholders that have already engaged through the Country Contact Group, alongside a wide range of civil society organizations and companies from around the world. Companies now have clear guidance on how to act, which is to comply with the foundational criteria, meet the claims requirements, purchase high-quality carbon credits, and identify the claims to make. From November, companies will be able to obtain VCMI Claims, once information relating to the requirements included in the Claims Code have undergone an assurance process as outlined in the upcoming MRA framework.

VCMI has worked in partnership with other key voluntary standards, recognizing the important role they play – and we will continue to do so. We will only be able to maximize the impact of high integrity voluntary carbon markets as we keep global warming to below 1.5 degrees Celsius if we are able to coordinate and complement our efforts, rather than duplicate or overlap them.

— **Tariye Gbadegesin and Rachel Kyte**
VCMI STEERING COMMITTEE CO-CHAIRS

[1] The operability of the Claims Code means that a company can go through the whole process, meet all Foundational Criteria and comply with the first three steps. However, a company will only be able to make a VCMI Claim when the VCMI Monitoring, Reporting and Assurance (MRA) Framework is put in place by November 2023.

3.
The aims of the VCMI Claims Code of Practice

The aims of the VCMI Claims Code of Practice

ABOUT THE VCMI CLAIMS CODE

The primary purposes of the VCMI Claims Code are twofold:

- to provide clear requirements, recommendations and supporting guidance to companies and other non-state actors[2] on when they can credibly make voluntary use of carbon credits as part of their near-term emissions reduction objectives and long-term net zero commitments; and
- to provide guidance on the associated claims they can make regarding the use of those carbon credits.

All stakeholders need to ensure that their use of carbon credits accelerates—rather than undermines—their contribution to global climate action. Today, thousands of companies are making climate commitments, such as to reduce emissions to certain levels by specific dates and to decarbonize their supply chains. Many also make claims about 'carbon neutral' operations, products and services. However, there is a lack of clarity about what these commitments and claims mean. There is often insufficient transparency about corporate climate performance, and inconsistent use of terminology. These shortcomings risk undermining confidence in the integrity of voluntary carbon markets and in corporate commitments more broadly, even when commitments are genuine.

Many stakeholders are concerned that the use of carbon credits could hinder, delay, or replace efforts by companies to reduce GHG emissions within their operations and supply chains. Without clear and transparent guidance about the voluntary use of carbon credits for underpinning credible claims, investors and consumers are not able to effectively allocate capital and direct their purchasing power to incentivize real company leadership on climate mitigation. Companies making non-credible claims when using carbon credits face significant risks, ranging from reputational damage due to accusations of overstating climate performance to potential fines by domestic authorities and litigation (where such claims are deemed false or misleading). The impact may also be negative on companies making credible claims, as reputational risks may lead to a more conservative approach and undermine climate action.

Many companies around the world want to understand how they can use carbon credits in their climate strategies in a way that is accepted by investors, civil society, government regulators, and policymakers. Providing this understanding is the goal of this Claims Code. The claims delineated in the Claims Code (VCMI Claims) will help companies at different levels of ambition and action demonstrate that they are using carbon credits appropriately as a tool to deliver additional climate mitigation to that already taking place within their value chains.

VCMI Claims will give the most innovative companies already performing well on climate mitigation an incentive to go further and inspire other companies to follow. For those companies and other stakeholders that do not yet qualify for a VCMI Claim, the robust claims tier system will help them understand what actions need to be taken for them to embark on the decarbonization journey and progress towards meeting the Foundational Criteria and making a Claim.

The Claims Code is designed for:

- companies seeking to make credible, voluntary use of carbon credits and receive validation in the form of a VCMI Claim;
- individuals, businesses, and other

[2] For convenience, we use the term 'company' throughout this document, but all guidance can be applied equally to other non-state actors.

buyers of goods and services seeking to make climate-friendly purchases;

- investors and other stakeholders who want to judge the credibility of a company's climate ambition and its actions, including its use of carbon credits alongside broader decarbonization efforts; and
- governments and their regulatory agencies considering how to incentivize non-state actors to use carbon credits credibly and structure claims to be truthful, clear and informative, through government-developed or endorsed corporate reporting requirements, advertising and consumer protection standards and other policies, measures, or guidance.

This document represents the first part of a two-part release of the Claims Code in 2023. Details of how it fits into the full Claims Code package can be seen in Box 1.

Box 1: VCMI's full Claims Code development

The Claims Code builds on the provisional Claims Code released in 2022 and the feedback received. It sets out the steps companies or other non-state actors must take for the credible use of carbon credits as part of net-zero transitions, and to make a VCMI Silver, Gold, or Platinum Claim. These represent "contribution claims", as carbon credits cannot be counted towards the achievement of within-value chain emissions reduction targets, but instead represent a contribution to both the company's climate goals and global efforts to mitigate climate change.

Companies will be able to make a VCMI Claim by late 2023, once the MRA Framework is complete. Between July and October 2023, a first phase of additional guidance modules will be developed to supplement the Claims Code, in consultation with the VCMI Stakeholder Forum. These will include a Monitoring, Reporting and Assurance (MRA) framework, additional VCMI Claims tiers and an "on ramp", which will together provide a pathway to VCMI Silver, Gold and Platinum Claims, and finalized names and nomenclature for VCMI Claims. Research will be commissioned on these elements to help inform options and further technical development.

VCMI acknowledges that the claims presented in the Claims Code may not be achievable for small and medium-sized enterprises (SMEs), many companies in the Global South and companies with low profit margins. VCMI will explore possible special provisions to promote accessibility of the Claims Code for these companies and other non-state actors.

These additional modules will complement and build on what is already contained in the Claims Code.

4.
Governance and VCMI's role in voluntary carbon markets

Governance and VCMI's role in voluntary carbon markets

The integrity—and therefore the value—of VCMI Claims depends on the functional and reliable overall governance of voluntary carbon markets and a credible MRA framework, with the latter due to be fully established by the end of this year. Claims must be credible to be of value to companies, investors, regulators, and other stakeholders evaluating climate commitments and achievements, as well as to those seeking to create programs that rely on a credible claims regime.

Our approach to addressing governance and infrastructure gaps is two-fold. First, VCMI recognizes the need for a Claims Code that is part of a coherent governance framework across voluntary carbon markets and corporate accountability spaces. Accordingly, VCMI is exploring options for MRA frameworks that build on and align with—not duplicate—existing benchmarks and corporate accountability frameworks. VCMI respects and recognizes the role each organization plays in voluntary carbon markets, and has been engaging in ongoing coordination efforts with the Science Based Targets initiative (SBTi), the Greenhouse Gas Protocol (GHG Protocol), CDP, We Mean Business and the Integrity Council for the Voluntary Carbon Market (ICVCM), among other key corporate voluntary standards bodies. The Claims Code makes clear reference to these other institutions and their guidance, when applicable. It acknowledges their role and contribution alongside that of the VCMI, and works to ensure that there is alignment in the use of definitions adopted, so that companies are clear on terminology and on how these different institutions come together in the voluntary carbon market ecosystem.

Second, we recognize that VCMI's role in voluntary carbon market governance is one piece of a larger puzzle. Ensuring the effective wider governance of voluntary carbon markets requires a broader convergence of actors and resources to fill the need for assurance services, among other components. We remain committed to working with the larger community, and with governments, to address this overarching governance need. VCMI has been closely coordinating with the High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities (HLEG), established by the UN Secretary-General (UNSG), so that the Claims Code contribution is recognized in leveraging the integrity of the market.

