

[Company Letterhead]

Date: [Insert Date]

To: [Client Name/Board of Directors]

From: [Advisory Firm/Consultant Name]

Subject: Risk Advisory: Participation in Voluntary Carbon Markets (VCM)

Dear [Recipient Name],

This advisory letter outlines the key risk factors associated with your organization's current or proposed participation in the Voluntary Carbon Market (VCM). As the market evolves, it is essential to manage the following exposure areas:

1. Integrity and Quality Risk

There is a significant risk regarding the environmental integrity of carbon credits. Credits may fail to meet standards of additionality, permanence, or accurate baseline measurement. If credits are later deemed "non-additional" or "junk," it could invalidate your climate claims.

2. Greenwashing and Reputational Risk

Regulatory bodies and NGOs are increasingly scrutinizing corporate climate claims. The use of low-quality offsets to claim "Carbon Neutrality" or "Net Zero" may lead to allegations of greenwashing, resulting in public backlash and loss of brand equity.

3. Regulatory and Legal Risk

The regulatory landscape is shifting. Changes in Article 6 of the Paris Agreement, new disclosure requirements (such as the SEC or CSRD), and evolving consumer protection laws may lead to stricter oversight of how offsets are used and reported.

4. Price Volatility and Liquidity Risk

The VCM is characterized by low liquidity and high price transparency gaps. Prices for high-quality, removal-based credits may rise sharply, while low-quality avoidance credits may become stranded assets with zero market value.

5. Project Delivery Risk

Nature-based solutions are subject to reversal risks from wildfires, pests, or illegal logging. Technical projects face risks of under-performance or insolvency of the project developer.

Recommendations:

We recommend conducting enhanced due diligence on all project developers, prioritizing high-integrity credits verified by reputable standards (e.g., ICVCM Core Carbon Principles), and maintaining a transparent public disclosure of your offsetting strategy.

Please contact us to schedule a formal review of your carbon procurement portfolio.

Sincerely,

[Signature]
[Name]
[Title]