



# Comment in Response to CFTC RFI on Climate-Related Financial Risk

## ClientEarth USA Response

ClientEarth is an international non-profit organization dedicated to changing systems to protect life on Earth. Its team of over 200 people works to create change in over 50 countries. ClientEarth addresses the most pressing environmental challenges of today, offers practical solutions to the world's toughest environmental challenges, and works with people, campaigners, governments, and industry to make those solutions a reality. ClientEarth's U.S. operations specialize in the intersection of finance, securities laws, and climate, with a specific goal of achieving purposeful markets in the context of the ongoing climate crisis.

### **Executive Summary**

As the CFTC recognizes, accurate information leads to appropriate financial flows. This comment letter responds to questions 22-24, related to Voluntary Carbon Markets (VCMs), of the CFTC RFI on Climate-Related Financial Risk, and focuses on the CFTC's opportunity to head off a significant misinformation issue: the incorrect conflation of emission reductions and the purchase of carbon credits (when used as 'offsets'). In actuality, a carbon credit holds far more inherent risk than pure emission reductions because it cannot guarantee the environmental benefit that emission reductions can. As such, the incorrect use of carbon credits as functionally equivalent to emission reductions results in unaccounted-for legal, reputational, and market-based risks.

These risks combine to highlight the unreliability of carbon credits as the underlying assets in derivatives contracts and the resulting market distortion and misallocation of capital that occurs when these risks go unaddressed. The result of not recognizing and accounting for this problem is a market where buyers and investors lack the necessary information to correctly evaluate risk and are susceptible to manipulation. This problem harms those participating in the derivatives markets, as well as investors and the public, who may receive incorrect carbon price signals and misinformation about climate progress as a result. In order to avoid a market failure and financial instability, this issue must be recognized, addressed, accounted for, and communicated to market participants. We suggest the CFTC do so by implementing a process that (i) vets the underlying assets in carbon-credit based derivatives contracts and requires increased risk disclosures, (ii) examines complaints about underlying asset quality, and (iii) vets new contract proposals thoroughly.

## **Background**

Companies purchase carbon credits in both compliance and voluntary markets. Companies that purchase carbon credits in VCMs most commonly do so to meet corporate social responsibility (CSR) goals,<sup>1</sup> like alignment with the Paris Agreement and/or global “Net Zero” (by 2050 or earlier) goals<sup>2</sup>, making them the primary end-users of voluntary carbon credits.<sup>3</sup> Companies then market their commitment to these goals to the public and investors who are increasingly concerned about the financial, reputational, physical, transition, and legal risks associated with climate change.

Carbon credits can serve as the underlying assets in derivatives contracts. Interest in these types of derivatives is growing rapidly and is expected to increase in the coming years.<sup>4</sup> Generally, derivatives play a key role in carbon markets: by providing forward-looking information about the price of carbon emissions, they enable entities to manage climate-related risks and enhance transparency in the market. However, the integrity of these contracts and of the corporate CSR goals espoused by end-user companies depends on the reliability of the underlying assets. Unfortunately, carbon credits, when intended for use as ‘offsets’, are simply not reliable.

## **The Problem**

As the CFTC recognizes<sup>5</sup>, accurate information leads to appropriate financial flows. This comment letter focuses on a market misinformation issue: the incorrect conflation of emission reductions and the purchase of carbon credits (when used as ‘offsets’). In actuality, a carbon credit holds far more inherent risk than pure emission reductions, and the result of not recognizing and accounting for this difference is a distorted market where buyers and investors lack the necessary information to correctly evaluate risk.

- I. ***Carbon credits (when used as ‘offsets’) are not a reliable underlying asset as they cannot guarantee the environmental benefit that emission reductions can and hold far more inherent risk.***

While carbon credit purchases that contribute to high-quality projects can serve as valuable conduits for financing climate action, carbon credit projects come with an array of risks that are not associated with value chain emission reductions. Therefore, the climate science, which serves as the basis for corporate CSR goals, requires and prioritizes emission reductions, not the use of carbon credits to ‘offset’ emissions.

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<sup>1</sup> *Role of Derivatives in Carbon Markets*, ISDA (Sept. 2021), [Role-of-Derivatives-in-Carbon-Markets.pdf \(isda.org\)](#).

<sup>2</sup> For example, almost 4000 companies have set goals with science-based targets or made net-zero commitments. *Companies Taking Action*, SBTi, [Companies taking action - Science Based Targets](#).

