# Public Consultation on the Projected Carbon Unit

3 May 2022

## 1. INTRODUCTION

Verra is creating a new unit named the Projected Carbon Unit (PCU), formerly called the Early Finance Carbon Unit (EFCU), to support the development of VCS projects prior to the verification of GHG emission reductions/removals (ERRs) and issuance of Verified Carbon Units (VCUs).

One PCU will represent one tonne of carbon reductions/removals that a registered project is expected to achieve according to its validated projections. On the Verra Registry, PCUs will be assigned on request to project proponents after project registration and will be converted automatically into VCUs following Verra's approval of the verification of a project's ERRs. PCUs are not *ex-ante* credits; they reflect the ERRs that a given project is projected to generate in the future, as validated by an approved validation/verification body (VVB).

The assignment of PCUs will support projects in providing transactable instruments to help get their carbon projects off the ground.

- **Project proponents** will be able to secure early investment for their projects. PCUs could be especially useful for afforestation, reforestation, and revegetation (ARR) projects, which require significant upfront investment and decades of implementation to generate verified emission removals at scale. PCUs could also be useful for technology-based removal projects, which face very high startup costs.
- **Credit buyers and investors** will have Verra-backed instruments that may backstop contractual agreements, thereby reducing contracting and delivery risks. By increasing transparency and buyer confidence, PCUs could enable further investment in climate action, leading to greater supplies of credits and liquidity in environmental markets, and additional GHG mitigation. Buyers will also benefit from an accounting perspective by being able to hold assets on corporate finance ledgers. Finally, leading corporates have mentioned how holding PCUs could allow them to demonstrate that their project investments are expected to generate a specific quantity of ERRs of an appropriate vintage to put them on track to meeting their net-zero targets or other climate commitments. This use of PCUs could prevent potential greenwashing criticisms being leveled at a growing number of corporates with strong GHG targets but lacking a credible basis for showing they have made the necessary investments to meet those climate commitments.

Verra will update VCS Program documents including but not limited to the *VCS Standard*, the *VCS Registration and Issuance* Process, *VCS Program Definitions*, and the *VCS Program Fee Schedule* to reflect these updates. All VCS Program documents referenced herein can be found on the Verra website at https://verra.org/project/vcs-program/rules-and-requirements/.

## 1.1 PCUs as Financial Instruments and Their Regulatory Status

Verra retained specialist legal counsel to assess whether any regulatory requirements would likely be associated with its role in issuing PCUs and providing registry services to track their holdings. After considering this matter, Counsel advises that the U.S. Commodities Futures Trading Commission (CFTC) may take an interest in the PCU concept but would likely determine that Verra's activities in relation to PCUs are not subject to regulatory requirements, which would provide comfort for Verra to offer this new unit. This assessment is currently being confirmed through further discussions with the CFTC. Counsel also advises that the U.S. Securities and Exchange Commission (SEC) is unlikely to take an interest in the PCU concept.

On the basis of the above, Verra is of the view that these regulatory questions will be positively resolved and that Verra will not face any regulatory requirements associated with its role in assigning PCUs and/or providing registry services to facilitate the trading of PCUs between market participants.

## 1.2 Consultation Process and Timeline

Verra sought public feedback on the PCU through an initial public consultation of 60 days, initiated in December 2020, and received responses from 22 organizations. The results of this initial consultation are included in Annex A.

Verra will use the results of this second public consultation to inform the final design of the PCU. Specifically, this proposal features concrete design choices based on feedback received during the first consultation, other stakeholder inputs, and developments in the carbon markets.

Verra has discussed the proposed updates with project proponents, investors, technical experts, VVBs, and others. The planned timeline for implementing the consultation and rule approval process is set out in Table 1 below.

Table 1. Tentative Timeline

| Tentative Date(s) | Activity |
|---|---|
| 3 May – 1 June | 30-day public consultation |
| June – August | Review comments and finalize proposals |
| September | Publish VCS Program rule changes to operationalize and launch the PCU |

## 1.3 Document Outline and How to Submit Comments

This consultation document proceeds with the following:

- **Section 2:** Proposed PCU design
- **Section 3:** Proposed PCU implementation
- **Section 4:** Requested feedback
- **Anenx A:** Summary of public comments to the initial PCU public consultation

Please provide comments on any part of this document. We would especially appreciate responses to questions in Section 4.

**Verra strongly prefers receiving comments using the comment template provided**, which includes the questions from Section 4**.** If use of the template is not possible, we welcome your comments in your preferred format.

This consultation will be open from 3 May to 1 June 2022. Comments may be submitted to Matt Borden, Senior Program Officer, Program Development and Innovation (mborden@verra.org), by 1 June 2022. After the consultation, we will finalize this update to the VCS Program.

