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Verra's Approach to Third-Party Crypto Instruments and Tokens - Comments from Project Developer Forum

To Whom it May Concern at Verra,

As you may know, the Project Developer Forum (PD Forum) is a collaborative association and collective voice of companies and practitioners that are developing and financing greenhouse gas emission reduction and removal projects worldwide. Our members work on a global scale and evaluate opportunities to deploy climate financing and carbon market instruments to accelerate investments for greenhouse gas mitigation and sustainable development.

PD Forum appreciates the opportunity to participate in the Public Consultation for Verra's approach to Third-Party Crypto Instruments. Before responding to the questions provided in the consultation document, PD Forum would like to preface its response by explaining our concern that the consultation neither explains why it will be good for project developers for Verra to permit VCUs to be traded as crypto instruments, nor seeks feedback on the consequences of aligning the world's largest voluntary carbon credit standard with crypto markets

Given the lack of information, we can only assume the purpose of permitting VCUs to be traded as crypto instruments is to encourage speculative retail investment in the carbon market. Some of PD Forum members are excited by the possibility of increased demand for VCUs, but others are concerned that the risks (of encouraging retail investment) will outweigh the benefits. In 2014, the CMIA, ICROA and IETA published a statement explaining why they were not in favour of encouraging retail investment in carbon credits. They were responding to a series of investment scams that defrauded 1000s of people and, ultimately, landed some of the perpetrators in jail. Most market participants would agree that these scandals damaged the reputation of carbon markets, and, in the following years, it felt as if the market was unified in declaring carbon credits as unsuitable for retail investors. With that in mind, we seek clarification as to why Verra is comfortable with carbon credits being sold as retail investments now?

Q1. Regarding the creation, transfer, and use of VCU-backed crypto instruments and tokens, what safeguards should be implemented by Verra to ensure environmental integrity, particularly to prevent double-issuance and double-use?

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Verra could may demand VCU-backed crypto instruments and tokens to employ individual-level metadata to ensure better integration with VCUs, with the metadata potentially holding prescribed information like ownership, retirement, transaction details etc.

This enables Verra to update its registry system to watch over on-chain transactions of VCU-backed crypto using decentralized means, for example, Etherscan (https://etherscan.io/), making it possible for other entities to see if a given VCU was used to issue crypto assets on its registry within Verra's registry.

Q2. What infrastructure and processes do entities participating in the immobilization approach need from Verra?

The way VCUs and tokens infrastructure are designed today, forces different life cycles, namely, and the need to retire VCUs before crypto instruments and tokens are created. To address the issue, the dedicated immobilization of sub-accounts in the Verra Registry must be integrated with a scan solution, for example, the already mentioned Etherscan, to ensure a "2-way bridge" system using solutions like token metadata, allowing both ways information exchange and life cycle integration.

Q3. Is there a market need to provide for the reactivation of immobilized VCUs, as long as any related crypto instruments or tokens were not used for any other purpose and are destroyed as part of this Reactivation?

Yes, the use of crypto-based solutions doesn't imply that those VCU-backed crypto instruments will be widely used or bought, so the issuer could want to reactivate immobilized VCUs for strategic purposes.

Q4. What are the legal and operational implications of a crypto instrument or token being fractionalized?

A crypto instrument or token being fractionalized makes it more demanding to integrate the resulting fractionalized life cycle with its VCU origin, like it being just "partially" retired or even reactivated.

Q5. What KYC checks (and in relation to which jurisdictions) should Verra apply to platforms before authorizing them to issue, market, and/or transact in crypto instruments or tokens that are backed by VCUs?

Verra should require at least proof of identity, proof of holdings, and transaction registry from addresses related to a given actor, enabling tracking if a given actor is trying to manipulate prices on a given type of VCU or even use protocols with ill intentions.

Q6. Should platforms be required to apply KYC checks on all entities that hold crypto instruments or tokens, or just on the entities that receive, use, or are the beneficiaries of such instruments?

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Yes.

Q7. What, if any, information on crypto instrument or token holders should be made publicly available?

Every address in the crypto space has a transaction history regarding transactions made on-chain, Verra could determine that a holder must provide information regarding their activities with VCUs off-chain.

Q8. What textual amendments are advisable to address anti-fraud considerations related to the association of third-party crypto instruments and tokens with VCUs?

Establish clear requirements and standards to issue crypto instruments or tokens, to communicate in real-time with Verra Registry and facilitate bridging and maneuvers from other third-party crypto instruments and tokens.

PD Forum requests consideration of comments and suggestions mentioned above. We are available for further discussion if necessary.

Yours faithfully,

Ricardo Esparta (EQAO) Josh Brown (TASC)
On behalf of the PD Forum membership

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