

# ValoreCO2 comments on Public Consultation: Conditions for consenting to tokenisation of GOLD STANDARD-ISSUED credits

## ABSTRACT

ValoreCO2 is an Italian company founded in 2021 to promote the sustainable development of industries by supporting companies to use carbon credits to promote decarbonisation. ValoreCO2 believes that using tokens associated with carbon credits can simplify and make the VCU market more accessible. Over the last few years, ValoreCO2, the law firm Act Legal Us Avvocati and the innovative SME Apio have been working on a platform suitable for managing tokens derived from Carbon Credits using Blockchain technology.

The absence of standard tokenisation procedures within the registries forced the working team (ValoreCO2, Act Legal Us and Apio) to study strategies of immobilisation or transfer to accounts involving contracts between the owner of the Carbon Credits and ValoreCO2 (the company that offers the tokenisation service). Therefore seeing the Gold Standard public consultations and our experience on these issues, we believe that creating standard tokenisation procedures is a crucial step to implementing a valuable link between blockchain platforms and VCUs registries. The standard implementation can open up a market that can disintermediate the tokenisation business by making the process secure and verifiable, opening up new business models in several industries (and beyond).

ValoreCO2 is an innovative company, part of a strong industrial Group with background in sustainable products alternative to the mineral oil based, founded in 2021 with the mission to create value by promoting CO2 savings industrial programs, based on certified Carbon Footprint and Verified Emission Reduction (VER) projects to be written on public registers to generate carbon credits. By using a proprietary platform based on blockchain, Valore CO2 will issue tokens backed by Carbon Credits (1VACO2 = 1ton of CO2 saved or not emitted).

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Act Legal Us Avvocati is a boutique law firm based in Milan, member of the Act Legal alliance that includes law firms from nine different countries in Europe, act Legal Us Avvocati offers to its clients a unique multidisciplinary and cross-country approach. The firm's practice areas range from M&A to litigation, from real estate to banking and finance, from employment to data

protection, IT, new technologies, privacy and compliance issues. For these reasons, Act Legal-US is driving the legal strategy for ValoreCO2.

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Apio is an Innovative SME that wants to become one of the top European Innovators in providing technology for a transparent energy transition. Apio's outstanding know-how on Blockchain technologies is confirmed by patents and scientific articles. For these reasons, Apio is driving the technical strategy for ValoreCO2.

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#### GENERAL QUESTION

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

Gold Standard must explore and enable organisation to create digital token representing Gold Standard credits, using blockchain technology, because BlockChain can spread the use of voluntary carbon credit markets, enabling interoperability and bring more liquidity to environmental projects. Today BlockChain is actually being used for this purpose (see projects such as Toucan Protocol or Nori), but unfortunately, this only creates more confusion and over time can lead to scams to the detriment of clients and of course environmental projects. One of the limitations of current solutions is the verifiability of information and the absence of a link to registries, which is precisely why Gold Standard must implement something along these lines to enable the market and provide security for potential clients.

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

We provide a platform for the exchange of Carbon Credits in the form of tokens, actually the tokenization process expects the transfer of carbon credits to the account managed by the company and concurrently that the owner and the company sign an agreement.

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

No, at this time.

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

Indeed you have to use and agree only on an environmentally friendly approach (see for example, Polygon or Celo).

#### MODEL

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

The *custodial account model* is a perfect method for the initial phase, but it is still helpful to build a framework with service providers.

Service Providers that want to provide tokenisation services for GOLD STANDARD users must be registered as Blockchain Service Providers (BSP) and authorised by Gold Standard. During the registration process, the BSP must present to Gold Standard an “agreed-upon procedures” (APU) that details how to verify that the BSP is operating correctly and there are no issues (double issuance or double use).

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

It is useful for GOLD STANDARD to explore Smart Contract standards for Token creation (validated by GS). Creating smart-contract standards would allow for much faster validation of projects linked to Gold Standard functionalities.

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

No, at this time.

## HOLDING, RETIREMENT AND REPORTING

*Do you consider these proposals to be workable and proportionate?*

What is written in this paragraph is feasible and necessary. As introduced above, the accreditation of service providers and a shared procedure between the parties are necessary. More specifically, in our humble opinion, Gold Standard must check and consider the integrity of three functionalities:

- Issuance (From Carbon Credits to Token);
- De-Tokenisation (From Token to Carbon Credits);
- Retirement (From Token to Carbon Credits Offset);

Standard procedures must be agreed upon for these three functionalities between Gold Standard and the BSP.

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

We consider that in addition to the timeframe for withdrawal, which should be kept under 36 hours, it is also important to agree with the BSP (Blockchain Service Provider) on the manner in which tokens can be withdrawn. It follows the methodology behind retirement (From Token to Carbon Credits Offset):

- User through the BSP platform ask to start the Offset process. Tokens (at least one VCUs) are transferred from the user's wallet to the Smart-Contract;
- The BSP forwards the request to Gold Standard;
- When Gold Standard confirms the BSPs burn the token and transfer the Offset Certification (or number) to the User that made the original request.

*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?*

One of the most exciting parts of Blockchain Technologies is the possibility of mixing different protocols and smart contracts to create something new. Fractionalizing a Ton of Carbon Credits in fully fungible ERC20 tokens is one of these disruptions.

