



# **Taskforce on Scaling Voluntary Carbon Markets**

Phase II Report Summary

July 8<sup>th</sup>, 2021

# About the Taskforce

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

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

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

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

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



**TIM ADAMS**  
PRESIDENT AND CEO  
THE INSTITUTE OF  
INTERNATIONAL FINANCE



**BILL WINTERS**  
CEO  
STANDARD CHARTERED



**ANNETTE NAZARETH**  
SENIOR COUNSEL AT  
DAVIS POLK FORMER SEC  
COMMISSIONER



SUPPORTER  
**MARK CARNEY**  
UN SPECIAL ENVOY FOR CLIMATE  
ACTION AND FINANCE

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

# The report was developed with extensive Member involvement...

## TSVCM membership

**430+**



TSVCM members

**250+**



organizations represented

**~100**



Members from the Global South

## Membership involvement along Phase II

**4**



Taskforce-wide plenaries

**5**



Advisory Board meetings

**4**



Governance Working Group meetings

**4**



Legal principles and contracts Working Group meetings

**4**



Credit-level integrity Working Group meetings

**100+**



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

# ... and a broad public consultation

## Feedback received<sup>1</sup>

**130**

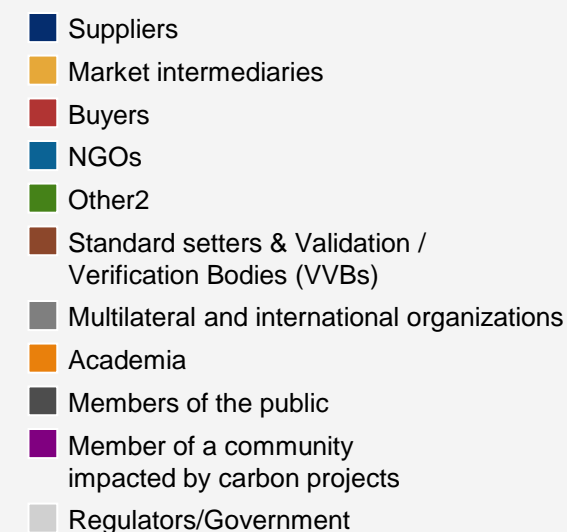
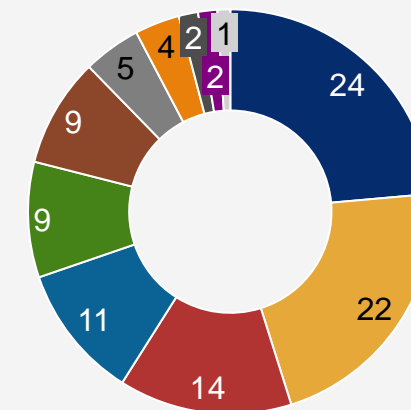
responses, of which:

**58** Open letters

**72** Completed survey responses

All responses are accessible at <https://www.iif.com/tsvcm>

## Respondent groups [%]<sup>1</sup>



1. Some respondents submitted both survey responses and letters, and/or identified with multiple respondent groups  
 2. e.g. industry associations, alliances

# The report is structured across four chapters

**x** Detailed next



## **A** Objectives and focus of the TSVCM



## **B** Governance



## **C** Legal principles and contracts



## **D** Credit-level integrity

### **Ambition**

**Public awareness** of the climate and co-benefits that Voluntary Carbon Markets can drive as an important complement to own-firm emissions reductions

**A future umbrella body** with a mandate to implement, host and curate a set of Core Carbon Principles, provide oversight over standard setters and coordinate interlinkages between individual bodies

**Standardizing legal framework** underpinning credit issuance and trading contracts with common language on liability, ownership, delivery etc.