We look forward to your comments. Please let us know if you have any questions as you engage in this consultation.

# 2. PROPOSED PCU DESIGN

This section describes key design aspects of the PCU, which have been defined based on the initial public consultation and extensive stakeholder discussions over the past year, including through various working groups. The final public consultation will cover these elements, and potentially more detailed specification of the rules and requirements to govern the PCU.

## 2.1 Timing of Crediting

PCUs are not ex-ante credits. Rather, PCUs represent the ERRs that a given project is expected to generate in the future. As such, PCUs cannot be retired and cannot be used to support offsetting claims.

## 2.2 PCU Assignment Process

As with any project under the VCS Program, the first steps are for the project to list on the Verra Registry, contract with an approved VVB to validate the project description, and complete project registration. Following registration, a project proponent may request assignment of projected ERRs as PCUs for any future vintage during the project's approved PCU assignment period (see below for the definition of PCU assignment period). The proponent may request assignment of the full quantity available for some or all vintages at once or make incremental requests over time for smaller quantities of PCUs.

## 2.3 PCU Assignment Period

This defines the maximum timeframe out to which project proponents can request projected ERRs to be assigned as PCUs. These timeframes, or periods, will be based on activity type (see below). Periods are aligned with current VCS crediting periods, or for REDD projects with baseline reassessment requirements, reflecting the relative risks inherent in each activity type.

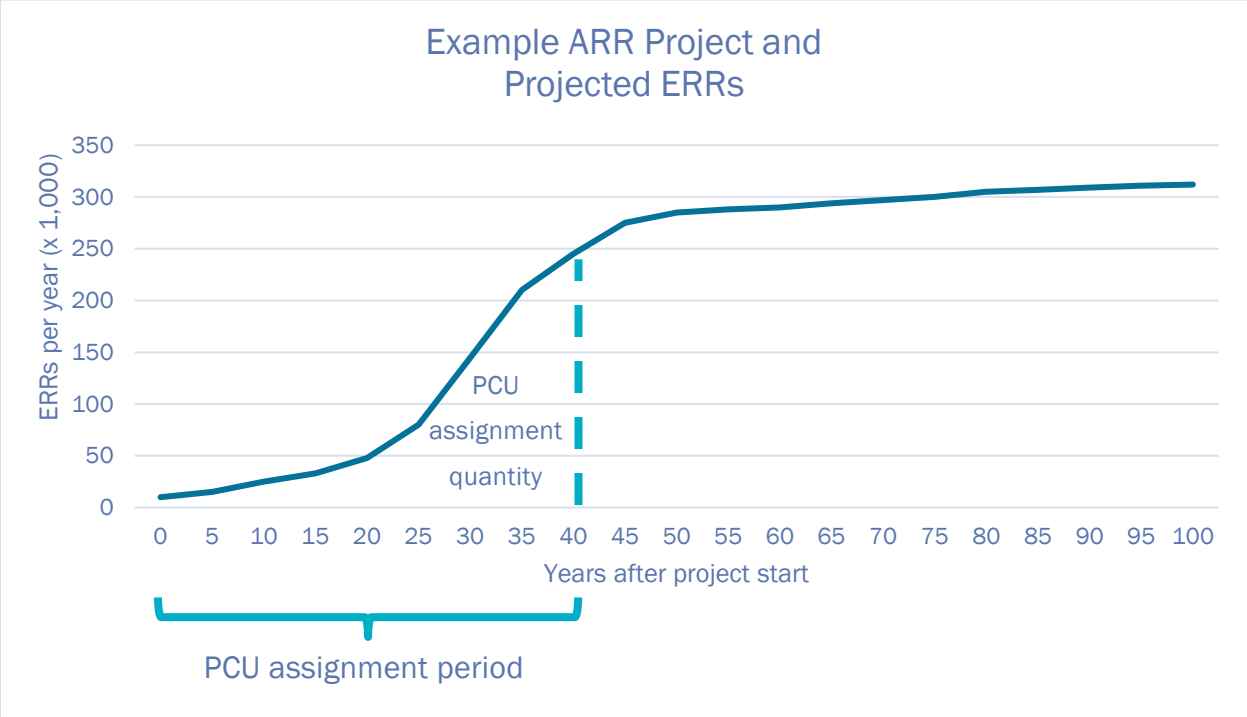
- Reducing Emissions from Deforestation and forest Degradation (REDD), Improved Forest Management (IFM), and Agricultural Land Management (ALM) projects: equal to the baseline reassessment period:
    - Avoiding Planned Deforestation and/or Degradation (APDD) (except where the agent is unknown), Restoring Wetland Ecosystems (RWE), Avoiding Planned Wetland Degradation (APWD), Avoiding Planned Conversion (APC), IFM, and ALM: up to 10 years, consistent with the baseline reassessment period for these projects.
    - Avoiding Unplanned Deforestation and/or Degradation (AUDD), Avoiding Planned Deforestation and/or Degradation (APDD) (where the agent is unknown), Avoiding Unplanned Conversion (AUC) and Avoiding Unplanned Wetland Degradation (AUWD): up to 6 years, consistent with the baseline reassessment period for these projects.
- Non-NCS emission reduction projects: equal to the first project crediting period; either 10 years, fixed, or 7 years for a project that chooses a 7-year, twice-renewable crediting period, consistent with the baseline reassessment period for these projects.

