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OVERVIEW

VCMI Claims Code

Purpose of the Claims Code

The purpose of the Claims Code is to provide companies with clear requirements 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.

The Claims Code aims to provide guidance on the claims made regarding the use of those credits and seeks to ensure that the voluntary use of carbon credits must accelerate and not undermine stakeholders contribution to global climate action.

The Claims Code provides companies a standardised way to use carbon credits as a tool to deliver additional climate action beyond their value chains at varying levels of ambition and action. The VCMI Claims Code also provides a number of benefits to external stakeholders including:

Climate-friendly procurement (buyers of goods and services);

- Validation of a company's climate ambition and use of carbon credits (investors, local partners);
- Clear guidance on the credible use of carbon offsets (governments, regulatory agencies).

Reasons for the Claims Code

The Claims Code was developed to address several issues hindering both climate action and the growth of the Voluntary Carbon Markets. Some of the key issues are listed below:

- Lack of clarity around carbon neutral claims;
- Insufficient transparency about corporate climate performance;
- Stakeholder concerns that the use carbon credits could hinder, reduce, or replace company efforts to decarbonize their own operations and supply chains;
- Misallocation of capital and purchasing power to incentivize real company leadership on climate action;
- Reduce adverse impacts associated with companies making non-credible claims (e.g. reputational damage to both companies and the voluntary markets, potential fines, undermine climate action).

VCMI Claims Code of Practice

There are four key steps that companies must take to make a VCMI Claim against their enterprise-wide emissions:

1. **Comply with the Foundational Criteria;**
2. **Select a VCMI Claim to make;**
3. **Meet the required carbon credit use and quality thresholds;**
4. **Obtain third-party assurance following the VCMI Monitoring, Reporting & Assurance (MRA) Framework.**

Step 1: Comply with the Foundational Criteria

The Foundational Criteria were designed to align with the Paris Agreement's long-term mitigation goals and were guided by leading global initiatives such as the SBTi and Race to Zero Campaign. At their core, they aim to ensure that companies making climate claims relating to their activities in the voluntary carbon markets are engaged in credible climate action. The four foundational criteria that must be met in order to make a VCMI claim are listed below and detailed further in the Appendix:

1. Maintain and publicly disclose an annual greenhouse gas emissions inventory in accordance with GHG Protocol;
2. Set and publicly disclose science-based, near-term emissions reduction targets, validated by an independent third-party, 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.

Step 2: Select a VCMI Claim to Make

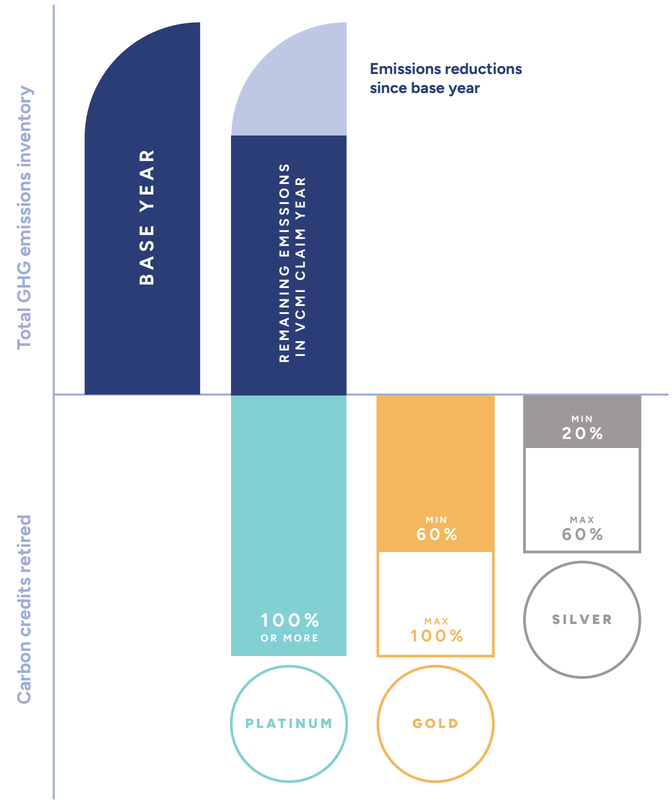
There are three tiers of contribution claims that can be made under the Claims Code: Silver, Gold, and Platinum Claims. Claims cannot be made unless the company has met all four foundational criteria and has demonstrated progress towards meeting its near-term targets. Each claim requires the purchase and retirement of high-quality credits, for mitigation outside the value chain of the company, that cover a percentage of the company's remaining emissions. Remaining emissions are defined as the combined Scope 1, 2 & 3 emissions that remain in a given year as a company progresses towards the delivery of its near- and long-term targets.

Definitions of the three tiers of contribution claims are described below:

- **VCMI Silver**
  The purchase and retirement of high-quality credits greater than or equal to 20% and less than 60% of the company's remaining emissions in the most recent reporting year;
- **VCMI Gold**
  The purchase and retirement of high-quality credits greater than or equal to 60% and less than 100% of the company's remaining emissions in the most recent reporting year;
- **VCMI Platinum**
  The purchase and retirement of high-quality credits greater than or equal to 100% or more of the company's remaining emissions in the most recent reporting year.

With the exception of the Platinum Claim, companies must increase the amount of carbon credits purchased and retired in each subsequent year following their initial claim.

By November 2023, VCMI plans to release a full set of Claims tiers, which may or may not continue with the current metallic naming convention. These additional tiers will include a lower tier claim for companies taking significant credible action but are



not yet able to meet their near-term targets, and an "on ramp" for companies just beginning their decarbonization journeys, who may find it difficult to meet the foundational criteria.

