



USAID
FROM THE AMERICAN PEOPLE

FOREST CARBON, MARKETS AND COMMUNITIES (FCMC) PROGRAM

FINANCE AND CARBON MARKETS LEXICON

January 2012

This publication was produced for review by the United States Agency for International Development.

This publication was produced for review by the United States Agency for International Development by Tetra Tech ARD, through a Task Order under the Prosperity, Livelihoods, and Conserving Ecosystems (PLACE) Indefinite Quantity Contract Core Task Order (USAID Contract No. EPP-I-00-06-00008-00, Order Number AID-OAA-TO-11-00022).

This report was prepared by:

Forest Carbon, Markets and Communities (FCMC) Program
1611 N. Kent St. Suite 805
Arlington, VA 22209

Tetra Tech ARD
159 Bank Street, Suite 300
Burlington, Vermont 05401 USA
Telephone: (802) 658-3890
Fax: (802) 658-4247
E-Mail: ard@ardinc.com

Forest Carbon, Markets and Communities (FCMC) Program Contacts:

Scott A. Hajost, Esq.
Chief of Party
Forest Carbon, Markets and Communities (FCMC) Program
A USAID funded project implemented by Tetra Tech, ARD
1611 North Kent Street, Suite 805
Arlington, VA 22209
Phone: 703-592-6388
Email: scott.hajost@fcmcglobal.org
Fax: 866-795-6462

Tetra Tech ARD Contacts:

Matthew Sommerville, Project Technical Manager
159 Bank Street, Suite 300
P.O. Box 1397
Burlington, VT 05402
Tel: (802) 658-3890
Email: Matt.Sommerville@tetratech.com

Forest Carbon, Markets and Communities (FCMC) Program Task Lead:

- Gabriel Thoumi, CFA, Sr. Director, Finance and Carbon Markets, FCMC and Director, Terra Global Capital, LLC

FOREST CARBON, MARKETS AND COMMUNITIES (FCMC) PROGRAM

FINANCE AND CARBON MARKETS LEXICON

JANUARY 2012

DISCLAIMER

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

TABLE OF CONTENTS

TABLE OF CONTENTS	I
ACRONYMS AND ABBREVIATIONS	I
INDEX	V
1.0 INTRODUCTION	I
2.0 FINANCE AND CARBON MARKETS LEXICON	2
2.1 AFFORESTATION, REFORESTATION AND REVEGETATION METHODOLOGY VOCABULARY	2
2.2 AGRICULTURE LAND MANAGEMENT METHODOLOGY VOCABULARY.....	2
2.3 AVOIDED CONVERSION OF GRASSLANDS AND SHRUBLANDS METHODOLOGY VOCABULARY	3
2.4 CARBON POOLS VOCABULARY	4
2.5 GENERAL CARBON ACCOUNTING METHODOLOGY VOCABULARY.....	5
2.6 IMPROVED FOREST MANAGEMENT METHODOLOGY VOCABULARY.....	11
2.7 PEAT REWETTING AND CONSERVATION METHODOLOGY VOCABULARY.....	12
2.8 PERFORMANCE VOCABULARY.....	12
2.9 REDUCING EMISSIONS FROM DEFORESTATION AND DEGRADATION METHODOLOGY VOCABULARY	13
2.10 REGULATORY AND ACCOUNTING VOCABULARY	14
2.11 RISK MANAGEMENT VOCABULARY	21
2.12 VALUATION VOCABULARY	24
REFERENCES	29

ACRONYMS AND ABBREVIATIONS

AAU	Assigned Amount Unit
ACoGS	Avoided Conversion of Grasslands and Shrublands
ACR	American Carbon Registry (http://www.americancarbonregistry.org/)
AFOLU	Agriculture, Forestry and Other Land Use
ALM	Agricultural Land Management
ANR	Assisted or Accelerated Natural Regeneration
APC	Avoiding Planned Conversion
APD	Avoided Planned Deforestation