<sup>3</sup> *Supra* note 1.

<sup>4</sup> *Carbon Markets are Booming, and Regulators are Watching*, Jones Day (June 2021), [Regulators Eyeing Booming Carbon Markets | Jones Day](#).

<sup>5</sup> *Climate-Related Market Risk Subcommittee, Managing Climate Risk in the U.S. Financial System*, U.S. Commodity Futures Trading Commission, Market Risk Advisory Committee (2020), [Managing Climate Risk in the U.S. Financial System \(cftc.gov\)](#).

First, carbon credit projects come with an array of associated risks, including that the benefit they aim to achieve is not guaranteed. For example, “it is difficult to establish that the financed project would not have avoided emissions regardless, given other drivers of decarbonization (a problem known as ‘additionality’) or that the anticipated emissions were actually avoided in practice (given challenges of accurate monitoring and verification involved).”<sup>6</sup> Further, “leakage” can occur when the suppression of harmful activity in one place results in an increase in that activity elsewhere.<sup>7</sup> An example of this is a carbon credit project that protects a forest, but in reality, simply shifts deforestation elsewhere.

Next and perhaps more problematic, nature-based carbon credit projects, which typically last two or three decades, are incomparable with the permanence of the emissions themselves, whose warming effects last hundreds of years. If a forest protected by a carbon credit project is harmed by fire, pests, disease or ongoing climate change, the carbon it was storing is released into the atmosphere, negating the claimed benefit of the project.<sup>8</sup> No carbon credit project can guarantee against such risks over the necessary timescale, which leads experts to conclude that:

*“As a general rule, it is prudent to treat carbon credits for [nature based solutions] as helpful complements to actions that reduce and avoid emission from fossil fuels, but not as substitutes or compensation for them.”<sup>9</sup>*

Finally, the globally-accepted climate science, which serves as the basis for, and stated goal of, corporate CSR claims, emphasizes a need for emission reductions—distinct from the use of carbon credits as ‘offsets’.

*“Reliance on offsetting makes achieving a net zero balance harder. This is because most offsets merely shuffle the sources of emissions around in a ‘zero-sum’ manner, while a safe carbon budget for 1.5°C requires accelerated elimination of emissions and early closure of fossil infrastructure.”<sup>10</sup>*

It is well established that limiting warming to 1.5°C above pre-industrial levels requires a drastic, rapid and sustained reduction in GHG emissions to achieve carbon neutrality by 2050.<sup>11</sup> Because CO<sub>2</sub> emissions accumulate in the atmosphere, there is now a very limited and rapidly dwindling carbon budget.<sup>12</sup> “All global modelled pathways that [achieve accepted warming limits] involve rapid and deep and in most cases immediate GHG emission reductions in all sectors.”<sup>13</sup> The principle at the heart of reaching net zero or carbon neutrality by 2050 is the “mitigation hierarchy,” under

<sup>6</sup> *Net Zero, Carbon Removal and the Limitations of Carbon Offsetting*, CSSN (2022), [Net-Zero and Carbon Offsetting.docx \(cssn.org\)](#).

<sup>7</sup> *Carbon Offsets: A Coming Wave of Litigation?*, Quinn Emanuel (Sept. 7, 2022), [Carbon Offsets: A Coming Wave of Litigation? \(quinnemanuel.com\)](#)

<sup>8</sup> *Id.*

<sup>9</sup> Expert Report – Derik Broekhoff (July 4, 2022), [productie-4-broekhoff-expert-report-v2-2-final.pdf \(clientearth.org\)](#).

<sup>10</sup> *Net Zero, Carbon Removal and the Limitations of Carbon Offsetting*, CSSN (2022), [Net-Zero and Carbon Offsetting.docx \(cssn.org\)](#).

<sup>11</sup> *2018: Summary for Policymakers. In: Global Warming of 1.5°C*, IPCC, [Summary for Policymakers — Global Warming of 1.5 °C \(ipcc.ch\)](#).