**Core Carbon Principle threshold standard** that does not exclude credits from the market but marks out those that satisfy a high quality standard

### **Taskforce contribution**

Engagement with key stakeholders to drive demand and supply in VCMs

Blueprint for a future governance body specifying its mandate, organizational structure, sources of funding and a process for its setup

Defined use cases to drive awareness of potential ways to use the market

Developed operational requirements for Standards' Terms of Use

Developed general trading terms clauses

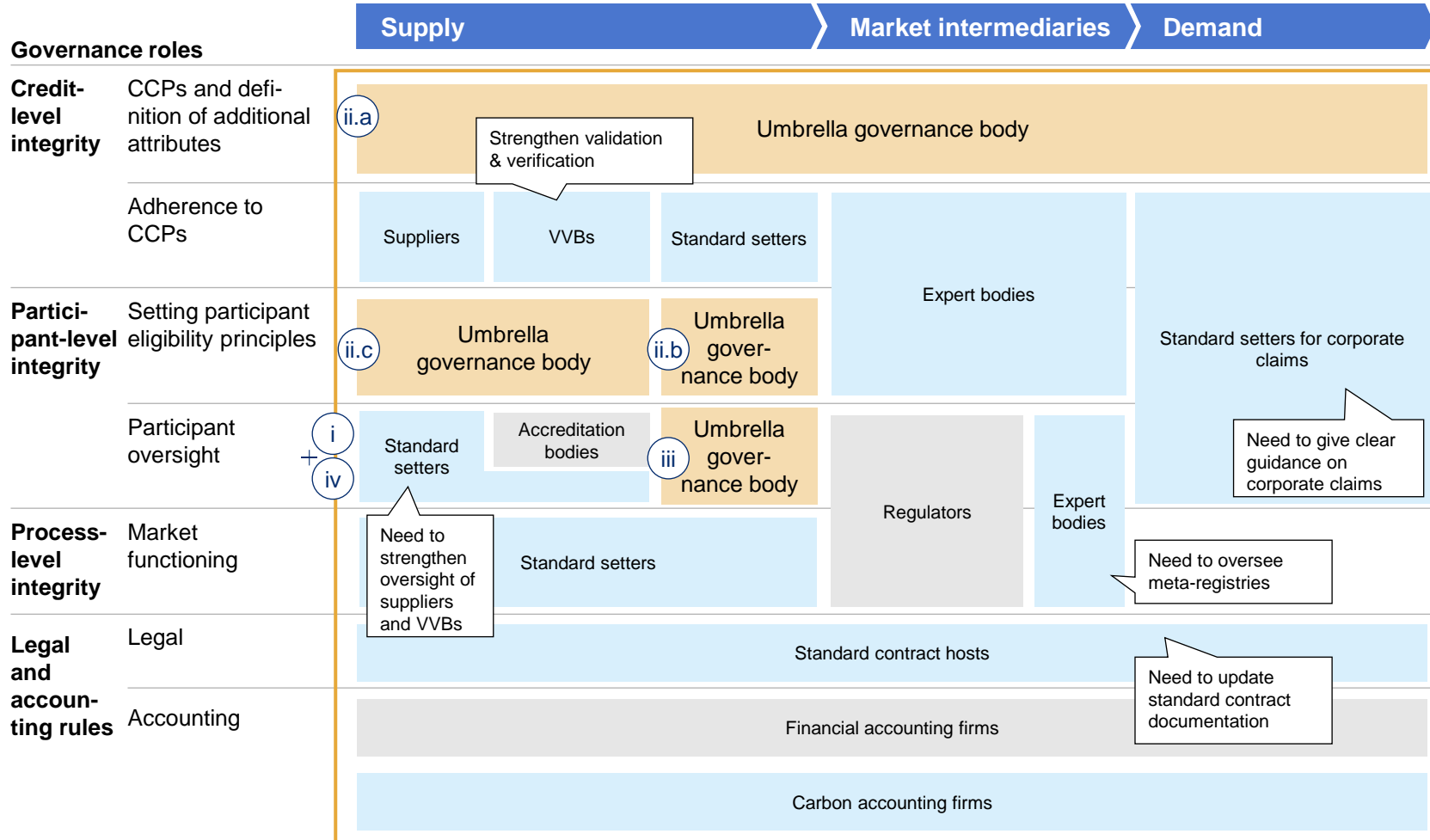
Draft assessment Framework for Standards