VCMI acknowledges the climate finance gap to meet the Paris Agreement is significant and that mobilising finance – including through voluntary carbon markets – is urgently needed. VCMI firmly believes that high-integrity voluntary carbon markets are capable of unlocking private finance and driving financial resources where they are needed the most, contributing not only to GHG emissions reductions but also to job creation, income generation and improvements in well-being. An enabling policy environment for high-integrity voluntary carbon markets helps ensure they deliver maximum benefits for climate and socio-economic prosperity. That is why VCMI recently released our Access Strategy Toolkit based on our engagement with policymakers in countries hosting carbon market activities globally. The Toolkit sets out the steps required to access voluntary carbon market finance as part of a holistic approach to climate finance.

The VCMI Claims Code of Practice outlines requirements, recommendations and supporting guidance for companies so that they can prepare to make a VCMI Claim, as presented in section 5. Requirements refer to those actions that must be implemented by companies as a necessary condition to move forward in the process of making a VCMI Claim. Recommendations and supporting guidance, meanwhile, provide companies with suggestions and additional sources of information, to highlight best practice measures which companies should implement or work towards.

5.
The VCMI Claims Code of Practice

This document provides an operable Claims Code to guide the credible voluntary use of carbon credits by companies and other non-state actors and the making of associated public claims. The Claims Code builds on the provisional Claims Code released by VCMI in June 2022 and the feedback received, expanding on requirements of other leading climate change initiatives[3]. The content of the Claims Code is driven by VCMI's Principles for High Ambition and High Integrity (Please refer to Annex A) Voluntary Corporate Climate Action.

VCMI Enterprise-wide Claims

VCMI Claims Code sets out how companies can make assurable enterprise-wide claims, which reflect the credible voluntary use of carbon credits in contributing towards efforts to reach global net zero no later than 2050. This section outlines the four key steps that companies must take to make a VCMI Claim. By following these steps and adhering to the requirements, a company will be able to obtain one of the VCMI enterprise-wide Claims described in this Claims Code: Silver, Gold, or Platinum (please refer to Box 2 for additional information regarding the Claims names).[4] VCMI envisages, in 2023, the development of a full set of Claims tiers, including lower tier claims for companies that are taking significant credible action, but that are not able yet to meet their near-term targets. An "on-ramp" will also be created for companies at the beginning of their decarbonization journey, and which may initially find it challenging to meet VCMI's Foundational Criteria (previously referred to in the provisional Claims Code as pre-requisites). The highest tiers will be appropriate for companies considered at the vanguard of sustainability and which are taking full responsibility for their climate impact, by meeting their emissions reduction targets and taking additional mitigation measures that contribute to the global goals of the Paris Agreement.

VCMI and its partners are commissioning research on the potential for allowing greater use of carbon credits, as further detailed in Box 3, which could be incoporated as additional tiers into this tier structure. This further research is important given the complexity of the issues involved, including how to encourage more companies to take action towards net-zero by possibly allowing for short-term flexibility in value-chain mitigation. This set of claims is described below but will be further refined by November, incorporating the analyses that are being carried out and addressing other outstanding issues such as thresholds, time limits and other possible safeguards. As such, the Claims Code presents the first suite of VCMI Claims – Silver, Gold, and Platinum – which are described and defined in Step 2 below.

For companies wishing to make a VCMI Claim that covers their enterprise-wide emissions, there is a four-step process to be followed. These steps are set out below.

3 Including the Carbon Pricing Leadership Coalition's (CPLC) Report of the Task Force on Net Zero Goals and Carbon Pricing; the full suite of Science Based Target initiative's (SBTi) target setting guidance and standard; Gold Standard's Scope 3 Value Chain Interventions Guidance; The Oxford Principles for Net Zero Aligned Carbon Offsetting; the UNSG's HLEG; and the GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

4 As indicated in Box 2, VCMI has been conducting market research on Claims names. For the purpose of this document, temporary metallic theme Claims tiers are being used until Claims names are decided.

Box 2: Market research on Claims names

VCMI acknowledges the important role that claim names have in influencing consumer behaviour as well as for the marketability of an organisation. For that reason, VCMI is commissioning market research to determine marketable, understandable, and informative claim names. The outcome of this research may result in a change to the VCMI Claim names, potentially shifting away from the current Silver, Gold and Platinum approach. A shortlist of potential claim names will be appraised by VCMI stakeholders, including participants in the VCMI Stakeholder Forum, which will take place between July and November 2023.

Box 3: Flexibility research

VCMI is supporting rigorous academic research to explore the effects of allowing, for a limited period, some defined use of carbon credits toward meeting interim emission reduction targets, as addressed in the Bronze Claim previously presented in the provisional Claims Code. The research will examine whether such flexibility would increase and accelerate overall mitigation, or instead reduce and delay it. It will consider the benefits, risks and trade-offs likely with different approaches. VCMI commits to take the results into account in developing further claims tiers, with the aim of encouraging climate mitigation at scale and enabling climate finance to flow to where it is most urgently needed.

THE FOUR STEPS FOR MAKING A VCMI CLAIM

The following sections outline specific requirements, recommendations and supporting guidance for making a VCMI Claim.

01 Comply with the Foundational Criteria

1. Maintain and publicly disclose an annual greenhouse gas emissions inventory
2. Set and publicly disclose validated science-based near-term emissions reduction targets, and publicly commit to reaching net zero emissions no later than 2050
3. Demonstrate that the company is on-track towards meeting a near-term emissions reduction target and minimizing cumulative emissions over the target period
4. Demonstrate that the company's public policy advocacy supports the goals of the Paris Agreement and does not represent a barrier to ambitious climate regulation

02 Select a VCMI Claim to make

Select a VCMI Claim to make and meet the respective requirements. Each claim requires the purchase and retirement of high-quality carbon credits proportionate to remaining emissions once a company has demonstrated progress towards meeting its near-term targets;

- VCMI Silver (≥ 20% and < 60%)
- VCMI Gold (≥ 60% and < 100%)
- VCMI Platinum (≥ 100%)

03 Meet the required carbon credit use and quality thresholds

Companies should use the highest quality carbon credits. Purchase and retire high-quality carbon credits following the ICVCM's Core Carbon Principles and transparently report relevant information pertaining to retired credits, including authorization of credit by the host country.

04 Obtain third-party assurance following the VCMI MRA Framework

To substantiate a VCMI Claim, it is essential that companies provide information relating to the Foundational Criteria, VCMI Claim specific requirements including key information relating to the retirement of high-quality carbon credits. This information will need to be assured by an independent third party to ensure integrity and credibility of claims.

01 Comply with the Foundational Criteria

What are the VCMI Foundational Criteria?

The VCMI Foundational Criteria are designed to be aligned with the Paris Agreement's long-term mitigation goals. They draw on best practice guidance developed by leading global initiatives such as the SBTi and the UN-led Race to Zero Campaign, as well as guidance from existing and emerging regional and national regulatory frameworks. The Foundational Criteria serve as the backbone for a robust climate strategy and therefore must be addressed first as part of making a VCMI Claim.

Before making voluntary use of carbon credits (and making a VCMI Claim), companies shall adhere to all four foundational criteria.