<sup>12</sup> *Id.*

<sup>13</sup> *2022: Summary for Policymakers. In: Climate Change 2022: Mitigation of Climate Change*, IPCC, [IPCC AR6 WGIII SPM.pdf](#).

which “companies should set science-based targets, both near- and long-term, to address value chain emissions and implement strategies to achieve these targets as a first order priority **ahead of actions or investments to mitigate emissions outside their value chains,**”<sup>14</sup> **such as the use of carbon credits to ‘offset’ emissions.**

Some companies are beginning to recognize and sound the alarm about the market inefficiency of conflating emission reductions and carbon credits (when used as ‘offsets’). The airline Easyjet recently announced that it would cease using carbon credits as offsets for its ‘Net Zero’ plan. The CEO stated that “*you need to deal with your own operations, you cannot rely on out-of-sector initiatives*”.<sup>15</sup> The CEO of United Airlines similarly observed that “. . .*what I hate about traditional carbon offset programmes is so many companies are using them, and they are a fig leaf for a CEO to write a check, check a box, pretend that they've done the right thing for sustainability when they haven't made one wit of difference in the real world.*”<sup>16</sup>

In short, companies must prioritize significant and near-term emission reductions in order to align with global net zero or carbon neutrality by 2050. Claiming to do so while (even unwittingly) acting otherwise exposes companies and the markets they interact with to the risks highlighted below.

**II. *The legal, reputational, and market-based risks associated with the incorrect use of carbon credits as functionally equivalent to emission reductions lead to a distorted market.***

Companies, including financial institutions, make “offsetting” and “Net Zero” claims to consumers, investors, and the public, who are increasingly considering the climate impact of companies and their products. But carbon credits (used as ‘offsets’) are often used by these companies as a substitute for actually reducing their emissions. As set forth in Section 1, for companies disclosing and/or advertising plans to transition to align with global “Net Zero” by 2050 or earlier, this is problematic and misleading, as attaining these goals by definition requires emission reductions, not offsets.

The incorrect equating of emission reductions with the purchase of carbon credits results in significant legal, reputational, and market-based risks. These risks, which go largely unaccounted for, further perpetuate the unreliability of offsets as an underlying asset and lead to market distortion. Information regarding these risks is essential to market participants in order to correctly determine the value and risk associated with certain carbon-based derivatives.

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<sup>14</sup> SBTi Corporate Net Zero Standard (Oct. 2021), [Net-Zero-Standard.pdf \(sciencebasedtargets.org\)](#) (emphasis added).

<sup>15</sup> Philip Georgiadis & Camilla Hodgson, *EasyJet to ditch landmark carbon offsetting scheme*, Financial Times (Sept. 26, 2022), <https://www.ft.com/content/e541240f-1ff6-46d0-917d-ae3d02f302b>.

<sup>16</sup> *United's Kirby: Carbon offsets “a fig leaf for a CEO to write a check”*, CAPA (March 20, 2021), [United's Kirby: Carbon offsets “a fig leaf for a CEO to write a check” | CAPA \(centreforaviation.com\)](#).

*Legal and Reputational Risks (Greenwashing suits, increased regulations, etc.)*

Major companies are facing legal penalties and reputational harm for their advertising and claims related to carbon credits and carbon neutrality. Shell, for example, was penalized first for advertising “CO<sub>2</sub>-neutral” car petrol<sup>17</sup>, then, for claiming that carbon credits mean “CO<sub>2</sub> compensation”.<sup>18</sup> The airline Easyjet and the gas company Butagaz—among others—were reprimanded by the French advertising self-regulatory body for offset-based advertising, as was Austrian Airlines in Austria.<sup>19</sup> Other major companies are also under similar legal scrutiny, such as KLM (court action alleging breach of consumer law related to its CO<sub>2</sub> compensation marketing<sup>20</sup>), eight companies in Germany (legal action for CO<sub>2</sub> offsetting marketing<sup>21</sup>), TotalEnergies (pending claim for misleading advertising of its “net zero” plan<sup>22</sup>), and Santos (lawsuit over allegedly misleading and deceptive claims related to its plan to achieve net zero emissions by 2040<sup>23</sup>). In the U.S., major oil producers like Exxon, Chevron, BP, and Shell are facing climate liability actions brought by several states and municipalities for misleading the public about climate risks.<sup>24</sup>

Climate-focused regulation is also on the rise across the globe. The US SEC has proposed new climate-related financial risk disclosure rules.<sup>25</sup> The EU Commission has proposed a new anti-greenwashing consumer law which may ban

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<sup>17</sup> *Law Students' Complaint Upheld – Shell Advertisements With Claim 'CO<sub>2</sub> neutral' are Misleading*, Reclame Fossilvrij (August 27, 2021), [Law students' complaint upheld - Shell advertisements with claim 'CO<sub>2</sub> neutral' are misleading - Reclame Fossilvrij \(verbiedfossielereclame.nl\)](#).