Analysis of credit eligibility criteria

Proposal for a taxonomy of additional attributes

# B | High-level view on the mandate of the new umbrella governance body

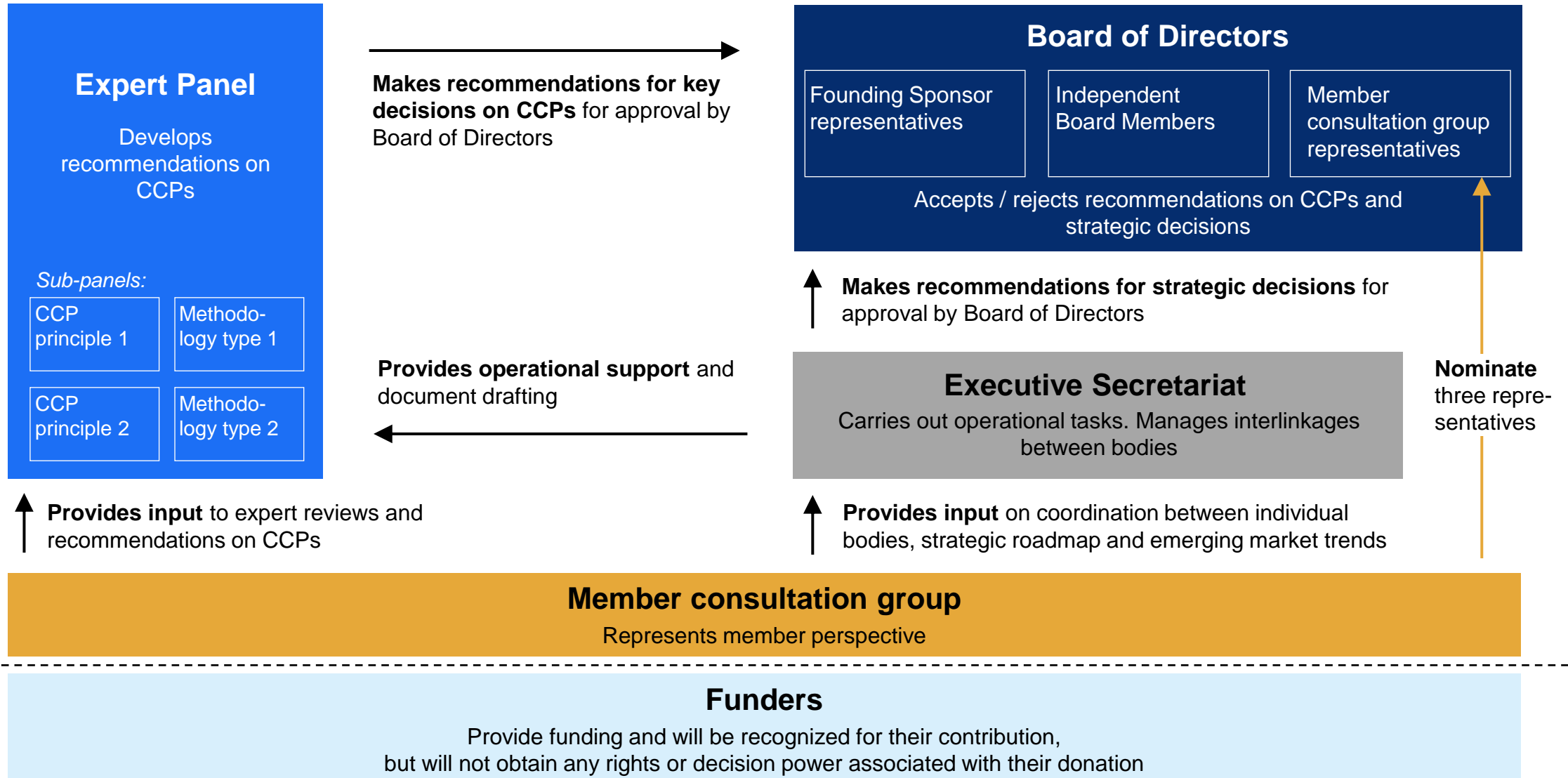
Governance role fulfilled by    Umbrella governance body    Existing governance bodies    Existing bodies with a need to strengthen and / or expand their role



