VCS Program Durability Pilot to Address Non-permanence Risk: Overview and Application Process

Background

To date, Verra has used a pooled buffer account as the VCS Program's approach to managing non-permanence risk. Proponents of agriculture, forestry, and other land use (AFOLU) and geological carbon storage (GCS) projects with a risk of non-permanence assess risk using the *AFOLU Non-Permanence Risk Tool (NPRT)* or *GCS NPRT* and contribute credits to a pooled buffer account based on the assessment's findings.

In recent years, stakeholders in the voluntary carbon market have proposed alternative approaches to managing non-permanence risk, such as insurance or permanence funds. Insurance is a well-known and highly regulated risk management mechanism common in most financial markets. An increasing number of insurance providers are offering carbon insurance products, including protection against reversal risks. A permanence fund uses investment returns to purchase credits and remedy reversals. Rather than setting aside a discrete number of credits, project proponents monetize credits and set aside a portion of the proceeds in a fund that could be used to remedy a reversal, should one occur.

Overview of pilot

With the release of version 5 of the VCS Program, Verra is launching a three-year pilot to test two alternatives to the pooled buffer for managing non-permanence risk: 1) insurance and 2) a fund-based approach. In recognition of evolving market interest, Verra will allow project proponents to use these alternatives during the piloting period.

Verra will apply an "Innovation" label to Verified Carbon Units (VCUs) from projects using alternative approaches. The intent of the label is to showcase to the market that the project proponent is pioneering an alternative approach to durability. VCUs with the Innovation label will not presently be eligible for the Integrity Council for the Voluntary Carbon Market (ICVCM) Core Carbon Principles (CCP) labels or Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) labels. However, the ICVCM has signaled that it may accept such an approach, as outlined in its recent Continuous Improvement Work Program report: Permanence.

Should a participating project's alternative approach to durability fail to fully replace VCUs affected by a reversal, the project will be subject to VCS Program requirements that project proponents must remedy reversals. In addition, where a reversal occurs and is not remedied, the affected VCUs will be displayed on the Verra Registry with a status of *reversed.* The requirements for piloting are outlined below.

1. General requirements for piloting

1.1 Project proponents shall apply the relevant NPRT (i.e., AFOLU or GCS).

1.2 Projects with an overall risk rating from the NPRT that is deemed unacceptably high are not eligible for crediting. This includes the following thresholds:

1) An overall risk rating of 60 for AFOLU projects and 7 for GCS projects
2) The sum of risk ratings for internal risk is greater than 35 for AFOLU projects.
3) The sum of risk ratings for external risk is greater than 20 for AFOLU projects.
4) The sum of risk ratings for natural risk is greater than 35 for AFOLU projects.

1.3 AFOLU projects and their proponents shall meet all criteria in the most recent version of the AFOLU NPRT. Projects that do not meet such criteria fail the risk assessment. In the *AFOLU NPRT*, *v5.0*, these conditions are the following:

1) Projects shall have a project longevity of at least 40 years[1].
2) Projects shall have an adaptive management plan in place that includes a monitoring plan.
3) Projects shall have a payback period of 20 years or less (defined as the number of years until financial breakeven, or the point at which total cost equals total revenue).
4) Projects shall have management, financial, and monitoring plans for the entire project longevity.
5) Proponents of ARR and IFM projects with harvesting shall demonstrate a commitment to continue the management practice, replant, or allow for regrowth.
6) Project proponents shall undertake a due diligence process to discover any disputes over a project's right to operate and land, resource access, and use rights (as detailed in Section 3.6 of the VCS Standard, v5.0).
7) Project proponents shall execute one or more binding legal agreements securing the right to operate a project activity over the entire project area with all entities that have claims to land, resource access, or use rights (such as customary rights holders).
8) Project proponents shall demonstrate that natural risks impacting 70% of project carbon stocks have materialized at a historical frequency of less than once every 10 years using the digital AFOLU NPRT in the Verra Project Hub.

1.4 Proponents of projects participating in the pilot shall submit a non-permanence risk report to Verra with their verification approval request for the monitoring period that includes piloting. Project proponents are not required to use the alternative approach for the entire monitoring period. Projects are not required to contribute credits to the AFOLU or GCS pooled buffer account while using an eligible alternative approach.

[1] Except where projects requested registration before January 1, 2024. Such projects shall have a project longevity of at least 30 years.

1.5 Where a project participating in the pilot previously contributed to the AFOLU or GCS pooled buffer account, the project is not eligible for buffer credit release during piloting. Projects become eligible to release buffer credits where they revert to using the AFOLU or GCS pooled buffer account and contribute buffer credits for the piloting period, subject to the requirements in Section 5.2 of the *Registration and Issuance Process, v5.0*.

1.6 Where a project proponent chooses to revert to using the AFOLU or GCS pooled buffer account to manage non-permanence risk, the project shall contribute buffer credits:

1) for the period during which it used an alternative approach.

2) to an amount based on the project's risk rating during the period in which it used an alternative approach.

1.7 If the alternative approaches are not permitted beyond the pilot and a project needs to revert to the pooled buffer account at this point, Verra will allow piloting projects to rejoin the buffer without making buffer contributions for the piloting years. Where this occurs and a reversal is detected, the project proponent will not be eligible to use the pooled buffer to cover issuances from the piloting years.

1.8 Project proponents participating in the pilot shall submit evidence of their chosen approach to managing non-permanence risk (i.e., insurance or a fund-based approach) to Verra as part of their verification approval request for the monitoring period that includes piloting. Evidence of the selected approach may be, for example, proof of an active insurance policy or documentation from the banking institution where the fund is held. The evidence will be subject to Verra's policies on commercially sensitive information.