ARR	Afforestation, Reforestation and Revegetation
AUC	Avoiding Unplanned Conversion
AUDD	Avoiding Unplanned Deforestation and/or Degradation
AUM	Assets Under Management
AUMDD	Avoiding Unplanned Mosaic Deforestation and Degradation
BAU	Business-as-Usual
BECCS	Bioenergy with Carbon Capture and Storage
CAR	Climate Action Reserve (http://www.climateactionreserve.org/)
CCB	Climate, Community, Biodiversity Standards (http://www.climate-standards.org/)
CCX	Chicago Climate Exchange (https://www.theice.com/ccx.jhtml)
CDM	Clean Development Mechanism (http://cdm.unfccc.int/)
CDS	Credit Default Swap
CER	Certified Emission Reduction
CFAI	CFA Institute (https://www.cfainstitute.org/pages/index.aspx)
CGLC	Cropland and Grassland Land-use Conversions
CO ²	Carbon Dioxide
CO ₂ e	Carbon Dioxide Equivalent
CRT	Climate Reserve Tonnes
CUPP	Conservation of Undrained or Partially Drained Peatland
D&O	Directors and Officers Insurance
DNA	Designated National Authority
DNS	Debt-for-Nature-Swap (http://www.usaid.gov/our_work/environment/forestry/tfca.html)
E&O	Errors and Omissions Insurance
ER	Emission Reductions
ERA	Extended Rotation Age / Cutting Cycle
ERM	Enterprise Risk Management
ERPA	Emission Reduction Purchase Agreement
ERU	Emission Reduction Unit
ESG	Environmental, Social, Governance Risk
FASB	Financial Accounting Standards Board, http://www.fasb.org/home .
FCMC	Forest Carbon, Markets, and Communities Program
GHG	Greenhouse Gases

GIPS®	Global Investment Performance Standards (http://gipsstandards.org/)
GWP	Global Warming Potential
ICM	Improved Cropland Management
IFM	Improved Forest Management
IGM	Improved Grassland Management
IPCC	Intergovernmental Panel on Climate Change (http://www.ipcc.ch/)
IPS	Investment Policy Statement
IRR	Internal Rate of Return
ISO	International Organization for Standardization
JI	Joint Implementation (http://ji.unfccc.int/index.html)
JNRI	Jurisdictional nested REDD+ Initiative
LtHP	Low-Productive to High-Productive Forest
LtPF	Logged to Protected Forest
LULUCF	Land Use, Land-Use Change and Forestry
MP	Monitoring Plan
MRV	Measurement, Reporting and Verification
NAMA	Nationally Appropriate Mitigation Actions
N'TFP	Non-Timber Forest Products
OE	Operational Entity
PD	Project Document
PDD	Project Design Document
PES	Payment for Ecosystem Service
PFSI	New Zealand Permanent Forest Sink Initiative (http://www.maf.govt.nz/forestry/funding-programmes/permanent-forest-sink-initiative)
PIN	Project Information Note
PIU	Pending Issuance Unit
PLI	Professional Liability Insurance
POA	Program of Activities
PRC	Peatland Rewetting and Conservation
RDP	Rewetting of Drained Peatland
REDD	Reducing Emissions from Deforestation and Degradation
RIL	Reduced Impact Logging

R-PP	Readiness Preparation Proposal (http://www.forestcarbonpartnership.org/fcp/)
SAF	Society of American Foresters (http://www.safnet.org/)
SFM	Sustainable Forest Management
SRI	Socially Responsible Investing
USAID	United States Agency for International Development (http://www.usaid.gov/)
VCS	Verified Carbon Standard (http://v-c-s.org/)
VCU	Verified Carbon Unit
VERPA	Voluntary Emission Reduction Purchase Agreement