## Mandate of the governance umbrella body

- i Mitigate & accelerate**  
Ensure that the VCM serves its primary purpose of reducing and removing greenhouse gas emissions to mitigate climate change and to accelerate the transition to net zero
- ii Establish, host & curate**
  - a) CCP eligibility guidelines and additional attributes
  - b) CCP assessment framework for standard setters
  - c) Eligibility principles for suppliers and VVBs
- iii Oversee**  
Provide oversight over standard setting organizations on adherence to CCPs and participant eligibility / oversight
- iv Coordinate & foster**
  - a) Coordinate work of and manage interlinkages between individual governance bodies
  - b) Serve as the steward for the Voluntary Carbon Market and endeavor to foster its responsible growth by defining a roadmap for success

# B | Organizational design: Board of Directors takes decisions based on recommendations from Expert Panel / Secretariat and input from members



# The new governance body will contain a balanced mixture of different stakeholders

✓ Active market participants allowed    
 ✗ Active market participants not allowed



1. Active market participants overall in minority on Expert Panel; experts need to declare absence of commercial or financial interest; 2. BoD may establish / appoint another independent entity at a later stage; 3. Guardrails for Founding Sponsor representatives: need to outline how to minimize conflicts of interest resulting from market activities and declare absence of commercial or financial interest; 4. Guardrails for Independent Board Members: At least 2 years since last employment for organization generating revenues in VCMs, no current employees of buyers / investors; need to outline how to minimize conflicts of interest resulting from market activities and declare absence of commercial or financial interest; 5. The Board needs to ensure a majority of independent Directors overall. Some Founding Sponsor representatives may also be classified as independent by the Advisory Board in the recommendation process if they do not have material conflicts of interest. This could be the case for representatives of organizations that are not active market participants (i.e., developing, financing or trading carbon credits) or that do not directly represent interests of market participants (e.g., industry associations of buyers)



# B | TSVCM is calling for expressions of interest until August 9<sup>th</sup> to take on a role in the new governance body



## Type of organization / individual



## Requirements



## Role within Governance body

<b>Founding Sponsors</b>	NGOs, investor alliances and industry associations	<b>Diversity</b> of expertise and geographical representation within the group of Founding Sponsors <b>Funding</b> contributions in cash or in kind preferred (not mandatory)	<b>Provide public endorsement</b> , legitimacy and authority Representatives <b>serve on the Board</b> during the initial phase (first 4 year term)
<b>Independent Board Members</b>	Experts, academics, representatives from international / multilateral organizations and former market participants	<b>Trusted</b> individuals and leading voices with experience in carbon and / or financial markets <b>No conflicts of interest</b> as direct market participants <sup>1</sup>	<b>Act in the global interest</b> and provide expert input and legitimacy
<b>Member consultation group representatives</b>	Current market participants (suppliers, intermediaries, buyers)	<b>Need to agree with the mission and mandate</b> of the governance body	<b>Represent opinions and interests from members</b> on the Board
<b>Expert Panel Members</b>	Experts (e.g., academics, market participants, independents)	<b>Deep expertise</b> in carbon markets and project methodologies	<b>Develop recommendations</b> for key decisions on CCPs for approval by the BoD
<b>Executive Secretariat Host</b>	NGO, investor alliance or industry association	<b>Not a Founding Sponsor</b> (to avoid conflicts of interest) <b>Funding</b> contributions in cash or in kind preferred (not mandatory)	<b>Host</b> the Executive Secretariat <sup>2</sup> , which carries out operational tasks of the governance body and manages interlinkages

In September, the **TSVCM Advisory Board** will recommend

- Founding Sponsors,
- Independent Board Members,
- Executive Secretariat Host and
- Expert Panel Members

**TSVCM members** will elect member consultation group representatives in September

If you are interested in playing a role please see expression of interest forms on <https://www.iif.com/tsvcm>

1. At least 2 years since last employment for organization generating revenues in VCM, no current employees of buyers / investors

2. During the setup phase (first 3 years); In the steady state, the Board of Directors can establish or appoint another legally independent institution to run the Executive Secretariat.