- For natural climate solution (NCS) sequestration (e.g., ARR, blue carbon restoration) projects: up to 40 years, but not exceeding the duration of the VVB-validated project plan (within the registered project description).
- Non-NCS emission removal projects: up to 40 years.

## 2.4 PCU Assignment Quantity

The quantity of ERRs available to a given project for PCU assignment is equal to 100% of validated estimated ERRs over the project's total PCU assignment period. To illustrate this, the below chart shows an example North American afforestation project without harvesting. While the project may have a 100-year crediting period, the PCU assignment period is 40 years. This project may request assignment of PCUs for the full quantity of projected ERRs for up to 40 years. In the chart, this quantity is equal to the area under the curve and to the left of the dotted line. For a given vintage year (e.g., 20 years after project start), the quantity of PCUs available for assignment is equal to the corresponding projected ERRs for that year (e.g., 50,000 units).

*Chart 1. Example ARR project and projected ERRs*




## 2.5 Linkage to Specific Vintages

Each block of PCUs will be linked to the specific vintage (calendar) year when the ERRs are projected to be generated.

## 2.6 VCU Delivery in Case of Underperformance

VCU conversion will occur on a first-come, first-served basis, meaning the serialized PCUs will be converted into VCUs based on the order of PCU assignment. In the event of underperformance, any PCUs for a given vintage that cannot be converted into VCUs will be canceled permanently. This approach provides buyers with a higher degree of certainty regarding contracting and assignment risks. Specifically, if a buyer perceives a high risk of project underperformance, they might choose to purchase just the first portion of the projected ERRs as PCUs, knowing that they would be first in line for PCU-to-VCU conversion upon verification. Such transparency will also enable the market to price subsequent PCU tranches more effectively, based on the assessed risk of VCU non-delivery.

## 2.7 PCU Expiry

PCUs for a vintage period expire once the project has completed its verification, and potential VCU issuance, for the relevant full vintage year. Those PCUs that cannot be converted into VCUs in a particular vintage year (due to underperformance) will be automatically cancelled. If the project withdraws from the VCS Program or does not issue any VCUs, existing program rules would render the project inactive and all associated PCUs would be cancelled.

## 2.8 Automatic Conversion of PCUs into VCUs

Verra proposes a new feature in the Verra Registry to automate the conversion of PCUs into VCUs for relevant vintages to the end-buyer's account, upon conversion of PCUs into VCUs. This would reduce Registry staff workload and eliminate the dependence on the project proponent to make the VCU transfer.

## 2.9 Trading of PCUs

There is strong market demand for Verra to enable the transfer of PCUs to other Registry accounts, which would support the trading of these units. Such functionality is necessary to allow financial institutions and investors to provide capital to projects in return for PCUs. Therefore, Verra intends to enable the transfer of PCUs between Verra Registry accounts.

## 2.10 PCUs on the Verra Registry

Verra will update the Verra Registry website to include a new tab for PCUs under the VCS webpage. This tab will include nearly the same search criteria currently available in the VCUs tab, including the following

- ID
- Name
- Project Type
- Country
- Additional Certification
- Assignment status
    - Assigned
    - Converted [to VCUs]
    - Cancelled
- Serial Number Block Start
- Serial Number Block End
- Assignment Date (From)
- Assignment Date (To)

Additionally, the PCU tab will feature nearly the same unit information currently available in the VCUs tab, including the following:

- Assignment date
- Sustainable Development Goals
- Vintage Start
- Vintage End
- ID
- Name
- Country
- Project Type
- Methodology
- Total Vintage Quantity
- Quantity Assigned
- Serial Number
- Additional Certifications
- Conversion/Cancellation Date
- Conversion Beneficiary

Given that PCUs will be converted into VCUs on a first-come, first-served basis (see Section 2.6 above), it is important for potential PCU buyers to be able to know the order of available PCUs relative to already assigned PCUs for a given project. Potential buyers could use this information in advance of making a purchase with a project proponent or trade with another market participant to better judge risk of VCU non-delivery in the case of underperformance. Specifically, buyers can refer to PCU serial numbers and other relevant information on the Verra Registry to support such assessments.

