

Claims Code - Explanatory notes

Explanatory Notes



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Additional guidance and improvements

In addition to the Claims Code, VCMI has developed additional guidance, improvements and procedures for a number of elements involved in making voluntary carbon market-related claims, where feedback received to date indicated a need for further refinements. These have been subject to discussion and evaluation by the VCMI Stakeholder Forum, Early Adopter companies, and the Expert Advisory Group. The objective of this close consultation was to allow companies, country representatives, and civil society to provide feedback on VCMI guidance, to make sure that it is well designed, easy to understand, operable and effective, and enhances the efficacy of the Claims Code.

Given the complexity of the issues raised, and the robustness of the analysis required to provide companies and the market with the necessary answers, several studies were commissioned. In addition, a diverse group of stakeholders had the opportunity to engage in deep-dive analysis and discussions. The results of these studies and analyses were published, alongside the Claims Code, to provide further information to users. These include:

- **Monitoring, Reporting and Assurance (MRA) Framework.** This outlines the roles and responsibilities related to the assurance process and provides a guide to reporting, which will enable companies to demonstrate compliance with all four steps involved in making a VCMI Claim.
- **Claims names and branding.** VCMI published a list of clear, transparent, and informative Carbon Integrity Claims that companies can make. These focus on cross-industry environmental sustainability, both to incentivize companies to engage in climate action and to adequately inform customers and broader stakeholders through credible climate claims.
- **A Scope 3 Flexibility Claim.** VCMI launched a beta version of a claim that addresses the difficulties that many companies face in meeting scope 3 emission reduction targets. The expected results of allowing companies to use carbon credits for a limited period of time when they fall short of their emissions translate into increased mitigation and financed deployment, and companies both taking greater responsibility for emissions in their value chains and being incentivized to be more ambitious.

Monitoring, Reporting and Assurance Framework

To operationalize the Claims Code, VCMI has developed an [MRA Framework](#) that sets out what, when, how, and where companies should submit information to demonstrate their adherence to the VCMI requirements needed to make a VCMI Claim. This information will pertain to the Foundational Criteria and VCMI Claims requirements, as well as detail third-party assurance. The MRA Framework also outlines the accepted assurance standards companies can utilize to make a VCMI Claim, and the required competencies of assurance providers.

Since the publication of the VCMI Claims Code in June 2023, the MRA Framework has been the subject of extensive engagement to test the real-world practicality and operability of adhering to the requirements it outlines. The procedures and criteria set out in the MRA Framework are the result of extensive engagement with a diverse set of stakeholders, including the VCMI Stakeholder Forum, Expert Advisory Group, Early Adopter companies, and MRA experts. Additionally, VCMI has engaged in a substantial number of conversations with stakeholders from a broad range of sectors, including NGOs, financial institutions, and academia.

Through the feedback received during these engagements, the MRA Framework has undergone testing and progressed through various iterations, to land on the current version. This was designed to ensure that the MRA Framework is well designed, operable, and effective in its role to guide companies and non-state actors on how to obtain a VCMI Claim.

To ensure the VCMI Claims process is efficient for all parties, VCMI has also developed a secure digital reporting platform for companies to submit information relating to key disclosure metrics outlined in the Claims Code, as well as to provide evidence to substantiate adherence to each of the requirements needed to make a specific VCMI Claim. Once companies have submitted all the required information and documentation, they will receive a confirmation e-mail which providing them access to VCMI logos and brand guidelines that allow them to make a VCMI Claim. Guidance on the language that can be used by companies when they wish to communicate about their VCMI Claims can be found in the Supplementary Guidance and Brand Guidelines, accompanied by a disclaimer with legal advice recommending that regulatory frameworks are taken into consideration by all companies in accordance with the jurisdictions in which they operate.

Claims names and branding

VCMI has undertaken extensive research, consultation, and design exercise to develop a brand for its Silver, Gold, and Platinum Claims. To develop the brand, a dedicated creative agency was employed to ensure that it meets the highest standards for companies making a claim. A market research and insights firm was commissioned to support this exercise.

Research to support the development of the brand included a literature review of the climate claims landscape and consultation across a wide variety of stakeholders, including members of the VCMI Stakeholder Forum, the Early Adopters Program, focus groups with consumers in six countries (Kenya, Brazil, Korea, United States, United Kingdom, France), and testing with marketing and Ecolabel experts. This research was completed in tandem with the development of the brand, where aspects of the design drafting process directly informed research and testing in real-time.

The research and consultation process highlighted several considerations for the brand, such as the importance of global interpretations, distinct and simple naming, and transparency around the name of the Claim and what it means to achieve it.

The outcome of this work is the 'Carbon Integrity' brand, which applies to Silver, Gold and Platinum Claims. The associated Branding Guidelines support companies in making a Carbon Integrity Claim.

A Scope 3 Flexibility Claim

Feedback received through the public consultation and road test of the provisional Claims Code clearly stated that, to have maximum impact, VCMI guidance needs to be both ambitious and accessible. Maintaining a clear priority for internal decarbonization was stated as important for ambition, while scope 3 emission reductions and affordability were highlighted as key accessibility challenges. (Please refer to section B of the Background Document to assess the specific feedback provided for the Bronze Claim.)

