



International Swaps and Derivatives Association, Inc.

Verified Carbon Credits Disclosure

I. Introduction

This Disclosure supplements and should be read in conjunction with the Disclosure Annex for Commodity Derivative Transactions. NOTHING IN THIS DISCLOSURE AMENDS OR SUPERSEDES THE EXPRESS TERMS OF ANY TRANSACTION BETWEEN YOU AND US OR ANY RELATED GOVERNING DOCUMENTATION. Accordingly, the information provided in this Disclosure is subject in all cases to the actual terms of a VCC Transaction (as defined below) executed between you and us and its governing documentation (whether or not such qualification is expressly stated).

This Disclosure is provided for Commodity Transactions where a Verified Carbon Credit is an Underlier. The terms of a VCC Transaction may incorporate standard definitions and rules and other market standard terms, including Carbon Standard Rules and Registry Rules, and other terms, customs and usages with respect to the Underlier. Before entering into a VCC Transaction, you should obtain and carefully review any such materials incorporated by reference as their content as of the date of a VCC Transaction or any changes thereafter could materially affect your rights and obligations under a VCC Transaction, its value and its appropriateness for your particular objectives. The market for Verified Carbon Credits is also continuing to develop and may be subject to the risk of uncertainty under existing or future political, social, economic and fiscal policies, laws, regulations and interpretations, which may impact a VCC Transaction. Accordingly, you should carefully evaluate and monitor developments in these areas.

As used herein:

“**Carbon Standard**” means, in respect of a VCC, a program or standard administered by a mandatory or voluntary domestic or international greenhouse gas program, certification, scheme or protocol.

“**Carbon Standard Rules**” means, in respect of a Carbon Standard, any relevant decisions, guidelines and procedures made from time to time pursuant to that Carbon Standard.

“**Emission Reduction**” means, in respect of a VCC, the removal, reduction, avoidance, sequestration or mitigation of emissions of GHGs measured in tCO₂e from the atmosphere which are capable of being represented in a form of unit of measurement pursuant to the relevant Carbon Standard Rules.

“GHG” means carbon dioxide, methane, nitrous oxide, sulphur hexafluoride, hydrofluorocarbons, perfluorocarbons and nitrogen trifluoride and any other gas designated as a greenhouse gas under the relevant Carbon Standard.

“Issue” or **“Issuance”** means, in respect of a VCC, the issue of that VCC into the relevant Registry in accordance with the relevant Carbon Standard Rules and the relevant Registry Rules.

“Paris Agreement” means the Paris Agreement to the United Nations Framework Convention on Climate Change, Dec. 12, 2015, T.I.A.S. No. 16-1104.

“Project” means, in respect of a VCC, the activity, action, project or groups of activities (if any) that is specified as such in the ~~Confirmation~~ VCC Transaction and has been Registered.

“Registered” means, in respect of a Project, the formal acceptance and registration of that Project pursuant to the relevant Carbon Standard Rules.

“Registry” means, in respect of a VCC, the electronic database that is established by, or operated pursuant to, the relevant Carbon Standard or on its behalf, including for the holding, delivery, Retirement and cancellation of that VCC.

“Registry Account” means, in respect of a VCC, any digital record of a person in the relevant Registry that is eligible to record the holding, transfer, acquisition, Retirement or cancellation of that VCC.

“Registry Rules” means, in respect of a Registry, any relevant decisions, guidelines and procedures made from time to time in connection with the operation of that Registry.

“Retire” means, in respect of a VCC, the permanent removal of the VCC from circulation in the relevant Registry in accordance with the relevant Carbon Standard Rules and the relevant Registry Rules. **“Retirement”** shall be construed accordingly.

“Verified Carbon Credit” or **“VCC”** means a unit with a unique serial number, measured in tCO₂e, representing an Emission Reduction and quantified, verified and Issued into a Registry Account.

“VCC Transaction” means any physically settled spot, forward or option transaction with respect to a VCC.

II. VCC Risks

A. VCC Product Risks

1. Additionality

The concept of “additionality” addresses whether the Emission Reduction by a Project would have occurred in the absence of the incentive created by VCC revenues. Market participants and stakeholders view additionality as intrinsic to the environmental integrity of a

VCC. It is a characteristic that can be difficult to measure as it is based on comparing a Project to a theoretical scenario where there is no revenue from the sale of VCCs. If the Emission Reduction is not additional to what would have happened in the absence of the sale of VCCs, the environmental integrity and validity of a VCC may be called into question, and the value of a VCC Transaction may be affected.

2. Permanence

VCCs are intended to be issued in connection with Emission Reduction that is permanent. If Emission Reduction is “reversed”, such that GHG is subsequently emitted, then the environmental benefits of a Project are negated. Certain Carbon Standard Rules and Registry Rules provide mechanisms that are designed to compensate for these reversals. One example is a buffer mechanism, which involves setting aside a portion of the VCCs generated by Projects as a common reserve or contingency to account for the risk of reversal of any Project’s Emission Reduction. If a reversal occurs, the VCCs in the buffer can be retired to offset the adverse environmental impact of the reversal and ensure that the environmental benefits of a Project are maintained. If the ability of a buffer mechanism of a Carbon Standard Rule or Registry Rule to compensate for a reversal suffered by a Project is ineffective or insufficient, then the environmental benefits of the corresponding VCCs may be at risk, which may adversely impact their value or validity.