## 3. PROPOSED IMPLEMENTATION

The design choices described in Section 2 above will be implemented through updates to several components of the VCS Program. The updates needed are set out in Table 2 below, with the subsequent sub-sections describing each in full.

Table 2. Program Updates Needed for PCU Implementation

| # | Item | Brief Description |
|---|---|---|
| 1 | Definition and specification of PCU | Add a formal definition for the PCU to VCS document *Program Definitions* |
| 2 | Description of PCU within the VCS Program documents | Some VCS Program documents will be updated to describe the purpose of a PCU and how these units differ from VCUs. Additionally, the *VCS Standard* will be updated to incorporate new rules and requirements specific to PCUs |
| 3 | Program Fee Schedule | Add a new levy for PCU assignment |
| 4 | PCU Assignment Process | Describe the PCU assignment process in VCS document *Registration and Issuance Process*, the same way that this document describes the process for VCU issuance |
| 5 | Project description template | Update the project description template to require additional information where the project proponent wants to assign PCUs; in particular to make transparent the risks of underperformance of the project and hence the risk that the project's PCUs may not be converted into VCUs |
| 6 | PCU Assignment Representation | The project proponent will need to sign a deed of representation, to be submitted to the Verra Registry when the proponent requests PCU assignment |
| 7 | Verra Registry Updates | The Verra Registry infrastructure, User Guide, and Terms of Use will be updated to reflect the design choices featured in Section 2 |

### 3.1 Definition and Specification of PCU

A formal definition is needed for the Projected Carbon Unit, which will be added to VCS Program document *Program Definitions*. We propose the following definition:

> **Projected Carbon Unit (PCU)**
> A unit assigned by and held in the Verra Registry representing the right of an account holder in whose account the unit is recorded to receive one Verified Carbon Unit in accordance with the VCS Program rules. Recordation of a PCU in the account of the holder at the Verra Registry is prima facie evidence of that holder's entitlement to that PCU.

PCUs will be assigned using the existing VCS serial number configuration format.[1] In other words, serial numbers will be almost the same as for VCUs, with the difference being that the field *Credit Type* will be given as "PCU" rather than "VCU."

It is through their serial numbers that PCUs will be designated a vintage. The serial number configuration includes fields *Vintage Start Date* and *Vintage End Date*, and these fields will be used to signify the PCU vintage year (in the same way as is done for VCUs).

Once PCUs were assigned, Verra registry account holders will be able to buy and sell them (i.e., transfer them between registry accounts).

## 3.2 Description of PCU within the VCS Program Documents

Some of the VCS Program documents will be updated to describe the purpose of a PCU and how these units differ from VCUs. These documents include the *VCS Program Guide* and the *VCS Standard*. For the *VCS Program Guide*, no further substantive updates are planned. For the *VCS Standard*, the table below summarizes the proposed updates, by section.

Table 3. Summary proposed updates to VCS Program documents

| *VCS Standard* section | Summary proposed update |
|---|---|
| Section 2, VCS Program Specific Issues | • A new subsection entitled "Carbon Units" will include a description of the purpose of PCUs and how these units differ from VCUs |
| Section 3, Project Requirements | • A new subsection entitled "PCU-Specific Matters" will be added<br>• New rules will describe all requirements relevant to PCUs by design feature, from the timing of crediting to the automatic transfer of PCUs within the Verra Registry, as described in Section 2 of this consultation document<br>• Regarding the PCU assignment period, this section of the *VCS Standard* will include a reference for users to see the non-permanence risk report for each project to reach their own view on the likelihood that the project achieves the projected quantity of ERRs in the validated project description |

[1] See Verra Registry - VCS Serial Number Configuration. Available at: https://verra.org/wp-content/uploads/2020/09/VCU-Serial-Number-Help-Format.pdf

## 3.3 VCS Program Fee Schedule

The VCS Program Fee Schedule will be updated to include a PCU assignment levy. This levy will be structured as set out in Table 4.

Table 4. Proposed PCU Assignment Levy Fee Schedule

<table>
<tr><td>PCU assignment levy</td><td>For cumulative PCU assignments from a project occurring within a calendar year:<br><br><table><tr><th># of PCUs Assigned</th><th>USD/PCU</th></tr><tr><td>1 – 10,000</td><td>USD 0.01</td></tr><tr><td>10,001 – 1,000,000</td><td>USD 0.04</td></tr><tr><td>1,000,001 – 2,000,000</td><td>USD 0.03</td></tr><tr><td>2,000,001 – 3,000,000</td><td>USD 0.02</td></tr><tr><td>>3,000,000</td><td>USD 0.01</td></tr></table><br>For example, in 2023, a project's first PCU assignment for a quantity of 50,000 units would be charged a levy of USD 1,700, equal to (10,000 x USD 0.01) + (40,000 x USD 0.04). The project's second PCU assignment in the same year for 100,000 units would be charged a levy of USD 4,000, equal to (100,000 x USD 0.04)).</td></tr>
</table>

Within the *VCS Program Fee Schedule*, the registration fee will be updated to indicate that the registration fee is credited toward either future PCU assignment levies or future VCU issuance levies, whichever levy is incurred first.

