



Gold Standard Response

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2. CATEGORIES

Do you agree that Gold Standard should explore and enable organisations to create digital tokens representing Gold Standard credits, using blockchain technology? Why?

-Yes. At KlimaDAO, we believe that public blockchain technology is uniquely well-suited to host environmental assets like verified carbon credits. We are grateful to Gold Standard for opening this consultation process on tokenization and carefully considering the input of all stakeholders.

KlimaDAO asserts that tokenized carbon credits should be as transparent and widely accessible as possible, while mitigating risks such as money laundering and fraud by monitoring the entry and exit points of the on-chain ecosystem. This is in line with other tokenization schemes such as asset-backed stablecoin issuers like [Circle](#), the issuer of USDC.

Do you consider there to be potential advantages or disadvantages for your organisation if this were enabled?

-There would be advantages in improving the diversity of tokenized credits available for bonding into KlimaDAO's treasury, as well as for utilizing across our suite of web3-enabled carbon offset retirement products.

Would you like to share any additional comments not covered by questions included in this consultation?

-Please see our attached document 'Gold Standard - tokenization notes' for additional background on our proposed phased approach to tokenization, which has been endorsed by a number of ReFi organizations, including C3.

Do you consider there to be uses of blockchain technology that should be distinguished and treated differently from others?

-On-chain offset retirement and fractional retirements should be treated differently given the novel applications such primitives can serve in the fintech space.

2.1 MODEL

Do you consider the custodial account model to be workable in the short-term while other solutions are explored?

-Yes



Do you consider it appropriate for Gold Standard to explore 'native tokenisation' in the future?

-In our view, third parties in a competitive landscape provide the greatest opportunity for continued innovation. We view third party tokenization platforms as akin to the services which became available to banks via the EU's Payment services (PSD 2) directive, wherein private companies worked within a newly established framework to provide both novel interfaces for banking service access and a completely new domain of demand for banking infrastructure. In our case, and in cooperation with various bridging partners, we are ready to provide tailored solutions to carbon registries to have credits tokenized and utilized across the decentralized finance (DeFi) landscape.

Would you like to share any additional comments on this topic?

-N/A

2.2 HOLDING, RETIREMENT AND REPORTING

Do you consider these proposals to be workable and proportionate?

-"Ensure that any VERs retired or cancelled in full on a third-party platform (referred to as 'burning' on some web3 platforms) must be irreversibly retired on the Gold Standard Impact Registry with no undue delay."

The above requires an API to be developed by GS so that information related to retirements on-chain can be actively sent to the GS registry. Note that utilizing programmatic offsetting tools could mean up to 20,000 micro retirements/day. (KlimaDAO alone).

Additionally, given the tooling that already exists for querying blockchain data, on-chain issuance/retirement information is already available in real-time.

What do you consider to be an appropriate timeframe in which retirements must be made on the Gold Standard Registry, following their retirement on a third-party Platform?

-Ideally this can be completed in near real-time. However, we see a 'tokenized' state as advantageous, wherein the environmental benefit is imbued within the token itself. This then lessens the reliance the DeFi market has on centralized registries which may become unavailable and/or suffer downtime.



We are aware that some organisations may wish to create and market tokens that represent fractional portions of one carbon credit. Do you have experience or ideas for how requirements may need to vary in such cases, for instance related to retirement in the Gold Standard Impact Registry?

-We view credit fractionalization as one of the principal benefits of digital carbon and are highly in favor of GS supporting this (including fractional retirements). GS could, if required, set the minimum fractional retirement at 1kg (and thus 1/1000 of a whole credit).

Would you like to share any additional comments on this topic?

-N/A

2.3 POOLING

Do you think that Gold Standard should consider restrictions on the ability of organisations to pool its issued credits with credits from other standards. Why?

-A quality-focused approach should be pursued, perhaps in alignment with ICROA. Thus, only ICROA-endorsed standards can be pooled with GS units.

If the answer to the above question is yes, do you have views on how any restrictions could operate?

-See above.

Would you like to share any additional comments on this topic?

-N/A

2.4 DUE DILIGENCE

Is it sufficient for organisations intending to create original on-chain representations of Gold Standard credits to undergo our existing KYC checks, or should further due diligence requirements be introduced? If so, for whom?

-Yes. We do not believe it is appropriate for additional KYC checks to be completed above and beyond what is required in the VCM currently. This is especially the case considering the advantageous traceability of assets on the blockchain when compared to the traditional VCM. If, however, KYC requirements are made for interfacing with GS credits on-chain, it should not be the case for retirements



of the offsets themselves. Note that in the current VCM retailers are not required to provide any KYC information to GS regarding their clients.