# TSVCM welcomes further recommendations on five key topics

## TSVCM has agreed on ToR, but 5 topics need further detailing ahead of establishment of the new body






- 1 **Modalities and procedures for the Board of Directors**  
Develop details on the decision process of the Board (e.g., transparency, opportunity for rebuttal or appeal)
- 2 **Transparency mechanism**  
Operationalize a transparency mechanism on a procedural and transactional level and define what type of information needs to be made transparent to who and in which form (e.g., real time).
- 3 **Grievance mechanism**  
Operationalize a mechanism that ensures that grievances and their resolution feed directly into the decision making of the Governance Body.
- 4 **Transversal approach**  
Ensure integrity across the value chain. Considerations include:
  - Approach to manage interlinkages between bodies operating in the governance of voluntary carbon markets
  - Potential to – in the mid-term – extend the mandate of Governance body to provide more direct oversight over integrated governance of carbon markets as a whole (e.g. including demand side)
- 5 **KPIs and definition of success**  
Determine how to measure the effectiveness of a voluntary carbon market and the governance body in reducing GHG emissions and accelerating the transition to net zero

## How can you contribute

- To support an accelerated implementation of the governance body, **TSVCM welcomes proposals for recommendations** on these five topics from members and the public ideally before August 9<sup>th</sup> (please provide input at [tsvcm@iif.com](mailto:tsvcm@iif.com)).
- After the establishment of the new governance body, the **TSVCM Operating Team will facilitate sharing the proposed recommendations** with the Executive Secretariat and Board of Directors.
- The **Board of Directors of the new body will decide** on acceptance or rejection of the proposed recommendations.