For the automatic conversion of a PCU into a VCU, no additional fee applies beyond the appropriate VCU issuance levy (see *VCS Program Fee Schedule*).

## 3.4 PCU Assignment and Conversion Process

Within VCS Program document *Registration and Issuance Process*, Section 4.4, the following text will be included to describe the PCU assignment and conversion process.

After a project is registered, PCUs could be assigned incrementally from a validation report. The project proponent will be able to request PCU assignment of part of the validation report quantity and request issuance of the remaining volume at a later date. The following will also apply:

### Assignment of PCUs

1. The entity requesting PCU assignment shall instruct the Verra Registry that it is requesting PCU assignment of a specific quantity of the projected ERRs from the validation report.

2. Verra will assign PCUs to the account of the project proponent, unless the entity requesting PCU assignment directs Verra to assign PCUs to a different account.
3. The PCU assignment levy and any fees charged by Verra are payable on the quantity of PCUs which are assigned, not the total validation report quantity.
4. Up to 100% of estimated future (i.e. projected) ERRs in the validation report can be assigned as PCUs, up to the following time limits by project activity, and, for AFOLU projects, minus corresponding contributions to the VCS pooled buffer account based on the latest (i.e. most current) required buffer withholding percentage:
    a. Reducing Emissions from Deforestation and forest Degradation (REDD), Improved Forest Management (IFM), and Agricultural Land Management (ALM) projects: equal to the baseline reassessment period:
        i. Avoiding Planned Deforestation and/or Degradation (APDD) (except where the agent is unknown), Restoring Wetland Ecosystems (RWE), Avoiding Planned Wetland Degradation (APWD), Avoiding Planned Conversion (APC), IFM, and ALM: up to 10 years, consistent with the baseline reassessment period for these projects.
        ii. Avoiding Unplanned Deforestation and/or Degradation (AUDD), Avoiding Planned Deforestation and/or Degradation (APDD) (where the agent is unknown), Avoiding Unplanned Conversion (AUC) and Avoiding Unplanned Wetland Degradation (AUWD): up to 6 years, consistent with the baseline reassessment period for these projects.
    b. Non-NCS emission reduction projects: equal to the first project crediting period; either 10 years, fixed, or 7 years for a project that chooses a 7-year, twice-renewable crediting period, consistent with the baseline reassessment period for these projects.
    c. For natural climate solution (NCS) sequestration (e.g., ARR, blue carbon restoration) projects: up to 40 years, but not exceeding the duration of the VVB-validated project plan (within the registered project description).
    d. Non-NCS emission removal projects: up to 40 years.
5. PCU assignment will use calendar-year vintage blocks.

### Conversion of PCUs into VCUs

6. Where projects perform as expected or overperform and verify a quantity of ERRs that is equal to or greater than the validated quantity for the given vintage period, the following will occur:
    a. The full quantity of assigned PCUs will be cancelled and a corresponding quantity of VCUs will be automatically issued to the appropriate account holders, minus contributions to the AFOLU pooled buffer account (where applicable).
    b. In case of overperformance or when not all the projected ERRs for a given vintage are assigned as PCUs, the excess VCUs will be issued to the project proponent.
7. Where projects underperform and verify a lower quantity of ERRs than projected in the validation report, for a given vintage period, the following will occur:

a. The full quantity of assigned PCUs, up to the quantity verified, will be cancelled and a corresponding quantity of VCUs will be automatically issued to the appropriate account holders, minus contributions to the AFOLU pooled buffer account (where applicable).
b. VCU conversion will occur on a first-come, first-served basis, meaning the serialized PCUs will be converted into VCUs based on the order of PCU assignment. Any PCUs for a given vintage that cannot be converted into VCUs will be canceled without corresponding VCU issuance.
c. PCU assignment, and PCU-to-VCU conversion, will occur on a contiguous basis. This will prioritize verified ERRs for the conversion of PCUs into VCUs for earlier vintages before any later-vintage VCUs could be issued.

8. Given that PCUs can be traded, and given the automatic conversion of PCUs into VCUs, the end-buyer of the PCUs will receive the issued VCUs in their account .