Loss event and reversal procedures

1.9 Where a loss event occurs, the project proponent shall report it to Verra following the loss event reporting requirements in the *Registration and Issuance Process*. Verra may also leverage the Long-Term Monitoring System (LTMS) to detect losses in projects participating in the pilot.

1.10 Where it is subsequently determined that a loss resulted in a net reversal, the affected VCUs are displayed on the Verra Registry with a status of *reversed,* proportionately across all holders of affected VCUs. The project proponent shall send a reversal report[2] to all current holders of the affected VCUs, with Verra in copy. The reversal report is posted on the Verra Registry.

1.11 Project proponents shall remedy reversals via cancellation of replacement VCUs. The following applies:

1) Where a project previously contributed to the AFOLU or GCS pooled buffer account, a combination of buffer credit and replacement VCU cancellations may be made to remedy the reversal. The total number of buffer credits and replacement VCUs canceled shall equal the

[2] A reversal report template will be available on the Verra website. Where necessary, Verra may also provide project proponents with the list of impacted VCU holders.

amount of the reversal. The split between buffer credits and replacement VCUs canceled shall be determined proportionally based on the number of VCUs issued under each approach (see example in Table 1 below).

2) Where a reversal is remedied, the status of the affected VCUs on the registry is updated to remove the reversed status.

Table 1. Example of reversal remedy using a combination of buffer credits and replacement VCUs

	Approach 1: Pooled buffer	Approach 2: Insurance
Total issuances per approach (VCUs)	1000	500
Total issuances to date (VCUs)	1500	
Reversal amount (t CO_2e)	250	
Proportion of remedy allocated to each approach	1000/1500 = 67%	500/1500 = 33%
Quantity of buffer credits and replacement VCUs canceled to remedy reversal	250 × 0.67 = 167 buffer credits	250 × 0.33 = 83 replacement VCUs

1.12 Where a reversal is not remedied, the affected VCUs continue to be displayed on the Verra Registry with a status of *reversed*. The following applies:

1) Account holders are not permitted to transfer, retire, or cancel reversed VCUs.

2) Where the affected VCUs have been retired already, the current holders of those VCUs should report the reversal and any remedy in alignment with applicable GHG inventory guidance or requirements.[3]

3) No further VCUs are issued to the project until the reversal is remedied. Verra may take further action, including account suspension, where a reversal is not remedied.

[3] The VCS Program is a certification standard for projects and associated GHG emission reduction and carbon dioxide removal assertions; it is not a program for organizational inventory claims. Oversight of such reporting is via claims organizations (e.g., Voluntary Carbon Markets Integrity Initiative (VCMI), Science-based Targets Initiative (SBTi), and CDP).

2. Minimum criteria for alternative approaches

2.1 For a project proponent to use the insurance approach, the insurance product shall:

1) come from a regulated insurance company with an investment-grade credit rating. Verra will consider exceptions to this requirement on a case-by-case basis where insurance companies are based in jurisdictions with advanced insurance regulatory regimes.
2) be renewable and cover a minimum of three years of non-permanence risk.
3) clearly specify which risk categories in the AFOLU or GCS NPRT are covered by the policy.
4) be capable of being triggered by notice from Verra upon the confirmed occurrence of a reversal event in the project.
5) have a defined process for payouts for the replacement of VCUs should a reversal occur.
6) have a minimum liability coverage equal to the total number or value of VCUs issued while the project is covered by the insurance policy.
7) ensure that Verra does not become liable under any circumstances for the costs of obtaining or maintaining the insurance.
8) be in English.

2.2 For project proponents to use a fund-based approach, the following applies:

1) The entities[4] managing the fund shall:
    a) establish a fee per VCU issued, with justification provided for the fee amount.
    b) clearly specify which risk categories in the AFOLU or GCS NPRT are covered by the fund.
    c) disclose any governance safeguards in place to prevent mismanagement of the fund.
    d) have a defined process for the replacement of VCUs should a reversal occur.
2) The fund shall be:
    a) held within an investment-grade banking institution.
    b) supported by a statement from an independent financial institution demonstrating the fund's financial capacity to remedy a reversal by canceling replacement credits.
3) GCS project proponents shall demonstrate that any funding in place for post-injection site care is distinct from funds dedicated to managing non-permanence risk.
4) The process for replacement of VCUs shall be capable of being triggered by notice from Verra upon the confirmed occurrence of a reversal event in the project.

[4] This might consist of the project proponent, a group of project proponents, credit buyers, or other market actors.

2.3 Credit ratings used to meet criteria in Sections 2.1–2.2 shall come from one of the major credit rating agencies (e.g., S&P Global, Moody's, or Fitch).

Application Process

Project proponents interested in participating in the pilot are invited to submit a short expression of interest (1–3 pages long) outlining the following:

- Motivation and goals for participating in the pilot
- Brief summary of the project (including at least project activity category and project location)
- Alternative approach for managing non-permanence (i.e., insurance or fund)
- Vintages that the project proponent proposes to include in the pilot
- Whether the project has previously made contributions to the pooled buffer
- Estimated date of the project's next verification
- Where available at the time of expressing interest, supporting evidence of the chosen approach (e.g., proof of an active insurance policy or documentation from the banking institution where the fund is held)

Note – If not submitted with the initial expression of interest (EOI), the project proponent should submit evidence of the chosen approach when it becomes available, for initial screening by Verra.

EOIs should be submitted to secretariat@verra.org. EOIs will be accepted on a rolling basis.