<sup>18</sup> *Dutch advertising watchdog: Shell must end advertising of deceptive CO<sub>2</sub> compensation campaign*, Reclame Fossilvrij (June 30, 2022), [Dutch advertising watchdog: Shell must end advertising of deceptive CO<sub>2</sub> compensation campaign - Reclame Fossilvrij \(verbiedfossielereclame.nl\)](#). A similar complaint was filed against Shell in Canada. Cloe Logan, *Greenpeace says Shell is tricking drivers with its carbon neutral campaign*, Canada's National Observer (Nov. 10, 2021), [Greenpeace says Shell is tricking drivers with its carbon neutral campaign | Canada's National Observer: News & Analysis](#).

<sup>19</sup> *Butagaz – Posting – Well-Founded Complaint*, JDP (March 8, 2021), [BUTAGAZ - Posting - Well-founded complaint - JDP \(jdp-pub.org\)](#); *EasyJet – Press – Well-Founded Complaint*, JDP (Jan. 4, 2022), [EASYJET - Press - Well-founded complaint - JDP \(jdp-pub.org\)](#); *misleading ad about flying CO<sub>2</sub> neutral on SAF from Vienna to Venice – AUA* (July 30, 2022), [Beschwerdedetail - werberat](#).

<sup>20</sup> *Greenwashing lawsuit against KLM airline has been filed in court*, ClientEarth (July 6, 2020), [Greenwashing lawsuit against KLM airline has been filed in court | ClientEarth](#).

<sup>21</sup> *Consumption deception with alleged "climate neutrality": Deutsche Umwelthilfe takes legal action against companies*, Deutsche Umwelthilfe (May 18, 2022), [Consumption deception with alleged "climate neutrality": Deutsche Umwelthilfe takes legal action against companies – Deutsche Umwelthilfe e.V. \(duh.de\)](#).

<sup>22</sup> [assignment greenpeace at naat c-total.pdf \(clientearth.org\)](#)

<sup>23</sup> Charlotte Grieve & Nick Toscano, *Santos hit with climate change lawsuit over 'net zero' claims*, The Sydney Morning Herald (Aug. 26, 2021), [Santos hit with climate change lawsuit over 'net zero' claims from ACCR \(smh.com.au\)](#).

<sup>24</sup> Clark Mindock, *More U.S. climate-change lawsuits against Big Oil head back to state court*, Reuters (Aug. 17, 2022), [More U.S. climate-change lawsuits against Big Oil head back to state court | Reuters](#); *The U.S. Supreme Court's ruling in BP. v. Baltimore, explained*, Center for Climate Integrity, [The U.S. Supreme Court's ruling in BP. v. Baltimore, explained \(climateintegrity.org\)](#).

<sup>25</sup> *SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors*, SEC (March 21, 2022), [SEC.gov | SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors](#). As written, the proposed rules require a company to disclose the role that carbon offsets play in the registrant's climate-related business strategy.

the use of carbon credits for offset claims altogether,<sup>26</sup> and is developing draft corporate reporting standards that would require companies to report any carbon credit purchases separately from emissions, and preclude companies from counting carbon credits towards meeting emission reductions.<sup>27</sup> In France, the legislature enacted a law requiring companies to clarify how emissions are actually being reduced before being offset.<sup>28</sup>

Further, investor groups are beginning to recognize the risks associated with misinformation about climate progress and to target the company end users of carbon credits that fail to provide transparent information about their climate impact.<sup>29</sup>

A market that fails to correctly account for these growing legal and reputational risks is inherently flawed and can result in the misallocation of capital.

#### *Market-Based Risks (Anti-competitive behavior)*

A lack of transparency about climate impact results in market failures such as anticompetitive behavior.

For example: An investor believes Company A and B are both Net Zero-aligned due to their public claims. Company A is following the “mitigation hierarchy” principle, setting near- and long-term emission reductions targets, which it plans to deliver through its business strategy, while Company B is not following the “mitigation hierarchy” principle, and plans to use carbon credits as offsets in place of actual emission reductions. Company A is better positioned to deal with climate risk factors like potential CO2 taxes, fossil fuel price swings, related regulatory and litigation risks, and changes in demand. However, Company A cannot compete fairly with Company B, because Company B is representing that its false and lower cost risk mitigation strategy (the use of ‘offsets’) provides the same benefits as Company A’s emission reductions.