FOUNDATIONAL CRITERIA

1 - Maintain and publicly disclose an annual greenhouse gas emissions inventory

2 - Set and publicly disclose validated science-based near-term emissions reduction targets, and publicly commit to reaching net zero emissions no later than 2050

3 - Demonstrate that the company is on-track towards meeting a near-term emissions reduction target and minimizing cumulative emissions over the target period

4 - Demonstrate that the company's public policy advocacy supports the goals of the Paris Agreement and does not represent a barrier to ambitious climate regulation

Foundational Criterion 1: Maintain and publicly disclose an annual greenhouse gas emissions inventory

REQUIREMENTS FOR EMISSIONS INVENTORIES

Companies are required to:

— Make an enterprise-wide GHG emissions inventory publicly available on the company's website and update it annually;

— Report its GHG emissions inventory in accordance with the GHG Protocol Corporate Accounting and Reporting Standard, the GHG Protocol Corporate Value Chain (scope 3) Accounting and Reporting Standard, and the forthcoming Land Sector and Removals Guidance, if applicable;

— Include in the GHG emissions inventory company-wide scopes 1 and 2 emissions, separately disclosing scope 2 emissions calculated using the location-based and market-based approach as per the GHG Protocol Scope 2 Guidance. However, a single and consistent accounting approach (either market-based or location-based) must be used for setting and tracking progress towards targets, in line with SBTi's near-term emissions reduction target criteria. Companies shall also include scope 3 emissions for all existing emissions sources, according to the minimum boundary established for each of the fifteen scope 3 categories as set out by the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard;

— Provide clear explanations and estimations of how any structural changes to the company, methodological changes, or changes to activity data or emission factors applied have affected the most recent reporting year's inventory to be able to separate any impacts that are due to the methodological change from impacts due to actual mitigation actions. If structural changes or changes in methodology or data sources result in significant differences in emissions, companies are required to recalculate base-year emissions in accordance with the GHG Protocol Corporate Accounting and Reporting Standard and the Corporate Value Chain (scope 3) Accounting and Reporting Standard. In the absence of a base year emissions recalculation policy, a company must agree to apply a 5% significance threshold for emission recalculations.

Recommendations and supporting guidance:

— Companies may report their inventory through any of the following formats: CDP Climate Disclosure; the reporting company's annual sustainability report or annual statement of GHG emissions; its Global Reporting Index (GRI) disclosure that includes GRI 305-1, 305-2, and 305-3; or its Sustainable Accounting Standards Board (SASB) index.

— VCMI acknowledges that data availability is a challenge for many companies. However, in the pursuit of net zero, VCMI encourages companies to take measures to expand and improve processes for capturing better quality and more comprehensive data across all scope 3 emissions that exist for the company. For guidance on collecting emissions data, please refer to the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (see Chapter 7: Collecting Data).

Foundational Criterion 2: Set and publicly disclose validated science-based near-term emissions reduction targets, and publicly commit to reaching net zero emissions no later than 2050

'Science-based' is used when adhering to SBTi's standards, while 'science-aligned' may not necessarily follow SBTi's standards. Science-aligned targets are those that follow what the latest climate science says is necessary to limit global warming to 1.5 degree Celsius with no or limited overshoot as the ultimate objective, as highlighted by the Intergovernmental Panel on Climate Change (IPCC), through its model pathway of CO_2 emissions reductions. VCMI acknowledges that deep, rapid and sustained reductions in GHG emissions are urgently needed to achieve global net zero within this century.

REQUIREMENTS FOR NEAR-TERM TARGETS

— Set and publicly disclose validated near-term emissions reduction targets by the year they are seeking to make a VCMI Claim, following SBTi's criteria for setting near-term targets. SBTi requires near-term targets to be within 5-10 years, i.e., a maximum of 10 years into the future from the date the target was set[5]. Targets can be set in absolute or intensity terms, following SBTi's criteria for setting near-term targets.

— Disclose whether the target is independently validated or validated by the SBTi.

— Companies must follow SBTi criteria for setting the target boundary and emissions coverage (this means 95 percent coverage of scopes 1 and 2 emissions, and 67 percent coverage of scope 3 emissions if scope 3 emissions represent over 40 percent of the inventory from all scopes). For power companies, SBTi sector specific criteria must be followed, including setting a third target covering 100% of emissions from downstream use of fossil fuels.

REQUIREMENTS FOR LONG-TERM NET ZERO TARGETS

Companies are required to:

— Make a public commitment to achieve net zero emissions no later than 2050, including scopes 1, 2 and 3 GHG emissions, as well as land-based GHG emissions where applicable;

— Companies must disclose the definition of net zero they have adopted, in line with globally recognized sustainability frameworks or guidance, as well as the principles and/or methodology they have used or intend to use to set their net zero target; and

— Use the same base year for the long-term net zero target as that used for the initial near-term target.

Recommendations and supporting guidance

— Companies are encouraged (but not required) to validate their near-term targets with the SBTi.

— Companies are encouraged to set a base year as the most recent year with available data.

— Companies are encouraged to set a long-term emissions reduction target, in line with their commitment to reaching net zero no later than 2050, within 24 months of obtaining a VCMI Claim;

— On communicating the scope of emissions included within targets, VCMI suggests that the emissions coverage of companies' targets, expressed as a share of total scope 1, 2 and 3 emissions, be prominently displayed and communicated alongside any target-related communication made by the company. For example, if a company sets a target to reduce emissions by 30%, covering 75% of its total value-chain emissions, it should disclose the 75% coverage in any communication related to the 30% target, so as not to mislead stakeholders;

— Companies are encouraged to align with the recommendations set out by the UN High Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities and the UN-led Race to Zero, which requires companies to halve emissions by 2030. Companies are also encouraged to join the UN-led Race to Zero campaign.

[5] From 2030 onwards, all subsequent near-term reduction targets must be no more than five years apart.

Foundational Criterion 3: Demonstrate that the company is on-track towards meeting a near-term emissions reduction target and minimizing cumulative emissions over the target period

Over a company's climate mitigation target period, it is important not only to meet the emissions target but also minimize the cumulative emissions over the course of reaching the target. To operationalize Foundational Criterion 3, VCMI has established a set of requirements related to emissions mitigation as well as non-emissions-based metrics. VCMI deems these to be representative of whether a company is on-track[6], by accessing whether it is taking sufficiently robust measures to reduce emissions in comparison to the base year, setting up appropriate climate governance structures, and appropriately apportioning funding to finance the company's decarbonization towards meeting the near-term target. These key requirements which companies must report on exemplify the recommended best practice to be included in a climate transition plan (see Box 4).

REQUIREMENTS FOR EMISSIONS REDUCTIONS

Companies are required to:

1. Publicly disclose the following information related to the progress on GHG emissions reductions achieved in the most recent reporting year, compared to the base year of the near-term target:

   1.1. The percentage of total GHG emissions reductions achieved, which can be expressed on an absolute or intensity-basis.

REQUIREMENTS FOR FINANCIAL CONTRIBUTIONS

Companies are required to:

2. Publicly disclose the following information related to current and planned financial contributions dedicated to GHG mitigation across the company's value chain:

   2.1 Total financial contributions made during the most recent reporting year dedicated to GHG mitigation across the company's value chain. Companies shall disclose information relating to at least one of the requirements below:

      2.1.1. The percentage of annual revenue that was dedicated to GHG mitigation;

      2.1.2. The percentage of capital expenditure (CAPEX) and operational expenditures (OPEX) that was dedicated to GHG mitigation. Companies shall disclose the definition chosen for CAPEX and OPEX metrics using existing definitions from global or regional taxonomy;

      2.1.3. If a company cannot disclose the aforementioned metrics, it shall provide a statement to explain why, and a qualitative description and analysis of investments made and steps taken related to GHG mitigation.