In our humble opinion, Gold Standard must check and consider the integrity of three functionalities that need the implication of the registry:

- Issuance (From Carbon Credits to Token):
  - Users registered on Gold Standard must have Carbon Credits in an Active Account (Primary or Sub-Accounts);
  - Users in Gold Standard must use the registry to start the tokenisation process with one of the Authorized BSPs;
  - Users then use the BSPs service to redeem the token;
  - When Gold Standard confirms the operation the tokens are transferred from the BSP to the User's wallet.
- De-Tokenisation (From Token to Carbon Credits):
  - User that have token and want to receive Carbon Credit must be registered on Gold Standard and have an Active Account;
  - User through the BSP platform ask to start a de-tokenisation process. Tokens (at least one VCUs) are transferred from the user's wallet to the Smart-Contract;
  - BSP forwards the request to Gold Standard through an API;
  - When Gold Standard confirms the BSP burn token and Gold Standard give the frozen Carbon Credit to the User.
- Retirement (From Token to Carbon Credits Offset):
  - User through the BSP platform ask to start the Offset process. Tokens (at least one VCUs) are transferred from the user's wallet to the Smart-Contract;
  - The BSP forwards the request to Gold Standard;
  - When Gold Standard confirms the BSPs burn the token and transfer the Offset Certification (or number) to the User that made the original request.

If the BSP respects these functionalities and those are coordinated with the registry correctly, new business models on crypto may leave the registry's authority.

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

No, at this time.

## 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?*

No. In our humble opinion, Gold Standard must check and consider the integrity of tokenisation, de-tokenisation and retirement operations. If a BSP can guarantee these three functionalities without any grey areas, then it can also provide for pooling processes with credits from other registers in its business model.

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

No, at this time.

## 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?*

As described above, a user who wants to tokenise does not have to undergo any due diligence other than what is currently in place. However, the Service Providers that will be enabled to perform the tokenisation service must undergo an accreditation process and comply with a methodology that allows the registry to verify the BSP's performance.

*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?*

In the accreditation or agreed-upon procedures (APU), Gold Standard may require the BSP to use due diligence for its users.

*Are there examples from other sectors that you believe could be learned from? Would you like to share any additional comments on this topic?*

Below, we share our legal point of view and the regulatory context in which the initiative will have to defend itself. From a technical point of view the Know Your Client requirements must apply for the BSPs and for the Users that require Tokenisation and De-Tokenisation process. As the European Parliament recognised in a recent motion for a resolution of 4 April 2022 (20121/2201 - INI), crypto-assets are becoming increasingly important in international finance, forcing tax administrations to adapt current tax practices to new challenges and needs.

The EU Commission in July 2021 presented a package of legislative proposals to strengthen the EU rules on anti-money laundering and countering the financing of terrorism (AML/CFT). Furthermore, on 14 March 2022, the European Parliament's Committee on Economic and Monetary Affairs (ECON) adopted its negotiating position on the text of the proposed MiCA (Market in Crypto Assets) Regulation on crypto assets with the aim to provide a Europe-wide regulation of cryptocurrency activities.

With reference to the first proposal, on anti-money laundering regulation, a provisional agreement was reached on 29 June 2022 between the Council and the Parliament, with the stated aim of extending the anti-money laundering rules to cryptocurrency transfers.

Specifically, the aim is to ensure financial transparency on crypto-asset exchanges and to provide the EU with a framework in line with the highest international standards in the field.

Although NFTs were excluded from the proposed regulation MiCA, the provisional agreement stipulated that within 18 months, the European Commission will be tasked with preparing a comprehensive assessment and, if it deems it necessary, a specific, proportionate and horizontal legislative proposal to create a regime for NFTs.

Until a more specific regulation is adopted and even if NFTs are excluded from the MiCA Regulation, in the EU the trend is in the direction that BSP platforms adopt KYC procedures inspired by those provided by the Anti Money Laundering Directives.

In this regard, the Fifth Anti-Money Laundering Directive - Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and amending Directives 2009/138/EC and 2013/36/EU - extended the AML due diligence obligations on service providers relating to the use of virtual currency, also stipulating that member states must provide for a special registration procedure for exchange and e-wallet providers.

In Italy, implementing EU Directive 843/2018 on Anti-Money Laundering and Know Your Customer measures, would have included in the definition of "virtual currency" also digital representations of value not used as means of exchange, but held for investment purposes, provided that they are transferred, stored and exchanged electronically, therefore, also NFTs.

In light of the above, Gold Standard should consider to carry out KYC checks as much possible in line with the above mentioned AML regulation on BSP platforms before authorising them to issue, market, and/or transact in crypto instruments or tokens that are backed by VCUs.

Gold Standard could also check whether the platforms have proportionately and consistently taken appropriate and adequate KYC measures to deal with the associated money laundering and terrorist financing risk of their customers that receive, use, or are the beneficiaries of such instruments that and also of those that hold crypto instruments or tokens.

The checks mentioned above shall also be made in compliance with GDPR and privacy regulations.

## SUSTAINABILITY

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

Absolutely yes!

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

Yes, we think it is workable

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

Yes, that is sufficient.

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

No, at this time.

#### 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?*

Absolutely yes!

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

No, at this time.

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

At this time, we feel that we do not have sufficient elements to answer the following question.

*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?*

Privacy Impact Assessment and Risk Mitigation strategy could be a starting point for this kind of analysis.

#### 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, for the reasons stated it seems rational to avoid tokenization of these categories of credits.

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

No, at this time.

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

No, at this time.

#### 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?*

We believe so, but more detail and dedicated time would be needed.



*If not, what amendments or additions do you believe are needed? Would you like to share any additional comments on this topic?*

No, at this time.