KlimaDAO supports a tiered KYC approach:

1. Tokenization (and de-tokenization) should always require KYC, and implicitly does even without explicit checks by the bridge provider because first-party bridging requires a registry account (which requires KYC to open).
2. For transactions, users should have the option of whether they are comfortable (or permitted) to transact with other parties who are not KYC'd via a permissionless pool. [This is the approach taken by major lending protocols such as [Aave](#) to provide institutional-grade pools for trading.
3. For users who have requirements to only interact with known entities, a KYC-required permissioned pool along the lines outlined above for [BCT.safe](#) can be offered:
 - Identdefi solution: "A Proof of Concept will demonstrate the technical feasibility of the solution with a single KYC provider. A KYC-wrapped version of BCT (BCT.safe) will be created, which will automatically check for a valid KYC identifier in both the sender and receiver wallets prior to any transfer that is made with the BCT.safe token.
 - This means that users who wish to hold or trade the BCT.safe directly will need to undergo a KYC process with a supported KYC provider.
- Retirement should never require KYC, but functionality should be built into the tokenized credits to provide the *option* for retirements to be tied to a specific KYC'd entity rather than simply a wallet address
 - Requiring KYC for all retirements would represent a double standard given the existing practice of off-chain retailers reselling Gold Standard credits without requiring KYC (simply a credit card number).
 - Thus, if Gold Standard believes that KYC should be a requirement for retirements, at least provide for some reasonable maximum retirement size, below which entities are not required to KYC.
 - KYC-optional retirements paired with KYC-required bridging (and transactions) would be analogous to the blank retirements already possible today in the Gold Standard registry
 - Example of SushiSwap integration and scale of latent demand (>1mn tCO₂e that could be offset by small txns and web3-native retirements over the next few years).
- Reactivation of credits always require KYC as the receiving party requires registry account

Do you think that Gold Standard should introduce requirements related to the due diligence checks that organisations creating digital tokens representing Gold Standard credits apply for their own users?

-The same due diligence checks applied to current retailers / traders of GS units should apply equally to Web3 players.



Are there examples from other sectors that you believe could be learned from?

-Please see our notes regarding the PSD2 directive in the EU.

Would you like to share any additional comments on this topic?

-Most importantly, tokenized carbon credits should not be subject to even more stringent requirements than the status quo for off-chain credits. In the off-chain market, retailers routinely carry out batched retirements on behalf of small-dollar retail customers based on just a credit card - not full KYC. It's also possible for GS account holders to retire on behalf of another party with a blank beneficiary text, preventing the public from knowing which entity consumed those credits, as well as introducing the risk of double counting if the same blank-beneficiary retirement certificate is provided to two different clients by an unscrupulous Gold Standard account holder. The tokenized carbon ecosystem should offer options to those entities who have policy or regulatory requirements to KYC their counterparties, or who wish to publicly attest to their retirement activity, but should minimize the requirement of KYC to ensure broad access and minimize friction.

2.5 SUSTAINABILITY

Do you agree that Gold Standard should apply restrictions related to the emissions footprint of blockchain technologies?

-Yes. Blockchains which have had third party audits of their environmental footprint and which utilize an energy efficient security model should be prioritized over others.

Do you consider these proposals to be workable and, if not, why?

-Yes.

Do you consider these proposals to be sufficient and, if not, why?

-Regarding this statement: "In cases where the blockchain does not use a proof-of-stake mechanism, provide at least one independent, peer-reviewed analysis demonstrating that the blockchain technology has a direct emissions footprint (i.e., prior to any offsetting) that is significantly lower than those using a proof-of-work mechanism (see question below on the benchmark for this)."

*We do not see PoW as the proper benchmark for blockchains that do not use a PoS model. Blockchains that are not PoS should be compared to energy efficient PoS networks. Comparing them to PoW will,



nearly always, show them to be more environmentally friendly and thus such an exercise is nearly meaningless.

Are you aware of, or would you recommend, a benchmark that Gold Standard could use to determine whether blockchain technologies have a sufficiently low emissions footprint for consent to be granted?

-Proof of Stake and/or a Layer 2 chain that inherits its security from a PoS layer 1 should, in our view, be the standard by which to measure the environmental footprint of other blockchains.

2.6 DATA SECURITY

Do you agree that Gold Standard should either introduce conditions or require information related to the IT security measures that an organisation is taking to protect data against breaches?

-Smart Contract audits would be the most applicable due-diligence activity for platforms utilizing GS credits. Classic IT security is likely not applicable. Additionally, it's our understanding that such a thing is not currently a requirement for any GS account holders.

If so, do you have views or recommendations on what Gold Standard should Require?

-See above re. Smart Contract audits.

What are the primary risks that you believe Gold Standard should consider when writing its requirements on this topic?

-Smart contract audits are completed by 3rd parties to ensure the integrity of DeFi applications. Auditable code would be something for GS to consider for tokenization partners.

Are there benchmarks, good practice codes or similar reference points for IT security requirements that you would recommend Gold Standard following or taking into account?

-See above

2.7 PERMITTED UNITS

Do you agree with the proposal not to initially permit the tokenisation of these categories of credit, until tailored safeguards are developed?

-yes



Do you believe there are other types of carbon credits that Gold Standard should consider creating tailored safeguards for? If so, why?

-N/A

Would you like to share any additional comments on this topic?

-N/A

2.8 REPUTATIONAL HARM

Do you consider Gold Standard's existing conditions related to reputational harm to be suitable for the act of creating digital tokens representing Gold Standard Credits?

-Yes, as long as GS credits are only pooled with other ICROA-endorsed credits (or other standards which GS whitelists for pooling together with its own credits).

If not, what amendments or additions do you believe are needed?

-N/A

Would you like to share any additional comments on this topic?

-N/A