[6] We acknowledge that further work needs to be developed to fully assess whether a company is indeed on-track towards meeting its emission reduction targets. VCMI will carry out additional research and continue to investigate the issue over the coming months to refine the assessment process and provide clear guidance on specific metrics and thresholds that companies can report on to demonstrate that rigorous measures have been put in place to ensure emissions reduction targets will be met.

2.2. Total planned financial contributions dedicated to GHG mitigation across the company's value chain. Companies shall disclose information relating to at least one of the requirements below:

2.2.1. The percentage of annual revenue earmarked for GHG mitigation;

2.2.2. The percentage of capital expenditure (CAPEX) and operational expenditures (OPEX) that will be dedicated to GHG mitigation. Companies shall disclose the definition chosen for CAPEX and OPEX metrics using existing definitions from global or regional taxonomy;

2.2.3. If a company cannot disclose the aforementioned metrics, it shall provide a statement to explain why, and a qualitative description and analysis of investments made and steps taken related to GHG mitigation.

REQUIREMENTS FOR STRATEGY AND GOVERNANCE

Companies are required to:

3. Publicly disclose the following information related to the company's governance structure for overseeing its progress in reaching near-term targets.

3.1. The board-level governance structure, policies and actions related to oversight and/or approval of the company's climate strategy. Companies shall disclose at least one of these metrics:

3.1.1. Companies shall disclose whether their board-level compensation is linked to climate performance indicators. If yes, then companies shall disclose a description of the board-level compensation policy and indicators related to climate performance;

3.1.2. Companies shall disclose whether their Board members have capabilities or expertise on climate-related issues. If yes, then companies shall disclose a description of the climate-related capabilities and expertise held by board members;

3.1.3. Companies shall disclose whether they conduct board-level reviews on progress towards meeting near-term emissions reduction targets. If yes, then companies shall disclose the frequency of these board-level reviews.

Recommendations and supporting guidance:

— VCMI recommends companies draw on guidance established by the Task Force on Climate-related Financial Disclosures and the specific provisions of the International Sustainability Standards Board (ISSB) International Financial Reporting Standards Foundation S2 Climate-related Disclosures. Many companies may already be communicating the above disclosure requirements as part of their annual reporting, including CDP reporting or the ISSB.

— If applicable, VCMI recommends the company publicly disclose any changes in capital allocation from the most recent reporting year that were made to address climate-related risk and opportunities[7].

[7] Based on the definition from ISSB IFRS S2 Climate-related Disclosures. ISSB has proposed seven cross-industry metrics to address climate-related risks and opportunities – including GHG emissions; transition risks; physical risks; climate-related opportunities; capital deployment; internal carbon prices; and the percentage of executive management remuneration.

Box 4: Climate transition plan

A climate transition plan, sometimes referred to as net zero transition plans, is an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions[8]. Generally spanning several decades, it outlines a set of objectives, policies, steps and firm plans to take to reach net zero. At the corporate level, a transition plan helps a company demonstrate accountability and transparency by translating net zero commitments into actionable steps. However, there is no universal definition of a 'transition plan', and the specific elements vary across institutions, jurisdictions, and individual companies.

VCMI acknowledges the contributions on net zero transition plans made by the UK Transition Plan Taskforce (UK TPT draft Disclosure Framework), the Glasgow Financial Alliance for Net Zero (GFANZ), and UNSG's HLEG.

During COP27, UK TPT released its Disclosure Framework and accompanying Implementation Guidance for consultation. The TPT Disclosure Framework represents a development of the recommendations of TCFD and ISSB to disclose transition plans, aligned with GFANZ transition plan framework, and consistent with the UNSG HLEG's recommendations. It comprises five key elements, guided by the principles of Ambition, Action and Accountability, and focuses on implementation of short-term corporate climate actions. These elements include GHG emissions, financial indicators, and governance-related measures.

VCMI supports the UK TPT's direction of travel and has drawn key disclosure elements from the Disclosure Framework into the Claims Code. In relation to the third Foundational Criterion, VCMI has identified performance indicators from UK TPT and key disclosure frameworks that allow for a comparable, quantitative, and qualitative assessment of a company's credible continuous participation along the net zero pathway. VCMI encourages companies to report on other transition plan elements at their discretion.

[8] ISSB IFRS S2 Appendix A definition of climate-related transition plan

Foundational Criterion 4: Demonstrate that the company's public policy advocacy supports the goals of the Paris Agreement and does not represent a barrier to ambitious climate regulation

REQUIREMENTS FOR PUBLIC ADVOCACY

Companies are required to:

1. Submit a public statement describing how advocacy activities are consistent with the principles of the four categories of the Global Standard on Responsible Corporate Lobbying, i.e., Policy and Commitment, Governance, Action, and Specific Disclosure.

02 Select a VCMI Claim to make

Once a company has met the VCMI Foundational Criteria, it should review whether it is able to meet VCMI Claim requirements as detailed below, with particular consideration for expenditure relating to the purchase and retirement of high-quality carbon credits. The emissions profile of a company and average cost per carbon credit will influence the associated costs of a claim proportional to revenues (Box 5). To take into account the varying constraints faced by companies with different emissions profiles, VCMI has created three tiers of VCMI Claims, which are aligned with SBTi and the UNSG's HLEG (see Table 1).

As noted in the section above, VCMI will explore introducing additional claims tiers to enable a wider range of companies to make a VCMI Claim on the pathway to VCMI Silver, Gold and Platinum Claims, and thus incentivise continuous improvement and increasing ambition of corporate climate action through high-integrity voluntary carbon markets.

REQUIREMENTS FOR SELECTING A VCMI CLAIM TO MAKE

Companies are required to:

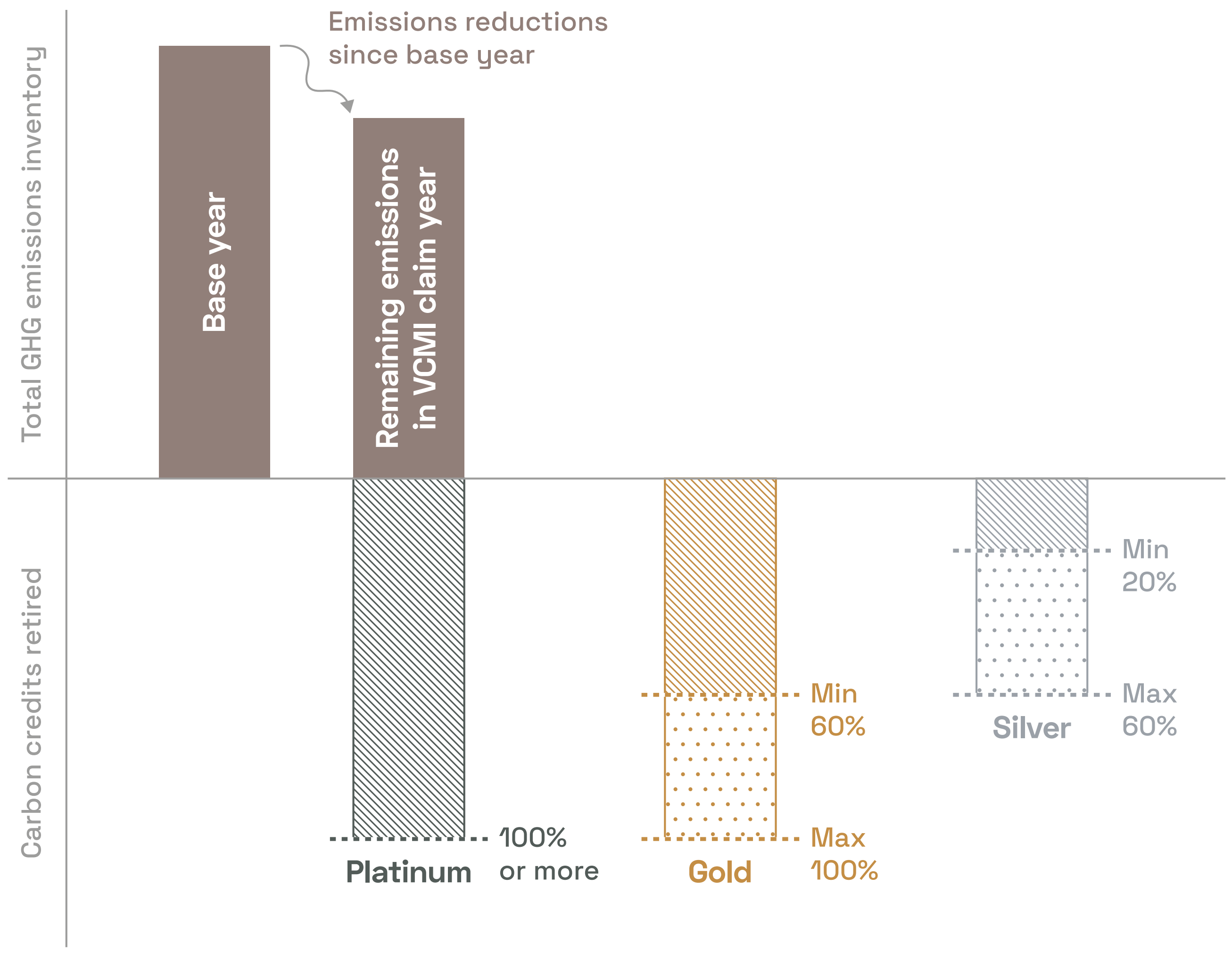
— Publicly disclose a statement, asserting they have complied with the Foundational Criteria and all additional requirements in the VCMI Claims Code of Practice to make the chosen VCMI Claim (i.e. Silver, Gold or Platinum). Please refer to the Supplementary Guidance document for clarity on how to communicate VCMI claims.

Table 1: VCMI enterprise-wide claims and requirements

SILVER	GOLD	PLATINUM
This tier is the most accessible, but still represents a significant investment in carbon credits. Companies making a VCMI Silver Claim must: • Meet the Foundational Criteria; • Purchase and retire high-quality carbon credits of an amount equivalent to or greater than 20% and less than 60% of their remaining emissions in the most recent reporting year, with credits only used to finance additional climate mitigation beyond these targets. • The percentage of carbon credits to be purchased and retired must increase in each subsequent year a company makes a VCMI Claim.	**This tier is designed to be more achievable than Platinum but still requires retirement of a significant volume of high-quality carbon credits. Companies making a VCMI Gold Claim must:** • Meet the Foundational Criteria; • Purchase and retire high-quality carbon credits of an amount equivalent to or greater than 60% and less than 100% of their remaining emissions in the most recent reporting year, with credits only used to finance additional climate mitigation beyond these targets. • The percentage of carbon credits to be purchased and retired must increase in each subsequent year a company makes a VCMI Claim.	**This is the most aspirational tier. It sets the vision that companies should aim towards. Companies making a VCMI Platinum Claim must:** • Meet the Foundational Criteria; • Purchase and retire high-quality carbon credits of an amount that is equal to or greater than 100% of the remaining emissions in the most recent reporting year, with credits only used to finance additional climate mitigation beyond these targets.

Carbon credits underpinning VCMI Claims are not counted as internal emission reductions that a company undertakes to meet decarbonization targets. Rather, these purchases represent a contribution to both the company's climate goals and to the collective global mitigation effort to reach net zero emissions.

Graph 1 visually presents VCMI Claims tiers Silver, Gold and Platinum and respective thresholds that represent the amount of credits retired, proportional to the remaining emissions in the year that a company makes a claim, having reduced emissions in comparison to the base year.



Graph 1: VCMI Claims tiers

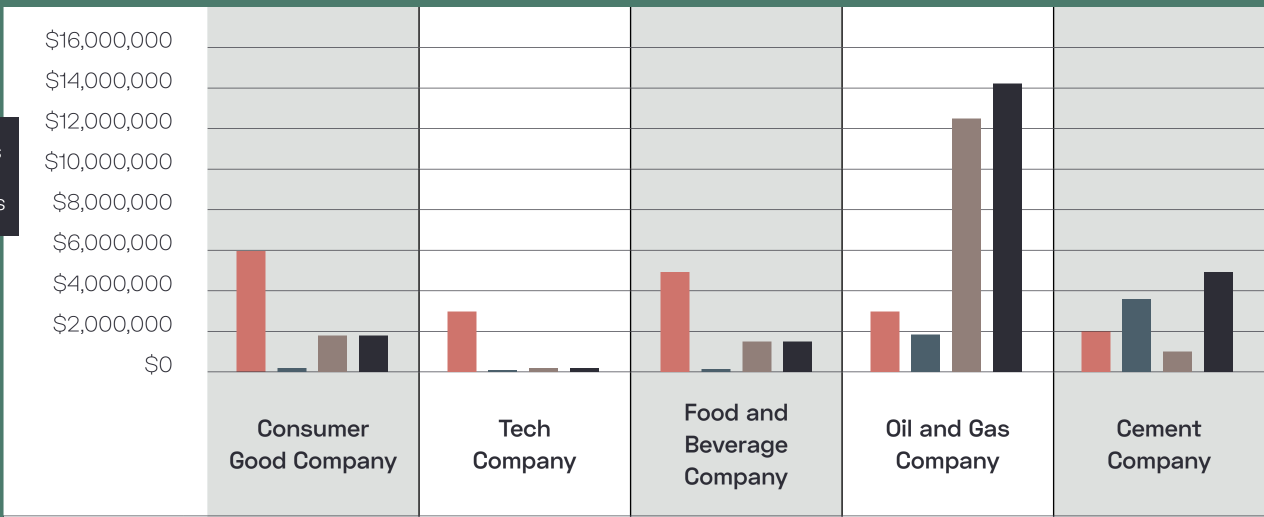
Companies have the option to choose from three VCMI Claims. All of these Claims require the purchase of high-quality carbon credits representing mitigation achieved outside the value chain* of the company, contributing both to the company's climate goals and to the collective global mitigation effort to reach net zero emissions.

The amount of credits retired for the purposes of the VCMI Claim is proportionate to the remaining emissions in the year that the company makes a VCMI Claim. VCMI defines remaining emissions as emissions that remain in a given year as a company progresses towards the delivery of its near and long-term targets.