INDEX

- Above-Ground Non-Tree Biomass.....4
- Above-Ground Tree Biomass.....4
- Accounting Risk.....21
- Activity Shifting Leakage15
- Adaptation.....5
- Additionality15
- Afforestation, Reforestation and Revegetation (ARR)2
- Agricultural Land Management (ALM).....2
- Agriculture, Forestry and Other Land Use (AFOLU)5
- Agroforestry.....2
- Allocation5
- Allowance.....24
- American Carbon Registry (ACR).....15
- Annex I, Annex B Countries/Parties15
- Approved Consolidated Methodology5
- Arbitrage24
- Ask Price24
- Asset-Backed Security24
- Assets Under Management (AUM)24
- Assigned Amount Unit (AAU).....5
- Assisted or Accelerated Natural Regeneration (ANR).....2
- Auctioning24
- Auditor12
- Avoided Conversion of Grasslands and Shrublands (ACoGS).....3
- Avoided Planned Deforestation (APD)13
- Avoiding Planned Conversion (APC).....3
- Avoiding Unplanned Conversion (AUC)3
- Avoiding Unplanned Deforestation and/or Degradation (AUDD)13
- Avoiding Unplanned Mosaic Deforestation and Degradation (AUMDD)13
- Backwardation24
- Baseline.....5
- Baseline and Credit.....5
- Baseline Methodology5
- Below-Ground Biomass.....4
- Beneficiaries.....24
- Bid Price25
- Bilateral Transaction.....15
- Biochar2
- Bioenergy with Carbon Capture and Storage (BECCS)6
- Biofuels.....6
- Biomass.....4
- Bond25
- Bondholder25
- Broker25
- Buffer21
- Buffer Pool.....21
- Bundling15

Business Risk	21
Business-as-Usual (BAU)	15
Call	25
Cap-and-Trade	15
Carbon Accounting	6
Carbon Asset	25
Carbon Benefits	6
Carbon Biosequestration	6
Carbon Credit	25
Carbon Dioxide (CO ₂)	6
Carbon Dioxide Equivalent (CO ₂ e)	7
Carbon Market	16
Carbon Offsets	25
Carbon Pool	4
Carbon Rights	16
Carbon Sink	4
Carbon Stock	4
CarbonFix Standard	16
Certified Emission Reduction (CER)	16
CFA Institute (CFAI)	16
Chicago Climate Exchange (CCX)	16
Clean Development Mechanism (CDM)	16
Clearinghouse	16
Climate Action Reserve (CAR)	16
Climate Reserve Tonnes (CRT)	17
Climate, Community, Biodiversity Standards (CCB)	17
Collateral	17
Combined Categories	12
Commingled (Pooled)	17
Compliance Market	17
Concessional Lending	25
Conservation of Undrained or Partially Drained Peatland (CUPP)	12
Contango	25
Contingent Claims	22
Cost Basis	25
Cost of Carry	25
Coupon Payment	25
Credit Default Swap (CDS)	25
Credit Enhancement	22
Credit Risk	22
Cropland and Grassland Land-use Conversions (CGLC)	3
Currency Risk	22
Custodian	17
Dead Wood	4
Dealer	17
Debt-for-Nature-Swap (DNS)	25
Decentralized Risk Management	22
Default Risk	22
Deforestation	7
Degradation	7
Delivery Option	17
Derivative	25
Designated National Authority (DNA)	17
Directors and Officers Insurance (D&O)	22
Diversification	22

Double Approval Process	17
Due Diligence.....	12
Emission Reduction Purchase Agreement (ERPA)	25
Emission Reduction Unit (ERU)	26
Emission Reductions (ER)	7
Enterprise Risk Management (ERM).....	22
Environmental, Social, Governance Risk (ESG).....	22
Equity.....	26
Errors and Omissions Insurance (E&O).....	22
Escrow Agreements	18
Ex-Ante Crediting.....	26
Exchange.....	18
Ex-Post Crediting.....	26
Extended Rotation Age/Cutting Cycle (ERA).....	11
Fiduciary Duty.....	22
Financial Accounting Standards Board (FASB)	18
Financial Risk	22
Forest.....	7
Forest Project Protocol.....	2
Forest Project Protocol.....	11
Forest Project Protocol.....	14
Forestry	7
Forward Contract.....	26
Fungible.....	18
Futures Contract.....	26
Global Investment Performance Standards ® (GIPS)	12
Global Warming Potential (GWP)	8
Greenhouse Gas Accounting Period	8
Greenhouse Gases (GHG)	8
Guarantees.....	22
Illiquidity Premium	26
Impact Investing.....	26
Improved Cropland Management (ICM).....	3
Improved Forest Management (IFM).....	11
Improved Grassland Management (IGM)	3
Institutional Investors.....	26
Insured	23
Intergovernmental Panel on Climate Change (IPCC).....	18
Internal Rate of Return (IRR).....	26
International Organization for Standardization (ISO) 14064-1:2006.....	18
Investment Constraints	26
Investment Grade Credit Rating.....	26
Investment Objectives	26
Investment Policy Statement (IPS).....	26
Investment Strategy	27
IPCC 2006 GL for AFOLU	18
Issuer	27
Joint Implementation (JI)	18
Jurisdictional Nested REDD+ Initiative (JNRI)	19
Kyoto Protocol to the UNFCCC.....	19
Land Use, Land-Use Change and Forestry (LULUCF)	8
Leakage	8
Legal/Contract Risk	23
Liability	23
Liquidity	19