3. Validity

Concerns about the validity of VCCs may arise in connection with a VCC Transaction on the basis that the VCCs do not accurately represent valid Emission Reduction or that a Project has adverse impacts on local communities and the environment, among other reasons. While Carbon Standard Rules or Registry Rules may implement rigorous eligibility and verification procedures to mitigate any such risk, if a Carbon Standard or Registry determines that any VCCs are invalid, including by reason of inaccurate accounting of the Emission Reduction or failure of a Project to comply with applicable environmental regulations, then a Carbon Standard or Registry may withhold the issuance of VCCs or retroactively cancel VCCs.

4. Double Counting

Problematic double counting can occur in different ways, notably through “double issuance”, “double use”, or “double claiming”. This can occur under certain circumstances in which (a) the same Emission Reduction is credited under two separate Registries (“double issuance”), (b) the same VCC is retired by two market participants (“double use”) or (c) two market participants or two countries claim the same Emission Reduction towards their climate goals or “nationally determined contributions” under the Paris Agreement or towards claims under a related attributes regime such as renewable energy credits (“double claiming”). While problematic double counting is distinguishable from the requirements of necessarily nested accounting (e.g., Emission Reduction counted towards a state target might also be counted towards a national target) and does not inherently raise doubts as to the integrity of the Emission Reduction activity itself (in contrast to issues over additionality and permanence), it can lead to concerns over the legitimacy of the use of these VCCs.

B. Reputational Risk

Market participants who purchase or sell VCCs may face reputational risks if the integrity, validity or legitimacy of these VCCs are questioned (e.g., due to concerns over additionality, permanence, double counting or other issues), whether or not they controlled the circumstances under which these concerns arose. Reputational risk can potentially lead to negative media coverage, litigation over “greenwashing” or other claims, lost revenue or shareholder value or adverse regulatory consequences.

C. Operational Risks

1. Disruption or Cessation of Registry or Carbon Standard

Suspension or disruptions of Registries for VCCs may adversely affect the value of, or access to, VCCs. Registries are subject to these risks due to various factors, including cyberattacks, government regulation and intervention and other causes. The cessation of the Registry could result in the loss of VCCs issued by a Registry. It may cease operations due to various reasons, including insolvency, change in law or fraud. The cessation of a Carbon Standard could create uncertainty over VCCs that were previously issued or are intended to be issued in the future with respect to Projects that were certified or qualified by that Carbon Standard.

2. Carbon Standard Rules and Registry Rules

Carbon Standard Rules and Registry Rules may expose participants to certain risks arising from utilizing a Carbon Standard or a Registry. The provisions of a Carbon Standard Rule or Registry Rule may give rise to liability, obligations or other concerns. Potential issues may arise from provisions such as indemnification, termination for cause or without cause, disclaimers of warranty, limitations on liability, restrictions on Registry Accounts and other relevant terms.

D. Legal and Market Structure Risks

1. Legal Characterization

Although much of the process of creating, verifying and transferring VCCs exists within robust legal frameworks, the legal characterization of VCCs under an applicable jurisdiction may be uncertain and is subject to change, which may give rise to various legal risks. These potential risks may affect what type of security may be taken and enforced in relation to VCCs and how that can be achieved, as well as how VCCs would be treated following an insolvency (including with regard to netting). If VCCs were to be characterized as a particular type of product or instrument, VCC Transactions or certain parties to VCC Transactions may be subject to regulatory requirements. The legal characterization of VCCs may also have an impact on broader considerations, including tax, accounting treatment and other factors.

2. Cross-Border VCC Transactions

VCC Transactions that contain multi-jurisdictional components may be subject to additional risks, especially when the overall cross-border structure is viewed from a global perspective. As an illustration, there may be legal questions as to governing law, title, enforceability, insolvency and other potential issues (a) if an African Project sells VCCs registered with a Swiss Registry to American financial institution #1 that sells the VCCs to a Japanese buyer, who in turn enters into a derivatives contract with American financial institution #2 while granting a security interest in the VCCs and (b) thereafter the Japanese buyer becomes insolvent and American financial institution #2 seeks to enforce its security interest. A multitude of other scenarios with various nationalities can raise a plethora of issues to address.

3. Market Structure

The standards, rules, regulations, laws, practices and procedures surrounding VCCs and VCC Transactions are emerging and fragmented. While compliance markets for Emission Reduction are created and regulated by mandatory national, regional or international regimes and voluntary markets function outside of compliance markets and are governed by Carbon Standards, Registries and other organizations, VCC Transactions may fall under either category or potentially overlap with both categories. While each of these stakeholders contributes to a “market structure” for VCCs, their efforts may not be fully harmonized and may reflect potential gaps, inconsistencies and other deficiencies, which may create risks for market participants transacting in VCC Transactions.

Moreover, there are various ongoing efforts by multiple stakeholders in the compliance and voluntary markets that may result in significant changes to such “market structure”, including future developments under the Paris Agreement and other international initiatives, the establishment of new Carbon Standards or Registries with approaches that may be different from existing Carbon Standards or Registries and the emergence of governance bodies over the voluntary markets that may, individually or collectively, have a material impact on VCCs and VCC Transactions. These changes may diminish, increase or reallocate existing risks or create new risks which parties to VCC Transactions may need to consider.

Given the fragmented state of and potential changes to such “market structure”, there are potential risks in utilizing a particular Carbon Standard or Registry over other Carbon Standards and Registries. A particular Carbon Standard or Registry utilized in a VCC Transaction may be viewed by regulators, voluntary market governance bodies, market participants or other stakeholders as robust or deficient (whether relative to other Carbon Standards or Registries, regulatory requirements, voluntary guidelines or principles or otherwise), which may impact the value or validity of the underlying VCCs. Such view, and its impact on VCC value and validity, may shift based on changes to existing, or the introduction of new, Carbon Standards, Registries, regulatory requirements, voluntary guidelines or principles or market dynamics.