## 3.5 VCS Program Templates

Some of the VCS Program templates will be updated to ensure that project proponents submit sufficient information about projects to enable the assignment and use of PCUs. These updates include the following, by template document:

### VCS Project Description Template

- Section 1.10 will be updated to prompt project proponents to estimate ERRs by vintage year up to the eligible time limits for each project activity type.
- Section 2.5 will be updated to prompt proponents of AFOLU projects to state the project longevity (in number of years). This information is already required in the Non-Permanence Risk Report Template.

### Non-Permanence Risk Report Template

- Section 4.2 will be updated to indicate that deductions for the AFOLU pooled buffer account will be made, where applicable, to determine the quantity of GHG credits eligible to be issued as VCUs, and therefore as *PCUs*.

## 3.6 PCU Assignment Representation

Project proponents will need to sign a PCU Assignment Deed of Representation when they request PCU assignment. The parallel for VCU issuance is the VCS Issuance Deed of Representation,[2] and the two deeds will be broadly similar.

The PCU Assignment Deed of Representation will include relevant definitions,[3] and be governed by English law, with jurisdiction being English courts. The key elements of the Deed are the representations and acknowledgements the project proponent makes, as described below.

[2] Available on the Verra website at: https://verra.org/project/vcs-program/rules-and-requirements/
[3] The definitions would be broadly similar to those in the VCS Issuance Deed of Representation, including the definition of Issuance/Assignment Representor.

### Representations

The PCU Assignment Deed of Representation will include the following representations (i.e., representations to be made by the project proponent):

- All factual information provided by the project proponent in relation to the Deed is true, accurate and complete in all material respects, and the proponent has not made or provided false, fraudulent or misleading statements or information in relation to the Deed.
- The project description and any other project documents are true and accurate in all material respects and do not contain false, fraudulent or misleading statements or information. Note that the project description will need to contain information above and beyond normal project descriptions, as described at the beginning of Section 3.5 of this consultation document.
- The project proponent holds full and exclusive legal and equitable title and rights to all and any GHG emission reductions and removals from the project for the applicable PCU assignment period. Note that this time period is different compared to that of the VCS Issuance Deed of Representation, which in contrast refers to the project crediting period.
- The project proponent has not submitted, sought, requested or received recognition of the project's GHG emission reductions and removals as any other unit similar in nature to the PCU.

These representations will be broadly similar to those in the existing VCS Issuance Deed of Representation -- see that Deed for further detail and indicative wording likely for the PCU Issuance Deed of Representation.

### Acknowledgements

The PCU Assignment Deed of Representation will require the project proponent to acknowledge and agree to the following:

- The following persons may rely on and enforce the terms of the deed: Verra, accountholders holding the relevant PCUs, and successors and assigns of these persons.
- Verra may automatically cancel the relevant PCUs as and when corresponding VCUs are issued to the project, in accordance with the VCS Program rules.
- Neither Verra nor any of its respective affiliates, directors, employees, agents, licensors and/or contractors are liable with respect to any claims arising out of the Deed.
- The project proponent has read, understood and will abide by the VCS Program rules.
- Verra has an absolute right to amend any of the VCS Program rules at any time and does not bear any liability for associated loss or damage.
- Verra reserves the right to take action against the project proponent where Verra deems that there has been a material erroneous assignment of PCUs as a result of fraudulent conduct, negligence, intentional act, recklessness, misrepresentation or mistake of the project proponent.

Again, these acknowledgements will be broadly similar to those in the existing VCS Issuance Deed of Representation (see that Deed for further detail and indicative wording), with the exception of the second bullet above, which will be a new clause needed for the PCU Assignment Deed.

## 3.7 Verra Registry Updates

Verra will make the needed updates to the software hosting the Verra Registry, the Verra Registry user

guide, and the Verra Registry Terms of Use to enable the assignment, trade, cancellation, and conversion of PCUs as described in Sections 2 and 3 of this consultation document.

## 4. REQUESTED FEEDBACK

Verra requests general feedback on the proposed changes and on the following questions:

1) Will the proposed PCU design (Section 2) likely enable early project investment as well as support PCU buyers in reducing contracting and delivery risks and facilitate credible communication of progress toward net-zero targets or other climate commitments?
2) Do you have any concerns about the ease of use or environmental integrity of the proposed PCU design (Section 2)? If so, what are your concerns and what adjustments should be considered to further strengthen the proposed PCU design?
3) The proposed maximum PCU assignment period for NCS sequestration (removal) projects, including afforestation/reforestation projects, is 40 years. Do you agree with this timeframe for NCS removal projects? If not, do you think a longer timeframe (e.g., 60 years) or a shorter timeframe (e.g., 20 years) would be more appropriate? Kindly provide your rationale.
4) This proposal includes a maximum PCU assignment period for non-NCS (e.g., technological) sequestration (removal) projects of 40 years, considering the significant upfront investment needed for these projects (e.g., Direct Air Carbon Capture & Storage) to be deployed. However, unlike NCS sequestration projects, these technological projects can immediately generate emission removals once operational. Do you agree with this timeframe for technological removal projects? If not, do you think a longer timeframe (e.g., 60 years) or a shorter timeframe (e.g., 20 years) would be more appropriate? Kindly provide your rationale.
5) The PCU assignment period is described as a static timeframe with a fixed start date and end date. Should project proponents have the option to extend a project's PCU assignment period, contingent on re-validation of relevant project documents? For example, five years past the project's start the proponent may be able to extend the PCU assignment period by five years into the future after re-validation of key parameters, including the project's ERR projections.
6) Are the updates for PCU implementation (Section 3) clear? Do you have suggestions to clarify or better define how PCUs will be implemented within the VCS Program?
7) Consider that PCUs will enable project proponents to assign and transfer carbon units earlier in the project development cycle than otherwise possible. To ensure PCUs are underlied by robust projections, should project proponents or VVBs provide any additional information not already prompted in the VCS project description and validation report templates (Section 3.5)?

# 5. ANNEX

## Annex A: Summary of Public Comments to the Initial PCU Public Consultation

In response to the initial public consultation of December 2020, Verra received feedback from 22 respondents including key stakeholders and members of the VCS Program Advisory Group and other industry advisory groups. The below reflects respondents' sentiment in response to the nine consultation questions posed. Verra's decision for each design aspect is included in a bullet below each question. Note that the questions below are summarized from the 2020 consultation document for brevity. Also, the questions refer to 'PCU' for continuity with the rest of this document though the 2020 consultation document referred to the unit as 'EFCU.' The original consultation document can be accessed here.

### 1. Is the PCU a helpful concept?

All 22 respondents agreed that the concept is useful to the industry and suggested that Verra should move forward with development. In describing the value they see in PCU, a range of respondents highlighted common, practical uses. Buyers stressed that PCUs could formalize futures contracts and reduce non-delivery risk. Project proponents see potential to fundraise at an early stage of project development, when investment is most needed and yet ERRs are most limited. Proponents agreed that this is especially true for NBS and NCS sequestration-type projects.

**Decision:** Verra will develop and launch the PCU.

### 2. Is the name 'Early Finance Carbon Unit' fit for purpose?

Feedback was mixed. A handful agreed that the name 'EFCU' is self-explanatory but perhaps too wordy. Some were concerned that including the term 'finance' could misrepresent the instrument. A majority suggested using a shorter name. About 70% of respondents preferred 'Projected Carbon Unit.'

**Decision:** The unit's name will be the Projected Carbon Unit.

### 3. Should PCU assignment volumes be restricted to a fraction of total validated, estimated ERRs, to mitigate against risk of underperformance?

This question garnered mixed feedback. Some respondents suggested that underperformance risk was reason enough to permit only a fraction of total validated, estimated ERRs to be assigned as PCUs. Others suggested that imposing such a restriction (e.g., permitting less than 100% of validated, estimated ERRs to assign as PCUs) could introduce market distortions. Such a restriction could influence the market to perceive risk based on indirect indicators of underperformance, and possibly over-correct when determining PCU prices. As a blunt instrument, this restriction could do more harm than good.

**Decision:** PCU assignment quantity will be equal to 100% of validated, estimated ERRs over the period during which a given project may assign PCUs.

### 4. Should PCUs be linked to specific vintages, or rather aggregated over the corresponding monitoring/verification period?

A majority of respondents agreed that assigning PCUs should be linked to specific vintages. For some, vintages simply offer more information and transparency and thus enable better pricing. Further, others suggested that vintages could enable the market to better identify and manage under-delivery risk. Consider that earlier-vintage PCUs carry less risk of under-delivery, considering there is generally less potential for a project's implementation to deviate from the project plan over the short term, whether due to underlying financial, policy, or nature-related risks to the project. Conversely, later-vintage PCUs generally carry more risk as there is greater uncertainty in the long term as relates to under-delivery risk. With vintages, buyers and sellers will be able to differentiate and price PCUs based on this time-based risk factor. On the other hand, developers of some project types with longer-reaching PCU assignment periods, like ARR projects, could see lower demand for later vintages.

**Decision:** PCUs will be linked to specific vintages rather than monitoring/verification periods.

### 5. In case of underperformance, should conversion to VCUs occur on a first-come, first-served basis or rather proportional to PCUs assigned for a given vintage?