Liquidity Risk	23
Litter	4
Logged to Protected Forest (LtPF).....	11
Long.....	27
Low-Productive to High-Productive Forest (LtHP)	11
Market Leakage.....	8
Market Risk.....	23
Marking to Market	23
Market Environmental Registry	19
Maturity	27
Measurable.....	23
Measurement, Reporting and Verification (MRV).....	8
Methodology	8
Mexico Forest Protocol	14
Mitigation.....	8
Model Risk	23
Monitoring	9
Monitoring Plan (MP)	9
Mosaic Deforestation.....	9
Nationally Appropriate Mitigation Actions (NAMA).....	19
Natural Regeneration.....	9
Nested Approach.....	14
Nested REDD	14
New Zealand Permanent Forest Sink Initiative (PFSI).....	19
Non-Permanence Risk Analysis.....	23
Non-Timber Forest Products (NTFP).....	9
Operational Entity (OE)	19
Operations Risk.....	23
Option.....	27
Payment for Ecosystem Service (PES)	20
Peatland Rewetting and Conservation (PRC).....	12
Pending Issuance Unit (PIU)	20
Pending Issuance Unit Registry.....	20
Performance Appraisal.....	12
Performance Evaluation.....	12
Performance Measurement	12
Permanence	9
Photosynthesis	9
Plan Vivo System	20
Political Risk.....	23
Price Risk.....	23
Private Equity	27
Professional Liability Insurance (PLI).....	23
Program of Activities (POA)	20
Project.....	9
Project Area	9
Project Crediting.....	27
Project Crediting Period	27
Project Design Document (PDD).....	27
Project Developer	27
Project Document (PD)	27
Project Information Note (PIN).....	27
Project Lifetime	9
Project Proponents.....	10
Project Start Date.....	10

Project Zone	10
Put	27
Readiness Preparation Proposal (R-PP).....	10
Real	23
REDD+	14
REDD+ Social and Environmental Standards (REDD + SES)	14
Reduced Impact Logging (RIL)	11
Reducing Emissions from Deforestation and Degradation (REDD)	14
Reference Area.....	10
Reforestation.....	10
Registry.....	20
Regulatory Risk.....	24
Reinvestment Risk.....	24
Remote Sensing	10
Return Objective.....	27
Rewetting of Drained Peatland (RDP).....	12
Risk Categories.....	24
Risk Governance	24
Risk Objective	27
Risk Tolerance	24
Secured	24
Sequestration	10
Settlement Risk.....	24
Short.....	27
Social Carbon.....	20
Socially Responsible Investing (SRI).....	27
Soil Carbon	4
Sovereign Risk.....	24
Spot Transaction	27
Sub-National Approach	21
Sustainable Forest Management (SFM).....	10
Term Sheet.....	28
Time Horizon.....	28
Transparency.....	21
Urban Forest Project Protocol.....	11
Validation.....	12
Validation Report.....	13
Valuation.....	28
Venture Capital.....	28
Verifiable.....	21
Verification.....	13
Verification Report	13
Verified Carbon Standard (VCS).....	21
Verified Carbon Unit (VCU).....	28
Voluntary Emission Reduction Purchase Agreement (VERPA).....	28
Voluntary Markets	21
Wood Products.....	5

I.0 INTRODUCTION

The United States Agency for International Development (USAID) is leading the United States Government's implementation of its [Strategic Choices for United States Fast Start Financing for REDD+](#).¹ To pursue this strategy efficiently requires effective communication between government agencies and public and private sector institutions based on mutual understanding of vocabulary, acronyms, definitions, and vocabulary categories.

The role of this Finance and Carbon Markets Lexicon is to provide a tool that encourages effective communication between government agencies and public and private sector institutions. To do this, this lexicon contains a list of relevant vocabulary, definitions, reference sources, and acronyms organized around vocabulary categories as applied by the public- and private-sector REDD+ industry globally.