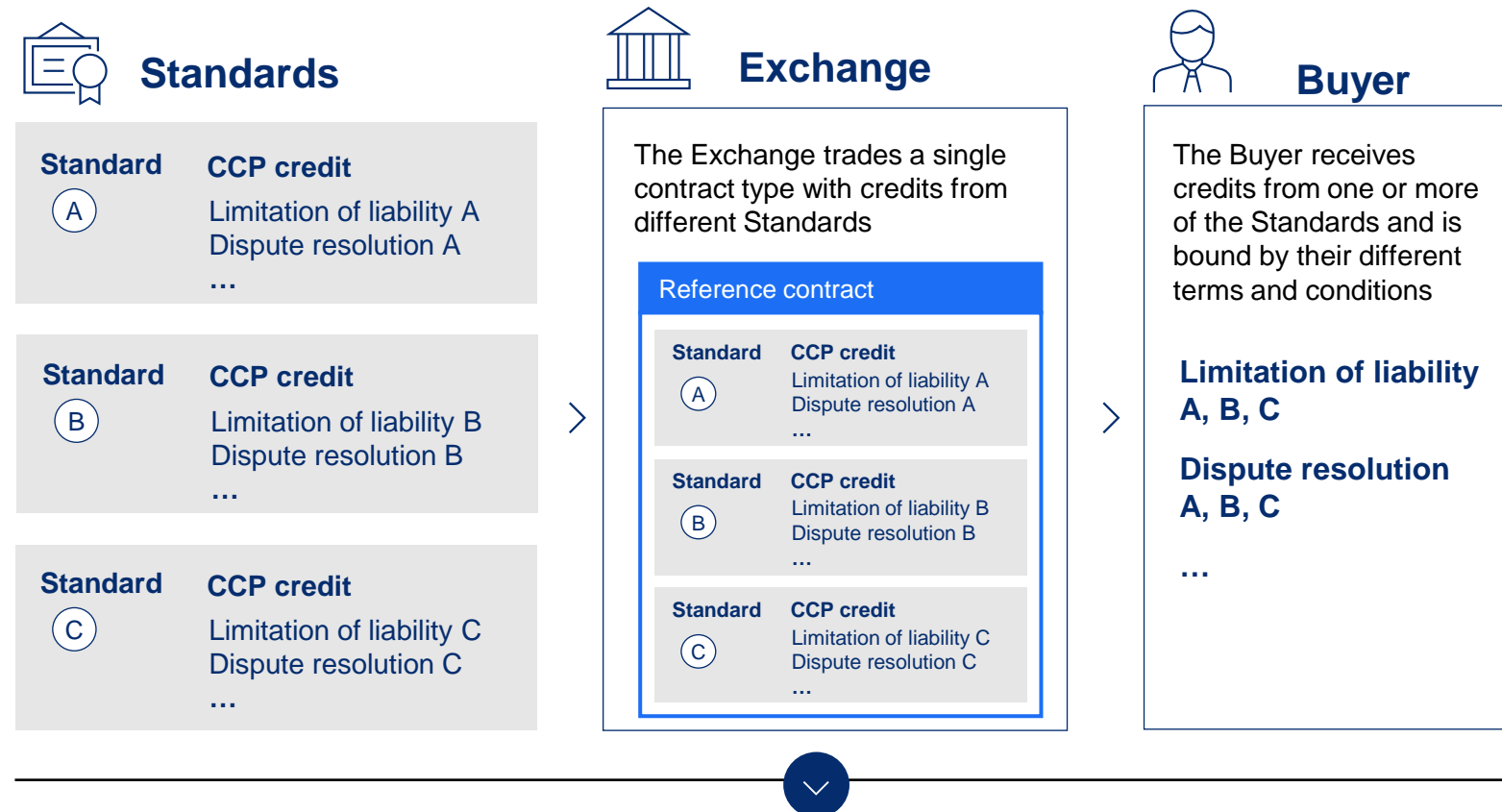
# C | The Legal Working Group's recommendations target parties at different stages of the value chain

Detailed next

	Content of the recommendations	Parties concerned
<p>I Use cases and underlying contract mechanics</p>	<p><b>Examples</b> of how CCP credits can be traded based on different needs and contract mechanics  <i>(Note: the use cases <b>do not intend to recommend</b> specific approaches over others)</i></p>	<p><b>All users</b>            (Suppliers, Verifiers, Standards, Buyers, Intermediaries, etc.)</p> 
<p>II Operational requirements for Standards' Terms of Use</p>	<p>Provisions which Standards will have to integrate in their Terms of Use (i.e. the <b>terms and conditions under which they offer their services to Users</b>) in order to be able to issue CCP credits</p> <p>The provisions will be detailed out and regularly updated by the <b>Governance Body</b>, accounting for innovation and relevant developments in the market</p>	<p><b>Standards – Suppliers</b>   <b>Standards – Buyers</b></p> 
<p>III Key general trading terms</p>	<p>Standard terms which Parties may integrate in their <b>trading contracts</b> to <b>avoid “re-inventing the wheel”</b>, reducing legal expenses and streamlining processes</p> <p>Apply primarily to OTC contracts, <b>Exchanges</b> may leverage them to build on their existing trading rules</p> <p><i>(Note: Parties remain fully free to draw their own ad hoc trading contracts; the key general trading terms are <b>optional</b>)</i></p>	<p><b>Suppliers – Buyers</b>   <b>Buyers – Buyers</b></p> 

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

## Key pain points



Lack of standardization between the certification and registration services of Standards results in **uncertainty for buyers** and may lead to **reluctance to trade**

## Elements proposed to be harmonized to address key pain points

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












Harmonized Terms of Use across Standards enhance clarity for buyers over **what conditions they are bound by** when trading CCPs with different origins, making credits more **fungible**