All of these risks are likely to intensify as the climate crisis becomes more acute. This will be further exacerbated by the fact that carbon credit prices are expected to increase substantially in the coming years<sup>30</sup>, and derivative contracts tied to those underlying assets are expected to increase as well.<sup>31</sup> To avoid a market failure and financial instability, these risks, which impact the carbon derivatives market, must be addressed and made transparent to market participants.

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<sup>26</sup> Justice and Consumers Dept., *Proposal for a Directive on empowering consumers for the green transition and annex*, European Commission (March 30, 2022), [Proposal for a Directive on empowering consumers for the green transition and annex | European Commission \(europa.eu\)](#).

<sup>27</sup> See the European Financial Reporting Advisory Group’s draft Climate Standard, [\[Draft\] ESRS-E1 Climate change](#).

<sup>28</sup> Jones Day, *France Regulates the Use of Carbon Neutrality Claims in Advertisements*, JDSupra (May 24, 2022), [France Regulates the Use of Carbon Neutrality Claims in Advertisements | Jones Day - JDSupra](#).

<sup>29</sup> Lisa Pham, *ESG Activists Are Seen Targeting Firms on Net-Zero Emissions Claims*, Bloomberg (Feb. 9, 2022), [Climate Activists to Target Firms on Net-Zero Emissions Claims, Jefferies Says - Bloomberg](#).

<sup>30</sup> Michael Holder, *Carbon offset prices set to increase tenfold by 2030*, GreenBiz (June 14, 2021), [Carbon offset prices set to increase tenfold by 2030 | Greenbiz](#).

<sup>31</sup> See *supra* note 4.

## **Those Affected**

This problem harms those participating in the derivatives markets, as well as investors and the public, who receive incorrect carbon price signals and misinformation about climate progress as a result. Indeed, these market participants *want* transparency—45% of carbon market participants showed concern about the integrity of carbon credits as an underlying asset<sup>32</sup>—not the unaccounted-for financial risk to which they are currently subject.

## **The Solution**

As discussed, the underlying assets in carbon-credit based derivatives contracts are currently unreliable, resulting in contracts that may lack integrity. Transparency across the market regarding carbon credits and their use as ‘offsets’ is fundamental to solving this problem.

Under the CFTC anti-fraud authority, the CFTC should ensure that the underlying assets in carbon-credit based derivatives contracts are not vulnerable to deception, manipulation, or fraud. It can do so by implementing a process that (i) vets the underlying assets in carbon-credit based derivatives contracts and requires increased risk disclosures, (ii) examines complaints about underlying asset quality, and (iii) vets new contract proposals thoroughly.

In evaluating the best means to create such processes, we encourage the CFTC to align, where appropriate, to international standards. In response to question 34, we have summarized related and relevant standards in the attached Appendix. While these standards may not directly parallel the CFTC’s authority, they provide helpful insight into related regulation and standards.

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<sup>32</sup> *TSVCM Public Consultation Report*, (May 21, 2021), [TSVCM Public Consultation.pdf \(iif.com\)](#).

## APPENDIX

### Alignment with International Standards

Several international bodies are currently examining related issues. We have provided an overview of some of these below to encourage international alignment on this topic.

#### I. EFRAG Draft Standard

The rules regulating EU large company sustainability reporting are likely to prohibit the use of carbon credits for ‘offsetting’ claims in corporate shareholder reporting. The [EU Corporate Sustainability Reporting Directive](#) (CSRD) requires large companies to disclose “*the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 (European Climate Law), and where relevant, the exposure of the undertaking to coal, oil and gas-related activities*”. The detailed reporting standards underpinning the CSRD are being produced by the European Financial Reporting Advisory Group (EFRAG) who is appointed by the European Commission (the European executive body). EFRAG has produced ‘exposure drafts’ of the reporting standards.<sup>33</sup>

The climate-specific reporting standard is called [ESRS-E1](#). It specifically requires that carbon credits are not claimed as offsets: “*the undertaking shall: [...] d) not disclose carbon credits as a counterbalance or offset for its GHG emissions under ESRS E1 Disclosure Requirements 7 to 10; (e) not disclose carbon credits as a means to reach GHG emission reduction targets under ESRS E1 Disclosure Requirement 3*”. Instead, companies simply report credits which they purchase separately from their emissions, and carbon credits cannot be used as a substitute for actual emission reductions to meet targets. This reflects the “mitigation hierarchy” principle referred to above and means that when companies report emission reductions, they can only be actual emission reductions.