The categories around which the lexicon is organized provide a framework for understanding the relevance of each term to finance and carbon markets. The vocabulary categories are broken into two broader themes of financial vocabulary and carbon accounting vocabulary.

There are four financial vocabulary categories that are based on international finance best practices. These categories are:

- Risk management;
- Valuation;
- Regulatory and accounting; and
- Performance.

There are seven agriculture, forestry and land-use categories based on carbon accounting international best practices. These categories are:

- Afforestation, reforestation and revegetation;
- Agriculture land management;
- Avoided conversion of grasslands and shrublands;
- Carbon pools;
- General carbon accounting;
- Improved forest management;
- Peat rewetting and conservation; and
- Reducing emissions from deforestation and degradation.

Each word within the relevant vocabulary category is organized alphabetically. This allows the reader to easily understand how these words are applied within the sector. Each word includes a specific definition and a general citation. Accompanying this is an index organizing all the words alphabetically providing easy reference lookup. A short acronym list is also provided. This lexicon is intended only as a guide. It is not exhaustive. Some words may have other meanings from outside the sector.

¹ http://www.usaid.gov/our_work/environment/climate/docs/UnitedStatesREDD+Strategy.pdf

2.0 FINANCE AND CARBON MARKETS LEXICON

2.1 AFFORESTATION, REFORESTATION AND REVEGETATION METHODOLOGY VOCABULARY

Word	Definition	Source
Afforestation, Reforestation and Revegetation (ARR)	Afforestation, reforestation and revegetation (ARR) is an agriculture, forestry, and land-use project category that quantifies the direct human-induced conversion of land that has not been forested for a period of at least 50 years to forested land.	United Nations Framework Convention on Climate Change
Assisted or Accelerated Natural Regeneration (ANR)	Assisted or accelerated natural regeneration (ANR) is an afforestation, reforestation, and revegetation methodology category in the Verified Carbon Standard (VCS). It quantifies management actions taken to enhance the natural processes of forest restoration, focusing on encouraging the natural establishment and subsequent growth of indigenous forest trees, whilst preventing any factors that might harm them.	Verified Carbon Standard
Forest Project Protocol	The forest project protocol provides carbon accounting and guidance to calculate, report, and verify Greenhouse Gas (GHG) emission reductions associated with reforestation, improved forest management, and avoided conversion projects. The Forest Project Protocol Version 3.2 is available for public use and is applicable only across the United States. It is applied under the Climate Action Reserve (CAR).	Climate Action Reserve

2.2 AGRICULTURE LAND MANAGEMENT METHODOLOGY VOCABULARY

Word	Definition	Source
Agricultural Land Management (ALM)	Agricultural land management (ALM) is an agriculture, forestry and land-use project category in the Verified Carbon Standard.	Verified Carbon Standard
Agroforestry	Agroforestry is where woody perennials (trees, shrubs, palms, bamboos, etc.) are deliberately used on the same land-management units as agricultural crops and/or animals, in some form of spatial arrangement or temporal sequence. In agroforestry systems there are both ecological and economic interactions between the different components.	World Agroforestry Centre
Biochar	Carbon-rich charcoal created when plant matter is heated in an oxygen-free environment. Carbon that would otherwise combine with oxygen, burn, and be emitted to the air is contained in the charcoal, which can be used to fertilize soils or make biofuels.	World Agroforestry Centre

Word	Definition	Source
Cropland and Grassland Land-use Conversions (CGLC)	Cropland and grassland land-use conversions (CGLC) is an agriculture land management methodology category in the Verified Carbon Standard. This category includes practices that convert cropland to grassland or grassland to cropland and reduce net greenhouse gas emissions by increasing carbon stocks, reducing nitrous oxide and methane emissions.	Verified Carbon Standard
Improved Cropland Management (ICM)	Improved cropland management (ICM) is an agriculture land management methodology category in the Verified Carbon Standard. This category includes practices that demonstrably reduce net greenhouse gas emissions of cropland systems by increasing soil carbon stocks, reducing soil nitrous oxide and methane emissions.	Verified Carbon Standard