*See definition of beyond value chain mitigation in the Glossary

Box 5: Cost implications of covering unabated emissions for different sector emission profiles

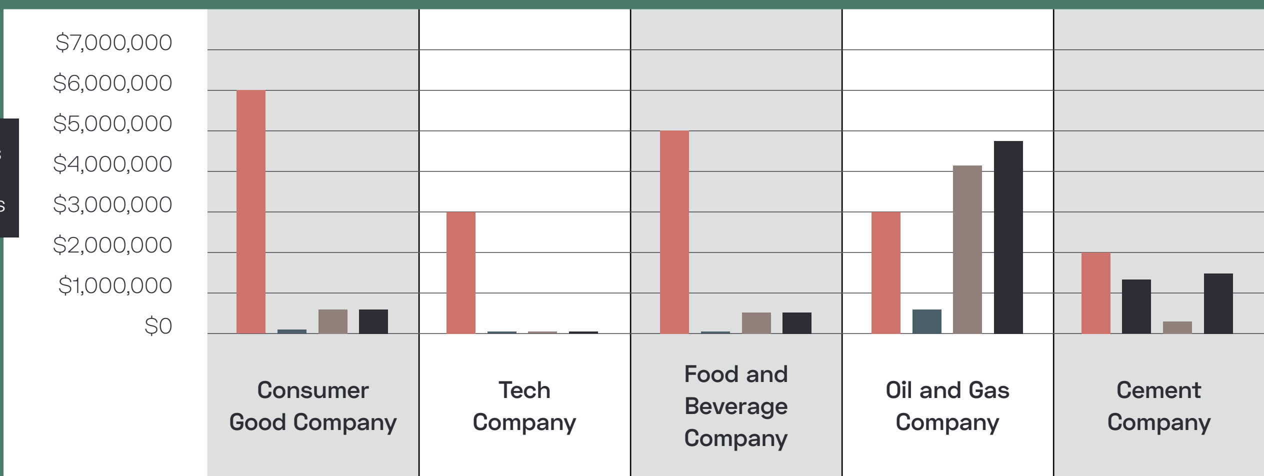
All numbers represent $ thousands



	Consumer Good Company	Tech Company	Food and Beverage Company	Oil and Gas Company	Cement Company
Profit	$6,000,000	$3,000,000	$5,000,000	$3,000,000	$2,000,000
S1 & 2 ($)	$23,700	$1,800	$16,500	$1,740,000	$3,840,000
S3 ($)	$1,800,000	$33,000	$1,500,000	$12,360,000	$900,000
S1, 2, 3 ($)	$1,823,700	$34,800	$1,516,500	$14,100,000	$4,740,000

Graph 2: Costs of covering emissions with carbon credits that cost $30/ton

All numbers represent $ thousands



	Consumer Good Company	Tech Company	Food and Beverage Company	Oil and Gas Company	Cement Company
Profit	$6,000,000	$3,000,000	$5,000,000	$3,000,000	$2,000,000
S1 & 2 ($)	$7,900	$600	$5,500	$580,000	$1,280,000
S3 ($)	$600,000	$11,000	$500,000	$4,120,000	$300,000
S1, 2, 3 ($)	$607,900	$11,600	$505,500	$4,700,000	$1,580,000

Graph 3: Costs of covering emissions with carbon credits that cost $10/ton

03

Meet the required carbon credit use and quality thresholds

Irrespective of the type of claim being made, companies should seek out and use carbon credits of the highest quality, both to underpin the credibility of their claims and to help drive integrity across the market.

Carbon credits with or without associated corresponding adjustments can be used to underpin VCMI Silver, Gold and Platinum Claims. Carbon credits underpinning VCMI Claims are not counted as internal emission reductions that a company undertakes to meet decarbonization targets. Rather, these purchases represent a contribution to both the company's climate goals and to global mitigation.

REQUIREMENTS FOR THE PURCHASE AND RETIREMENT OF HIGH-QUALITY CARBON CREDITS:

1. Companies shall purchase and retire 'CCP-Approved' credits when they become available.

When a specific activity type has not yet been assessed by the Integrity Council for the Voluntary Carbon Market (ICVCM), companies may alternatively purchase and retire credits included in the ICAO document CORSIA Eligible Emission Units approved for the 2021-2023 Compliance Period (Pilot Phase) or the 2024-2026 Compliance Period (First Phase), pending assessment by the ICVCM. Once an activity type has been assessed by the ICVCM, only CCP approved credits shall be purchased and retired. Any CORSIA Eligible Emission Units retired before assessments are made by the ICVCM for a given activity type will contribute toward meeting a VCMI Claim in a given year. These are carbon credits that pass screening under the ICVCM's Assessment Framework. This framework, which assesses credit quality at the carbon crediting program and carbon credit category level, is underpinned by the ICVCM's Core Carbon Principles (CCPs).

Published in early 2023, the program level CCPs are intended to identify high-quality carbon credits that create a verifiable climate impact, based on the latest science and expertise. The ICVCM, an independent governance body for the voluntary carbon market, aims to provide the building blocks of viable, trustworthy and high-integrity voluntary carbon markets through providing a benchmark for carbon credit quality. The ICVCM announced that the assessment phase for carbon crediting programs will begin in mid-2023 and categories of carbon credits, soon thereafter. It expects to begin announcing carbon crediting programs that are CCP-Eligible, and carbon credit categories that can be labelled CCP-Approved, in the second half of 2023.

VCMI acknowledges that the Assessment Framework of the ICVCM has not yet been published in its entirety as of the publication of the VCMI Claims Code and it is therefore too early to formally endorse the approach. However, CCPs that have been published by the ICVCM (see Box 6) constitute a basis to assess the quality of carbon credits and, in the absence of the more detailed rules, are a useful framework to guide carbon credit purchases.

2. Companies shall publicly disclose the types, sources, quantities and other relevant details regarding the carbon credits purchased and retired, as outlined in the section below.

For further guidance and insight on carbon credit quality and approaches to using carbon credits, please refer to Annex D.

REQUIREMENTS FOR REPORTING HIGH-QUALITY CARBON CREDITS

In addition to meeting the quality thresholds for carbon credit use, companies are required to publicly disclose key information related to each carbon credit retired, such as:

- Number of credits purchased and retired that the company applied towards the VCMI Claim. These shall be CORSIA label credits, and once the ICVCM Assessment Framework is implemented, companies shall transition to purchase and retire CCP label credits.
- Certification standard name, project name, project ID, retirement serial number, retirement date.
- Host country, credit vintage, methodology, and project type.
- Whether or not the carbon credit is associated with a corresponding adjustment in accordance with Article 6 of the Paris Agreement. If the carbon credit is reported as being associated with a corresponding adjustment, applied presently or in the future, this shall be evidenced by authorization by a participating Party or Parties, including information on the authorized use or uses, and the timings of the authorization, and the application of the corresponding adjustment.
- If associated with additional third-party certification regarding social or environmental integrity (e.g., SDGs label, SD Vista, Climate, Community and Biodiversity Standards, etc.), companies must provide information related to how the credit promotes equity and generates co-benefits to ecosystems and local economies.

Box 6. ICVCM's 10 Core Carbon Principles:

A. Governance

Effective governance: the carbon-crediting program shall have effective program governance to ensure transparency, accountability, continuous improvement, and the overall quality of carbon credits.

Tracking: the carbon-crediting program shall operate or make use of a registry to uniquely identify, record, and track mitigation activities and carbon credits issued to ensure credits can be identified securely and unambiguously.

Transparency: The carbon-crediting program shall provide comprehensive and transparent information on all credited mitigation activities. The information shall be publicly available in electronic format and shall be accessible to non-specialised audiences, to enable scrutiny of mitigation activities.

Robust independent third-party validation and verification: the carbon-crediting program shall have program-level requirements for robust independent third-party validation and verification of mitigation activities.