Step 3: Meet the Required Carbon Credit Use and Quality Threshold

The purchase and retirement of carbon credits to meet the VCMI Claims must adhere to the following criteria:

- Carbon credit purchases must be made following the ICVCM's Core Carbon Principles;
- Companies must be fully transparent and report all relevant information pertaining to the retired credits, including authorization of credit by the host country;

- Carbon credits are not to be counted towards internal emissions reductions.

The VCMI does not specifically require companies to purchase and retire either reduction or removal credits to make VCMI Claims and carbon credits with or without associated corresponding adjustments can be used.

Prior to the implementation of the Integrity Council for the Voluntary Carbon Market (ICVCM) Assessment Framework, credits purchased and retired shall be CORSIA label credits, as per the ICAO document CORSIA Eligible Emissions Units. As activity types are assessed and Core Carbon Principle (CCP) approved credits become available, only they shall be purchased and retired. The announcement of carbon crediting programs that are CCP-Eligible and carbon credits categories that can be labelled CCP-Approved is expected in the second half of 2023.

In addition to the quality thresholds, companies are required to publicly disclose key information related to each carbon credit retired, including:

- Number of credits purchased and retired towards the VCMI Claim;
- Certification standard name, project name, project ID, retirement serial number, retirement date;
- Host country, credit vintage, methodology and project type ;
- Whether or not the credit is associated with a corresponding adjustment;
- Association with third-party certification regarding social or environmental integrity (SDGs, SD Vista, Climate, Community, and Biodiversity Standards). Details regarding co-benefits to ecosystems and local economies must be provided.

Step 4: Obtain Third-Party Assurance of Reported Information Following the VCMI Monitoring, Reporting & Assurance (MRA) Framework

In order to validate claims, companies must publicly disclose all information through their website in a standalone report, such as a Climate Strategy/Action Report or as part of a Sustainability Report. The information disclosure must demonstrate that:

- Foundational Criteria have been met;
- VCMI Claim-specific requirements have been met; and,
- Information related to the carbon credits used has been disclosed.

All information must then be subject to an independent, third-party limited assurance in order to make the VCMI Claim. With regards to emission reduction target validation, they can either be independently validated or through the SBTi; at this time, there are no specific requirements or a list of who can validate these targets.

The VCMI Monitoring, Reporting & Assurance (MRA) Framework will be published in November 2023.

Communicating Climate Claims

VCMI recommends companies avoid making compensation claims such as 'carbon neutral'

entirely due to the growing number of regulations and amount of litigation surrounding misleading claims and corporate greenwashing.

For making non-VCMI claims, VCMI has released a set of principles for making credible, climate mitigation claims. The key principles are listed below and further guidance on communicating VCMI and non-VCMI claims can be found in the supplementary guidance document:

- Clear to the target audience(s);
- Transparent;
- Traceable;
- True and verifiable;
- Accurate;
- Conservative;
- Relevant and not misleading;
- Informative;
- Sets the right incentives for the target audience.

Future Updates

The development of special provisions is also planned for specific sectors and situations, such as those that are hard-to-abate, based in lower-income countries, and SMEs (e.g. start-ups that intend to scale over time with an increasing emissions profile) in order to promote accessibility of the Claims Code. Due to its specificities from a reporting and target setting standpoint, separate guidance for the financial services sector will also be investigated to support the update of the Claims Code.

Additional modules will also be released later this year providing information on VCMI's brand-, product- and service-level claims.

Appendix

Foundational Criteria 1 - Greenhouse Gas Emissions Inventory

Greenhouse gas emissions inventories must be enterprise-wide, publicly available, updated annually, and reported in accordance with the following standards:

- GHG Protocol Corporate Accounting and Reporting Standard
- GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard,
- Land Sector and Removals Guidance.

Foundational Criteria 2 - Near-Term Emissions Reduction Plan

Companies seeking to make VCMI claims must have near-term, science-based emissions reduction targets set and publicly disclosed by the year the claim is made. Near-term targets must cover 95% of Scope 1 and Scope 2 emissions, and 67% of Scope 3 emissions if Scope 3 emissions account for over 40% of total inventory. Near-term targets can be set in absolute or intensity terms and must cover a period of 5-10 years from the date the target was set. Companies must follow all SBTi criteria for target boundary and emissions coverage but are not required to have the targets validated with the SBTi. If there is sector specific criteria issued, it must be followed.

Companies must also make a public commitment to achieve net zero emissions no later than 2050, covering Scope 1, 2 & 3 emissions and land-based GHG emissions where applicable. Companies must disclose the definition of net zero adopted and the principles and/or methodologies used to set the target; following the SBTi Net Zero standard is not a requirement. Companies are also encouraged to set a long-term emissions reduction target within 25 months of obtaining a VCMI claim, but are not required to.

Foundational Criterion 3: Near-Term Emissions Reduction Action

Companies are required to publicly report on emissions reduction progress, financial contributions towards GHG mitigation, and strategy and governance structures in place to oversee progress towards meeting near-term targets in order to satisfy this criteria. This includes publicly disclosing:

- Progress on GHG emissions reductions achieved compared to the base year of the near-term target;
- Total financial contributions made during the most recent reporting year to GHG mitigation across the value chain;
- Board-level governance structures, policies, and actions related to oversight and approval on the company's climate strategy.

Companies reporting via CDP or the ISSB and following the TCFD are likely meeting the disclosure requirements of the VCMI Claims Code.

Foundational Criterion 4: Climate Advocacy

Companies must submit a public statement describing how their public policy advocacy support the goals of the Paris Agreement and are consistent with the principles of the four categories of the Global Standard on Responsible Corporate Lobbying; namely:

1. Policy and Commitment;
2. Governance;
3. Action;
4. Specific Disclosure.