Evidence indicates that flexibility – for a limited period and with appropriate guardrails – in the use of carbon credits when a company has fallen short of meeting its near-term emission reduction target results in more action and more mitigation. Companies that make use of carbon credits tend to be more ambitious in their climate actions, and are more likely to set more ambitious future targets if some flexibility is allowed. If companies are permitted to use carbon credits to bridge the gap between their latest reported emissions and their corresponding target levels in the interim years, prior to target end date, ambition would be raised both by more companies setting emission reduction targets and by some companies that already have targets setting themselves even higher ones. According to a publication recently released by the Ecosystem Marketplace (2023), 59% of buyers in the voluntary carbon markets have reported lower gross emissions year-on-year related to reduced emissions and/or renewable energy consumption. They are also 1.3 times more likely to have established supplier engagement strategies and spent 3 times more on emission reductions activities in comparison to typical non-buyers.

To investigate further, VCMI commissioned a specific analysis of whether allowing such flexibility would accelerate or delay corporate action and increase or decrease overall mitigation. Scope 3 emissions are particularly

challenging to address, as they often represent the majority of a company's emissions footprint but are not under their direct control. Over half (60%) of respondents to a survey conducted by The Climate Board (unpublished report) said that scope 3 emissions account for more than 75% of their company's total emissions. Only 40% (58) of survey respondents had set a near-term scope 3 emissions science-based target, and 93% of those that had (54) said they faced critical challenges in meeting these targets.

According to MSCI Carbon Markets (formerly Trove Research, 2023), the results of this analysis indicate that the total gap in scope 3 emission targets is around 1.4 GtCO₂e today and will be over 7 GtCO₂e by 2030. Assuming that only firms that are on track to achieve Science Based Targets Initiative (SBTi) approved scopes 1 and 2 emission reduction targets are eligible to use carbon credits to close their scope 3 emissions gap, this would create a potential demand for carbon credits of 644 Mt today and 2.2 GtCO₂e in 2030. Under the assumption that carbon credits cost \$30/GtCO₂e, this demand would generate an additional expenditure on carbon credits of \$19bn today and \$65bn in 2030.

Having been informed by these results and all the feedback received, VCMI has designed a Scope 3 Flexibility Claim to provide flexibility for companies that are making progress towards scopes 1 and 2 emission reduction targets but are facing challenges in meeting scope 3 emission reduction targets (related to value chain emissions) while they increase their internal decarbonization investments. The Scope 3 Flexibility Claim requires companies to take responsibility for scope 3 emissions (i.e., measure, set targets, and make progress toward emission reduction targets), while allowing for the limited use of carbon credits to bridge the gap when a company cannot yet achieve scope 3 targets through reductions alone. After thorough consultation with several stakeholders from the Stakeholder Forum, Early Adopter companies, partners, government representatives, and the Expert Advisory Group, it has been agreed that this new claim's design should include guardrails that ensure a limited number of high-quality carbon credits are used and that the flexibility provided reduces over time until it is phased out completely.

The development of the Scope 3 Flexibility Claim has proven technically complex and politically sensitive. There is high demand for this claim as a solution that introduces flexibility with robust guardrails: 73% of members from the Stakeholder Forum agreed that additional claim(s) allowing flexibility on the use of carbon credits when companies are making progress towards near-term targets is required. However, a lack of ecosystem interoperability raises technical and political questions which are beyond VCMI's mandate. As a result, it has not been possible to find a definition that is both fully workable and satisfactory to all stakeholders. The resolution of the Scope 3 Flexibility Claim's interoperability issues will require collaboration with other standard-setting organizations. Key components related to the claim's design, such as defining and measuring the progress of a company's emission reductions to allow an assessment of whether it is in line with its science aligned-trajectory, leading to an accurate emissions gap analysis and clarifying the use of carbon credits related to that emissions gap, require joint solutions to be co-developed between the SBTi, Greenhouse Gas Emissions Protocol (GHGP) and CDP, among others.

Companies making a Scope 3 Flexibility Claim must be taking action on climate change and demonstrating responsibility for their emissions footprint. They must also have established a science-aligned target and committed to net zero, be measuring, managing and reporting their emissions, and have decarbonization strategies in place. However, they are currently not making enough progress to meet their next scope 3 emissions reduction target and recognize that additional action in the near term is required.

Legal analysis

In addition to the accompanying documents produced, a legal review of the Claims Code was conducted, to ensure the guidance provided is compatible with major legislation, government standards, and existing product standards. VCMI appointed a legal firm to conduct a legal review of the Claims Code and accompanying documents against relevant law and regulations in key jurisdictions, to address potential legal risks posed by the guidance provided in these documents to VCMI as an organization, as well as to enhance the guidance provided to adherents in the use of the Code. These jurisdictions include England, France, Germany and California. Organizations looking to directly or indirectly use the guidance contained in the VCMI documents are encouraged to seek legal advice within their jurisdictions. As a result, the Claims Code and accompanying documents have been updated to enhance their applicability.