B. Emissions Impact

Additionality: the GHG emission reductions or removals from the mitigation activity shall be additional, i.e., they would not have occurred in the absence of the incentive created by carbon credit revenues.

Permanence: the GHG emission reductions or removals from the mitigation activity shall be permanent or, where there is a risk of reversal, there shall be measures in place to address those risks and compensate reversals.

Robust quantification of emission reductions and removals: the GHG emission reductions or removals from the mitigation activity shall be robustly quantified, based on conservative approaches, completeness and scientific methods.

No double counting: the GHG emission reductions or removals from the mitigation activity shall not be double counted, i.e., they shall only be counted once towards achieving mitigation targets or goals. Double counting covers double issuance, double claiming, and double use.

C. Sustainable development

Sustainable development benefits and safeguards: the carbon-crediting program shall have clear guidance, tools and compliance procedures to ensure mitigation activities conform with or go beyond widely established industry best practices on social and environmental safeguards while delivering positive sustainable development impacts.

Contribution toward the net zero transition: the mitigation activity shall avoid locking-in levels of GHG emissions, technologies or carbon-intensive practices that are incompatible with the objective of achieving net zero GHG emissions by mid-century.

Box 7: Removals and reductions credits

VCMI does not specifically require companies to purchase and retire either reduction or removal credits to make VCMI Silver, Gold, and Platinum Claims. From VCMI's perspective, companies may invest in carbon credits issued from either emission reduction or removal projects for the global transition to net zero. They should prioritize projects based on the quality of the climate mitigation and co-benefit impacts they may deliver. The importance of early investment in carbon removal projects should be reinforced. As highlighted by the IPCC AR5[9], these solutions are fundamental to achieving net-zero emissions and need to be scaled up. VCMI encourages companies to use carbon dioxide removals as part of their carbon credits portfolio and invest in future carbon removals. Further guidance is set out in Annex D.

9 "Summary for policymakers", in Climate Change 2022: Mitigation of climate change, Intergovernmental Panel on Climate Change, April 4, 2022.

04 Obtain third-party assurance of reported information following the VCMI Monitoring, Reporting & Assurance (MRA) Framework

To substantiate a VCMI Claim, transparent reporting of information is essential to demonstrate that:

- Foundational Criteria requirements have been met;
- VCMI Claim-specific requirements have been met, including information needed to demonstrate commitment to meeting near-term targets; and
- Key information related to the carbon credits used to meet the VCMI Claim is disclosed, such as the number of credits purchased and retired that are applied to a VCMI Claim.

The metrics that companies must report in the first year of making a VCMI Claim are listed in Annex F. Reporting shall be made publicly available to stakeholders on a company's website, in a standalone report (e.g., a climate strategy report) or within a more comprehensive report (e.g., a sustainability report).

Each metric must be subject to an independent, third-party limited assurance to make a VCMI Claim. This assurance will be performed in line with International Standard on Assurance Engagements (ISAE) or American Institute of Certified Public Accountants (AICPA) attestation standards, or International Organization of Securities Commissions (IOSCO) standards, and cover all the items which require assurance per the VCMI MRA Framework, as an evolving system which will be published in November 2023. If a company has already undergone an independent, third-party assurance process for metrics relating to any of the VCMI requirements, it can provide assurance documentation (e.g., assurance reports or statements) as evidence it has complied with that specific criterion. However, all companies are subject to a full reporting process as detailed in the VCMI MRA Framework. It is through this process that companies can provide existing assurance documentation, which apply to relevant information as required in the VCMI Claims Code.

Reporting shall be made publicly available to stakeholders on a company's website, in a standalone report (e.g., a climate strategy report) or within a more comprehensive report (e.g., a sustainability report).

6. Glossary

Glossary

TERM	DEFINITION
Article 6	A section of the Paris Agreement, under the UN Framework Convention on Climate Change, which consists of nine paragraphs providing principles for how countries can "pursue voluntary cooperation", including through international carbon markets, to reach their climate targets, as well as additional context to support its implementation.
Assurance	An engagement in which a practitioner seeks sufficient appropriate evidence to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information provided (ISAE 3000, 2000).
Beyond value chain mitigation (BVCM)	Mitigation action or investment that takes place outside of an organization's value chain. This includes activities that avoid or reduce GHG emissions, and those that remove and store GHGs from the atmosphere. The purchase of high-quality carbon credits beyond a company's value chain is an example of BVCM (SBTi, 2023).
Carbon credit	A tradeable unit issued by a carbon crediting program/standard that represents a verified reduction or removal of GHGs from the atmosphere equivalent to one metric tonne of CO_2e. Carbon credits are uniquely serialized, issued, tracked, and cancelled or retired by means of an electronic registry.
Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)	A global market-based mechanism, adopted by the International Civil Aviation Organization (ICAO) in 2016, to address CO_2 emissions from international aviation. CORSIA is the first global market-based measure for an individual sector. It pursues a cooperative approach, involving governments, industry, and international organizations, that attempts to replace a patchwork of national or regional regulatory initiatives. CORSIA aims to stabilize, from 2021, international civil aviation CO_2 emissions at 2019 levels, including through the use of carbon credits that are determined by ICAO to meet the CORSIA Emissions Units Eligibility Criteria. (For additional information, see ICAO, 2021).
Claim	A message used to describe or promote a product, process, business, or service with respect to its sustainability attributes or credentials (ISEAL, 2015).
Compensation claim	A claim that a company which is investing in BVCM might make that: ● Coveys to audiences that it delivered BVCM proportionate to a stated percentage of unabated value chain emissions; ● Seeks to convey that the BVCM outcomes are counterbalancing those unabated value chain emissions; ● Is based on the application of the tonne-for-tonne method to determine the nature and scale of the commitment to BVCM.

TERM	DEFINITION
Contribution claim	A claim that a company which is investing in BVCM might make that: ● Represents support or finance to actions beyond the company's value chain (including collective action) with an expected climate mitigation outcome (where the actions are relevant to the expected performance outcome); ● Does not imply that the BVCM outcomes are netting out or counterbalancing the claimants' remaining value chain emissions, but instead are communicated as a contribution to global climate change mitigation efforts or even the efforts of a country; ● Is not defined by any particular method for determining the nature and scale of the commitment to BVCM (SBTi, 2023).
(Climate) contribution approach	An approach where a company purchases or invests in carbon credits or other form of beyond value chain mitigation (BVCM). In a contribution approach, retired carbon credits are not counted towards, nor represent compensation for, a company's remaining value chain emissions. The retirement of these carbon credits represents a contribution to overall global efforts to mitigate climate change. Both money-for-tonne and tonne-for-tonne approaches can both be contribution approaches if companies are using contribution claims.
Corresponding adjustment	An accounting rule under the Paris Agreement's Article 6 to ensure that, when a country authorizes and first transfers a mitigation outcome, emissions reductions or removals are not counted by the country that agreed to transfer it (WRI, 2019).
Decarbonization	The measures through which an entity reduces or avoids its GHG emissions.
Double counting	A situation in which a single greenhouse gas emission reduction or removal is counted by more than one Party toward achieving its Nationally Determined Contribution.
Free Prior and Informed Consent (FPIC)	Consent for any project, plan, or action given in advance and independently decided upon, based on accurate, timely, and sufficient information provided in a culturally appropriate way.
Greenhouse Gas Protocol	The Greenhouse Gas Protocol provides a comprehensive global standardized framework to measure and manage GHG emissions from private and public sector operations, value chains, and mitigation actions. Building on a 20-year partnership between the World Resources Institute (WRI) and the World Business Council for Sustainable Development, the GHG Protocol enables consistent and robust GHG accounting across entities. (For additional information, see GHG Protocol).