#### II. SBTi

In alignment with the goals of the Paris Agreement and the science set forth in the IPCC report, the Science Based Targets initiative (SBTi) developed a global science-based standard for companies to set net-zero targets. More than 3,500 companies and financial institutions are working with the SBTi to reduce their emissions. Below, we have included a few key points from the SBTi guidance:

“The use of offsets must not be counted as emissions reduction toward the progress of companies’ science-based targets. The SBTi requires companies set targets based on emission reductions through direct action within their own operations and/or their value chains. Offsets are only considered to be an

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<sup>33</sup> *Public consultation on the first set of Draft ESRS*, EFRAG, [Public consultation on the first set of Draft ESRS - EFRAG](#).



option for companies wanting to finance additional emission reductions beyond their science-based targets.”<sup>34</sup>

“The principle at the heart of the SBTi Net-Zero Standard is the “mitigation hierarchy”. Under the mitigation hierarchy, companies should set science-based targets, both near- and long-term, to address value chain emissions and implement strategies to achieve these targets as a first order priority ahead of actions or investments to mitigate emissions outside their value chains.

Although setting and achieving science-based targets must be the priority, companies should go further and invest in mitigation outside their value chains to contribute towards reaching societal net-zero. The SBTi recommends that companies prioritize near-term science-based targets, followed by securing and enhancing carbon sinks (terrestrial, coastal and marine, etc.) to avoid the emissions that arise from their degradation. Examples include purchasing high quality, jurisdictional REDD+ carbon credits that support countries in raising the ambition on, and in the long-term, achieving their nationally determined contributions. There is also a critical need for companies to invest in nascent GHG removal technologies (e.g. direct air capture (DAC) and storage) so that the technology is available to neutralize residual emissions at the long-term science-based target date.”<sup>35</sup>

### III. VCMI

The Voluntary Carbon Markets Integrity Initiative (VCMI) is a multi-stakeholder platform focused on promoting credible, net-zero-aligned participation in voluntary carbon markets (VCMs). VCMI recently published a Provisional Claims Code of Practice<sup>36</sup>, which generally provides for a set of claims companies can make provided that they have set targets to actually reduce emissions (internal decarbonization). Companies can then purchase carbon credits as an extra contribution, in amounts set by reference to their remaining un-reduced emissions. It does not generally permit companies to use carbon credits as ‘offsets’ for emissions. Below, we have highlighted some important points from the VCMI provisional code (emphasis added):

“The use of high-quality carbon credits by companies and other private nonstate actors (NSAs)—**above and beyond their decarbonization efforts**—is a potentially significant way to accelerate climate change mitigation and drive additional finance into low- and middle-income countries, which likely will suffer the greatest climate harms.”

“Many stakeholders are concerned that use of carbon credits could hinder, delay, or replace the GHG abatement action within companies and their supply chains that is essential for addressing climate change. Without clear and transparent guidance about the use of carbon credits for underpinning credible claims, investors and consumers are not able to effectively allocate capital and

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<sup>34</sup> *SBTi Criteria and Recommendations*, (April 2021), [SBTi-criteria-legacy.pdf \(sciencebasedtargets.org\)](#).

<sup>35</sup> *SBTi Corporate Net Zero Standard* (Oct. 2021), [Net-Zero-Standard.pdf \(sciencebasedtargets.org\)](#).

<sup>36</sup> *Provisional Claims Code of Practice*, VCMI (June 7, 2022), [VCMI-Provisional-Claims-Code-of-Practice.pdf \(vcmintegrity.org\)](#).

direct their purchasing power to incentivize real company leadership on climate mitigation. Companies making noncredible claims when using carbon credits face significant risks, ranging from loss of reputation due to accusations of overstating climate performance to potential fines by domestic authorities and litigation (where such claims are deemed false or deceptive).”

“All VCMI claims require the purchase of carbon credits representing ‘beyond value chain mitigation’ (BVCM), through which companies contribute to the collective global effort to reach net zero emissions. **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.”