VCMI product-, service-, brand-level claims

Product-, service-, and brand-level claims represent the achievement of emission reduction targets across the value chain of a specific product, service, or brand (a line of products or services), in the context of a company's progress towards its long-term, enterprise-wide net zero commitment. Credible product-, service-, and brand-level claims can help raise public awareness of climate-responsible consumption, especially as consumers increasingly favour more responsible products.

In the provisional Claims Code, VCMI established guidance and a set of requirements that companies need to meet to make VCMI carbon-neutral product-, service-, brand-level claims. However, the subsequent public consultation raised concerns that allowing such claims without a rigorous framework to assess the impact down to the product, service, or brand level could enable greenwashing.

Any future discussions around introducing product-, service-, brand-level claims will pay close attention to both existing widely accepted standards for carbon neutrality, such as the Green Guide, PAS 2050 and PAS 2060, and emerging new guidelines, such as the Green Claims Code developed by the Competition and Markets Authority, and the Green Claims Directive, proposed by the European Commission. VCMI has decided not to proceed with the evaluation of the necessity and desirability of allowing such claims at the moment, given the uncertainty around their usage, but will reassess this matter in the future if the need for a framework for product-, service-, brand-level claims is clear.

The road ahead for the Claims Code

VCMI launched a beta version of a Scope 3 Flexibility Claim in November 2023, presenting the new claim's technical criteria, explaining its development process, including research and consultation across stakeholder groups undertaken since June 2023, and inviting companies to work with VCMI to trial the claim and fast-track their ability to make this claim. At the same time, VCMI has announced a roadmap outlining the further work that will lead to the launch of a fully operable Scope 3 Flexibility Claim, once the following three elements have been developed:

- a. Technical refinement of criteria and guardrails to ensure consistency with emerging target setting, accounting, and disclosure guidance.
- b. Clarification of the use of carbon credits in relation to the remaining emissions.
- c. Final claim name and brand for the Scope 3 Flexibility Claim.

Next steps

The Claims Code will be expanded beyond 2024. Next steps to allow the development of additional guidance will include:

- Reviewing the target setting landscape in the coming years and updating the Claims Code to reflect robust, science-aligned standards as they become available.
- Developing guidance on corporate accounting and accountability for the interim years between when a company voluntarily sets a science-aligned target and its target end date, focusing on the technical challenges in defining the emissions gap that companies need to address without reverting to the use of an arbitrary linear trajectory, and assessing how to evaluate a company's progress in order to determine whether it is on-track to meet its targets.

- Developing special provisions to ensure accessibility for specific industries, such as hard-to-abate sectors; specific geographies, particularly developing countries; and small- and medium-sized enterprises, including startups that intend to scale and thus expect to have increasing emissions over time.
- Establishing explicit guidance for financial institutions, given the specificities involved in setting targets and accounting for emissions for assets under management and other indirectly controlled sources of emissions.
- Designing additional VCMI Claims that address companies facing challenges in meeting the Foundational Criteria or scopes 1 and 2 emissions reduction targets.
- Providing further guidance for purchasers of carbon credits.
- Commissioning an independent review of the Claims Code to assess the impact driven and changes in other standards and frameworks.

To ensure the Claims Code is accessible, VCMI will develop special provisions for: specific industries, such as hard-to-abate sectors; specific geographies, particularly developing countries; and small and medium-sized enterprises.

The VCMI's Claims Code of Practice and its accompanying documents, including without limitation Background document, Supplementary Guidance, and Explanatory Notes, are designed to promote credible, net zero-aligned participation in voluntary carbon markets. They have been developed through a multistakeholder public consultation and road-testing. While VCMI encourages use of the Claims Code of Practice and its accompanying documents by all relevant organizations, any and all statements, claims and actions made or taken based fully or partially on the Code and/or its accompanying documents are the full responsibility of those engaging in them, whether or not in a way aligned with the recommendations therein. Neither VCMI, nor other individuals and organizations who contributed to the Code and/or its accompanying documents assume responsibility for any consequences or damages, legal or otherwise, resulting directly or indirectly from any use of, or as a result of relying on the Code and/or its accompanying documents, or their contents, or otherwise arising in connection therewith. Organizations are recommended to take independent legal advice on their intended use of the Code and/or its accompanying documents in all relevant jurisdictions.

Where the Claims Code of Practice and/or its accompanying documents rely on guidance, standards, codes and other third-party documents, these are only non-exhaustive examples of such third-party documents and neither VCMI, nor other individuals and organizations who contributed to the Code and/or its accompanying documents assume responsibility for the accuracy of the information or processes outlined in such third-party documents, and any consequences or damages, legal or otherwise, resulting directly or indirectly from any use of, or as a result of relying on these third-party documents or their contents, or otherwise arising in connection therewith. Organizations are recommended to consult the primary sources of all guidance, standards, codes and other third-party documents referred to in the Code and its accompanying documents, make an independent evaluation of their credibility and take independent legal advice on their intended use in all relevant jurisdictions.

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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