TERM	DEFINITION
Integrity Council for the Voluntary Carbon Market (ICVCM)	An independent governance body that is developing and enforcing a set of Core Carbon Principles (CCPs) that establishes a new threshold standard for high-quality carbon credits in the voluntary carbon market. The ICVCM will oversee a process to determine the Eligibility of carbon-crediting programs as well as which carbon credit Categories will become CCP-Approved. (For additional information, see ICVCM, 2023).
Leakage	When a carbon crediting project or program does not halt emission-generating activities, but instead displaces them outside the project or program boundary.
Long-term net zero target	A company commitment to reduce emissions across its value chain (scopes 1, 2 and 3) to zero, or to a residual level aligned with global net zero, no later than mid-century. All residual emissions are balanced out by permanent removals (including high-quality removal carbon credits).
Mitigation contribution	Credits that are not authorized for transfer to be used against the NDC of another country, or for other international mitigation purposes, i.e., a credit generated through Article 6.4 to which a host country will not apply a corresponding adjustment.
Mitigation hierarchy	Prioritized steps to limit negative impacts, as much as possible, through mitigation (or reduction), restoration, and beyond value chain mitigation (WWF, 2020).
Mitigation outcome	An ex-post emission reduction or removal of GHGs determined by quantifying a baseline for emissions within a given boundary and then measuring how much a given intervention avoids, reduces, or removes and sequesters carbon from the atmosphere. A mitigation outcome can then be unitized and, in some cases, serialized for it to be traded as a carbon credit or offset.
Money-for-money approach	A method for determining the nature and scale of a company's commitment to beyond value chain. In addition to delivering on its science-based target (covering value chain emissions), a company would allocate a share of revenues or profit towards financing climate mitigation beyond the value chain. The volume of finance deployed towards BVCM would be determined by the chosen denominator (e.g. profit or revenue) and the chosen percentage (SBTi, 2023).

TERM	DEFINITION
Money-for-tonne approach	A method for determining the nature and scale of a company's commitment to beyond value chain. In addition to delivering on its science-based targets (covering value chain mitigation), a company would channel finance into BVCM based on predefined price of unabated greenhouse gas emitted by that company in a defined period (e.g. in a given year or since the inception of the company). The volume of finance deployed towards BVCM would be determined by the chosen cost of carbon (e.g. a cost of carbon or otherwise) and the unabated emissions in that defined period (SBTi, 2023).
Nationally determined contributions (NDCs)	The national climate plan put forward by a Party to the Paris Agreement, including climate-related targets, policies and measures the government aims to implement in response to climate change and as a contribution to global climate action (UNFCCC, 2015).
Near-term science-based target	GHG emission reduction targets set within the next five to 10 years to reduce emissions in line with what the latest climate science deems is necessary to limit global warming to pursue efforts to limit warming to 1.5 degrees Celsius (SBTi, 2023).
Negative emissions	The emissions level beyond net zero where removals exceed emissions.
Net zero	Net zero emissions are achieved when anthropogenic GHG emissions in the atmosphere are balanced globally by anthropogenic removals over a specified period (as defined by the IPCC's AR6 report and adopted by VCMI).
On track	In VCMI's Foundational Criteria, where a company is taking sufficient measures to reduce emissions in comparison to the base year to meet its next near-term target, with appropriate governance structures to decarbonize, and is appropriately apportioning funding to finance the company's decarbonization.
Permanence	The capacity of reduced, avoided, or removed emissions to not re-enter the atmosphere. In practical terms, this means giving the purchaser of a carbon credit confidence that declared emission reductions will not be reversed by a future event (for example, that the forest planted to absorb a certain amount of emissions will not be cut down or be set on fire) (WRI, 2010).
Remaining emissions	Emissions that remain in a given year as a company progresses towards the delivery of its near- and long-term targets (SBTi, 2023).

TERM	DEFINITION
Removals (a.k.a. carbon dioxide removals)	Anthropogenic activities removing CO_2 from the atmosphere and durably storing it in its geological, terrestrial or ocean reservoirs, or in products (IPCC, 2018).
Residual emissions	Represent the emissions that cannot be completely eliminated or reduced to zero despite implementing all available mitigation measures contemplated in pathways that limit warming to 1.5 degrees Celcius with no or limited overshoot (SBTi, 2023).
Retirement of carbon credits	The transfer to a retirement account or the cancellation of a carbon credit. Once retired, the credit is considered 'used' and cannot be counted again toward a climate target. The owner of the retired credit can accurately claim to have reduced emissions and use those emissions to meet its climate commitments.
Science Based Target initiative (SBTi)	An initiative that mobilizes companies to set emission reduction targets based on climate science. A collaboration between CDP, the UN Global Compact, the WRI, and WWF, the SBTi defines and promotes best practice in science-based target setting, offers resources and guidance to reduce barriers to adoption, and independently assesses and approves companies' targets. Adopting an SBTi-approved target is one of the We Mean Business Coalition commitments (For additional information, see SBTi, 2023).
Science-based/ aligned target	A target that is in line with the latest climate science consensus on safe upper limits for global warming. Alignment with an IPCC model pathway of CO_2 emission reductions that limits global warming to 1.5 degrees Celsius with no or limited overshoot is the ultimate objective (SBTi, 2023). 'Science-based' is used when adhering to SBTi's standards, while 'science-aligned' may not necessarily follow SBTi's standards.
Scopes 1, 2, and 3 emissions	Scope 1 emissions are emissions from operations that are owned or controlled by the reporting company. Scope 2 emissions are emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by the reporting company. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

TERM	DEFINITION
Tonne-for-tonne Approach	A method for determining the nature and scale of a company`s commitment to beyond value chain. In addition to delivering on its science-based target (covering value chain emissions), a company would deliver mitigation beyond its value chain proportional to the climate impact of some percentage of the greenhouse gases emitted by that company in a defined period (e.g. in a given year or since the inception of the company). The volume of finance deployed towards BVCM would be determined by the price that a company pays per tCO_2e of BVCM (in the case of carbon credits, this would be determined by market prices) and the percentage of unabated emissions that are being “matched” with BVCM in that defined period (SBTi, 2023).
Value chain emissions	Emissions from the upstream and downstream activities associated with the operations of the reporting company. Scope 3 emissions include all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions (GHG Protocol, 2011).
Vintage	In relation to carbon credits, the year in which the emission reduction or removal took place. The verification process can take two to three years from project inception, so projects may generate credits for already-reduced emissions (For additional information, see Gold Standard, 2023).
Voluntary carbon market	A marketplace that encompasses transactions of carbon credits that are not purchased with the intention to surrender into an active regulated carbon market. It includes carbon markets purchased with the intent to resell or retire to meet carbon neutral or other environmental claims.

7. Acknowledgements

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On behalf of the Secretariat and with heartfelt appreciation,

— **Mark Kenber**
EXECUTIVE DIRECTOR, VCMI

How to access additional information

For further information on the VCMI Claims Code of Practice and other VCMI publications, please visit www.vcmintegrity.org.
Email: info@vcmintegrity.org

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If you have any specific questions about the VCMI Claims Code of practice, or to directly get in touch with VCMI, please contact info@vcmintegrity.org.

The Voluntary Carbon Markets Integrity Initiative is an international initiative to drive credible, net zero-aligned participation in voluntary carbon markets.

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