Half of the respondents agreed with the first-come, first-served approach. In this case, the first buyers of PCUs for a given vintage would be first in line to receive the assigned VCUs upon verification. If the project underperformed, later PCU purchasers would not get all (or potentially any) of the VCUs they had hoped for. The other half suggested that all the buyers should equitably share the risk of under-delivery, whereby all PCU buyers of a given vintage (regardless of who purchased the PCUs first) would receive a proportional share of the actual VCUs issued in an equitable approach. Some respondents suggested that an insurance mechanism should be implemented to cover the buyers' under-delivery risk, to reduce the uncertainty for buyers. The underperformance question was subsequently discussed in depth with various Verra working groups and other stakeholder forums, where there was strong and broad support for the first-come, first-served approach.

**Decision:** In case of underperformance, PCU-to-VCU conversion will occur on a first-come, first-served basis.

### 6. For how many years into the future should a project be permitted to request assignment of PCUs?

Respondents suggested that Verra should provide flexibility to different project types for a given project's PCU assignment period. However, respondents recognized that ARR projects would need to be able to assign PCUs decades out given how it can take that long before many of these sequestration projects (potentially using investment from PCU sales) are able to generate verifiable removals. Further

discussions with project proponents made it clear that limiting PCU assignment to less than about 60 years could undermine the value of the unit for temperate and boreal ARR projects, and unhelpfully incentivize the planting of fast-growing non-native species.

**Decision:** PCU assignment period will be based on activity type (see below), reflective of different levels of risk associated with each type.

- REDD, IFM, and ALM: equal to the baseline reassessment period:
    - Avoiding Planned Deforestation and/or Degradation (APDD) (except where the agent is unknown), Restoring Wetland Ecosystems (RWE), Avoiding Planned Wetland Degradation (APWD), Avoiding Planned Conversion (APC), IFM, and ALM: up to 10 years
    - Avoiding Unplanned Deforestation and/or Degradation (AUDD), Avoiding Planned Deforestation and/or Degradation (APDD) (where the agent is unknown), Avoiding Unplanned Conversion (AUC) and Avoiding Unplanned Wetland Degradation (AUWD): up to 6 years
- Natural climate solution (NCS) sequestration (e.g., ARR, blue carbon restoration) projects: up to 40 years, not exceeding the duration of the VVB-validated project plan
- Non-NCS emission reduction projects: equal to the first project crediting period; either 10 years, fixed, or 7 years for a project that chooses a 7-year, twice-renewable crediting period
- Non-NCS emission removal projects: up to 40 years

## 7. Should PCUs expire after a certain date?

Many respondents provided valuable feedback in the form of hypothetical scenarios for Verra's consideration. For example, what happens to the associated PCUs if the project is incorporated into a national emission trading system? What happens to the PCUs if any project withdraws from the VCS Program? These scenarios are concerned more with the withdrawal of projects from the VCS Program, and existing program rules would render these projects inactive and all associated PCUs would be cancelled. Through further discussions with proponents, it is clear that PCU expiry is relevant, and indeed needed, to address project underperformance upon verification and conversion of PCUs into VCUs. Expiry is the logical conclusion for any PCUs that cannot be converted into VCUs due to underperformance at the end of the vintage (calendar) year.

**Decision:** After a project has completed its verification and potential VCU issuance for the relevant full vintage year, those PCUs that cannot be converted into VCUs in the particular vintage year (due to underperformance) will be automatically cancelled.

## 8. Should the Registry feature functionality to enable the automatic delivery of VCUs to end-buyers upon PCUs' conversion into VCUs upon verification?

A majority of respondents agreed with the proposal to enable the automatic delivery of VCUs to end-buyers of PCUs upon verification. In fact, many respondents see this functionality as key to the PCU's success.

- **Decision:** Verra will develop Registry functionality to enable the automatic delivery of VCUs to end-buyers upon the PCUs' conversion into VCUs.

### 9. How important is it that the PCU could be traded on secondary markets, and would the legal characterization of the unit impact the decision to buy such units?

Most respondents agreed that the ability to trade PCUs on secondary markets is highly valuable as this would attract buyers beyond corporates, to include finance sector buyers and others interested in impact investment. With access to secondary markets, the PCU enables projects to transact units, and access investment, at a significantly greater scale. Secondary market buyers need certainty of any potential regulatory implications on the trade of PCUs. As such, respondents emphasized that Verra must seek to clarify the PCU's legal nature (i.e., are the units mere securities or something more complex and regulated, like derivatives?) and whether the assignment and trade of PCUs falls under the purview of regulators.

**Decision:** PCU design and associated Registry infrastructure will enable trading on secondary markets. Verra has retained legal counsel to conduct a legal/regulatory assessment of the PCU. This assessment is near completed and Verra expects the assessment to show that it will not have any regulatory requirements associated with its role in issuing or facilitating transactions in PCUs.