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

## Key pain points

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

## How general trading terms address key pain points

 <b>Definition of the products</b>	
 <b>Limitation of liability</b>	 <b>Change in law</b>
 <b>Indemnification</b>	 <b>Dispute resolution</b>
 <b>Failure to deliver</b>	 <b>Settlement and delivery</b>
 <b>Force Majeure</b>	 <b>Benchmark price / source</b>
 <b>Avoidance of double counting / claiming / use</b>	 <b>Tax compliance</b>

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



## High-integrity carbon credits...

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

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

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






## ...Traded in robust, transparent and liquid markets

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

---

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

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

 Taskforce dimensions
  ICROA dimensions
  CORSIA dimensions

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

They were defined to be comparable to ICROA and CORSIA dimensions

	Credit-level principles <sup>1</sup>		Operational principles	
<b>Principles</b>	Real	✓ ● ●	Program governance	✓ ● ●
	Based on realistic and credible baselines	✓ ● ●	Program transparency and public participation provisions	✓ ● ●
	Monitored, reported and verified	✓ ● ●	Clear and transparent requirements for independent third-party verification	✓ ● ●
	Permanent	✓ ● ●	Legal underpinning	✓ ● ●
	Additional	✓ ● ●	Publicly accessible registry	✓ ● ●
	Leakage accounted for and minimized	✓ ● ●	Registry operation	✓ ● ●
	Only counted once	✓ ● ●		
	Do no net harm	✓ ● ●		
<b>Specific rules</b>	Earliest project start date 2016 <sup>2</sup>	● ● ●	Inclusion of Clean Development Mechanism	● ● ●
	Only jurisdictional or nested REDD	● ● ●		

## Detailed definitions of the CCPs in the Assessment Framework for Standards

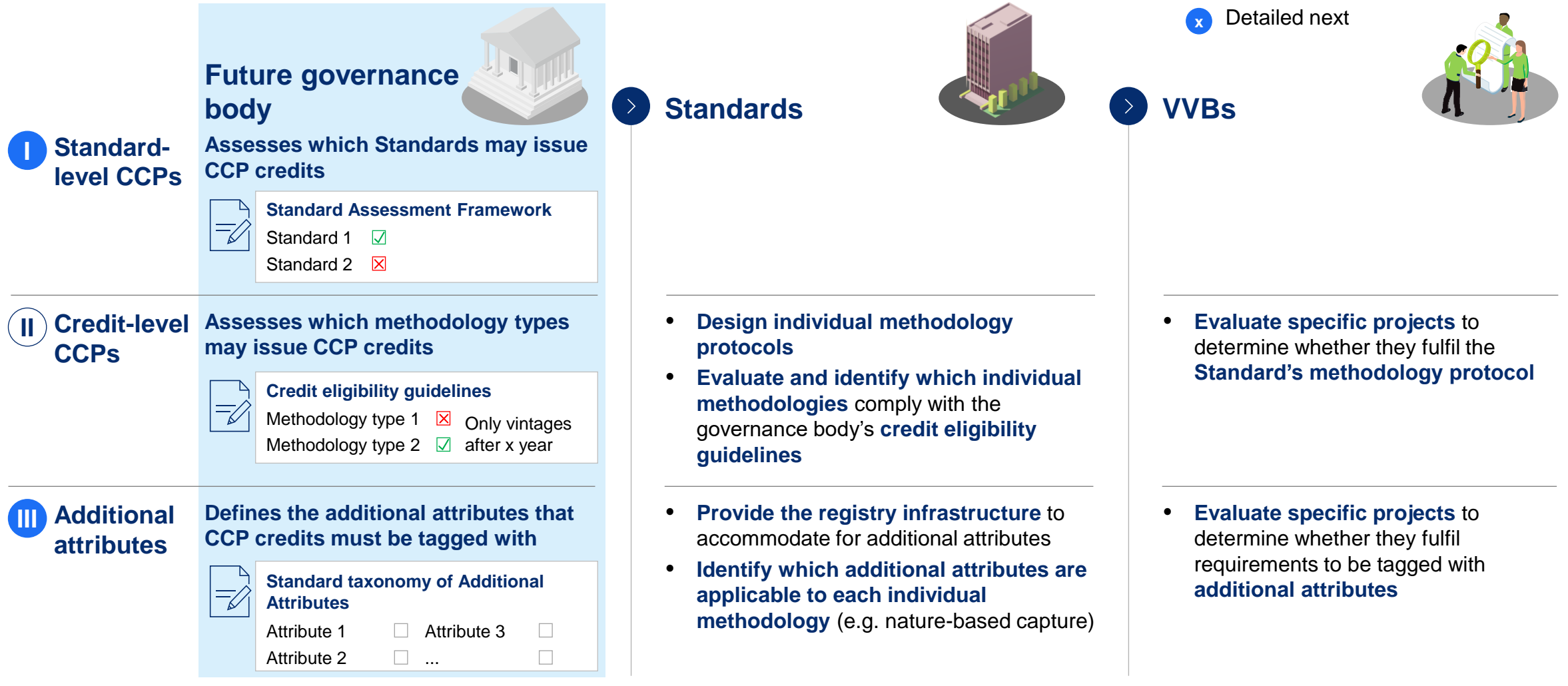
1. The Taskforce also recognizes that there are other initiatives ongoing (eg, World Bank, WWF/EDF/Oeko-Institut, etc.)  
 2. Under CORSIA, current vintage rules refer to credits issued due to activities that started their first crediting period from 1 January 2016 and in respect of emissions reductions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



# D | Suggested implementation mechanics for the Core Carbon Principles

Role of each body in the implementation of the CCPs

  Focus of the TSVCM, detailed next  
x Detailed next



**The governance body will need to fine tune the scope of the CCPs** (i.e. granularity of the guidelines for methodology types should cover the material parameters) **and the degree of oversight desirable** (i.e. frequency of spot checks)

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

Phase I CCPs	Operational considerations	Example detail for an operational consideration
<b>Real</b>	No ex ante crediting	<p><b>Financial additionality</b></p> <p>[For Project-based approaches]</p> <p>Defined as ensuring the CO<sub>2eq</sub> avoidance/reduction/removal for which credits have been issued would not have taken place without revenue from carbon credits.</p> <p>Financial additionality may be demonstrated by passing either of the following tests.</p> <ul style="list-style-type: none"> <li>Negative profitability without credit revenue</li> <li>Sufficiently low return on capital without credit revenue compared to equivalent investments available to the developer so as to preclude the investment decision or otherwise constitute a barrier to funding. This may be demonstrated in a variety of ways (e.g. business case).</li> </ul> <p>And, for avoidance/reduction credits:</p> <ul style="list-style-type: none"> <li>Activity penetration of project activity below an appropriate threshold to demonstrate low availability</li> </ul>
<b>Additional</b>	Financial additionality Jurisdictional additionality	
<b>Monitored, reported and verified</b>	Accuracy of measurement Conservative measurements Accredited VVBs Oversight of VVBs MRV frequency and reporting content	
<b>Permanent</b>	Long term permanence Buffer requirement and reversal compensation Risk assessment and mitigation measures Notification of loss event Safeguards after crediting period	
<b>Leakage accounted for an minimized</b>	Leakage assessment and mitigation measures Leakage deduction Leakage monitoring	
<b>Do no net harm</b>	Prior and ongoing impact assessment Ongoing stakeholder consultation Safeguards Grievance mechanisms	
<b>Based on realistic &amp; credible baselines</b>	Baseline-setting approach Revision frequency and adjustments	






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



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

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

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

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

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

# ACKNOWLEDGEMENTS

We would like to thank all Taskforce, Consultation Group, Working Group and Advisory Board members who contributed their time, insights and perspectives. We would like to express our special thanks to the philanthropic entities who have supported this project as donors. High Tide Foundation has served as the lead donor, with Quadrature Climate Foundation, Bloomberg Philanthropies, and Conservation International serving as supporting donors. The work of the Taskforce would not have been possible without the generous support and thoughtful engagement of all of these supporting institutions.