2.3 AVOIDED CONVERSION OF GRASSLANDS AND SHRUBLANDS METHODOLOGY VOCABULARY

Word	Definition	Source
Avoided Conversion of Grasslands and Shrublands (ACoGS)	Avoided Conversion of Grasslands and Shrublands (ACoGS) is an agriculture, forestry and land-use project category in the Verified Carbon Standard.	Verified Carbon Standard
Avoiding Planned Conversion (APC)	Avoiding Planned Conversion (APC) is an avoided conversion of grasslands and shrublands methodology category in the Verified Carbon Standard. This category includes activities that reduce net greenhouse gas emissions by stopping conversion of grasslands or shrublands that are legally authorized and documented for conversion. Planned conversion may include decisions by individual land owners or community groups, whose land is legally zoned for agriculture or other development, not to convert their land(s).	Verified Carbon Standard
Avoiding Unplanned Conversion (AUC)	Avoiding Unplanned Conversion (AUC) is an avoided conversion of grasslands and shrublands methodology category in the Verified Carbon Standard. This category includes activities that reduce net greenhouse gas emissions by stopping unplanned conversion of grasslands or shrublands. Unplanned conversion can occur as a result of socio-economic forces that promote alternative uses of native grasslands or shrublands and the inability of institutions to control these activities. Poor law enforcement and weak or lacking property rights can result in piecemeal land conversion. Unplanned conversion activities may include, inter alia, subsistence agriculture, unsanctioned commercial agriculture and collection of biomass fuel where such collection would result in land conversion.	Verified Carbon Standard
Improved Grassland Management (IGM)	Improved Grassland Management (IGM) is an avoided conversion of grasslands and shrublands methodology category in the Verified Carbon Standard. The methodology identifies and accounts carbon stock changes and greenhouse gas emissions in the soil carbon, aboveground woody biomass and below-ground biomass pools, fossil fuel combustion, enteric emissions, biomass burning, and nitrogen fertilizer application. The methodology is broadly applicable to grass-dominated systems where baseline grassland management activities result primarily in livestock production.	Verified Carbon Standard

2.4 CARBON POOLS VOCABULARY

Word	Definition	Source
Above-Ground Non-Tree Biomass	Above-Ground Non-Tree Biomass is one of seven key agriculture, forestry, and land-use carbon pools that includes all living matter above-ground excluding trees with trees defined as generally five cm or greater diameter at breast height (4.3 feet above ground).	Verified Carbon Standard
Above-Ground Tree Biomass	Above-Ground Tree Biomass is one of seven key agriculture, forestry, and land-use carbon pools. It includes trees defined as generally five cm or greater diameter at breast height (4.3 feet above ground).	Verified Carbon Standard
Below-Ground Biomass	Below-Ground Biomass is one of seven key agriculture, forestry, and land-use carbon pools. It includes all living biomass of live roots. Fine roots of less than two mm diameter are often excluded because these often cannot be distinguished empirically from soil organic matter or litter.	Verified Carbon Standard
Biomass	Biomass is the total mass of living organisms in a given area or volume; dead plant material can be included as biomass.	Intergovernmental Panel on Climate Change
Carbon Pool	A Carbon Pool is a reservoir of carbon. A system that has the capacity to accumulate or release carbon. Carbon pools are measured in terms of mass (e.g., metric tons of carbon). The seven major carbon pools associated with agriculture, forestry, and land-use projects are: above-ground non-tree biomass, above-ground tree biomass, below-ground biomass, litter, soil carbon, wood products, and dead wood.	Verified Carbon Standard
Carbon Sink	Carbon Sink is any process, activity, or mechanism that results in the net removal of GHG from the atmosphere.	Intergovernmental Panel on Climate Change
Carbon Stock	Carbon Stock is the quantity of carbon held within a pool at a specified time.	Verified Carbon Standard
Dead Wood	Dead Wood is one of seven key agriculture, forestry, and land-use carbon pools. It includes all non-living woody biomass not contained in the litter, either standing, lying on the ground, or in the soil. Dead wood includes wood lying on the surface, dead roots, and stumps larger than or equal to 10 cm in diameter or any other diameter used by the country.	Verified Carbon Standard
Litter	Litter is one of seven key agriculture, forestry, and land-use carbon pools. It includes all non-living biomass with a diameter less than a minimum diameter chosen by the country (for example, 10 cm), lying dead, in various states of decomposition above the mineral or organic soil. This includes litter, fomic, and humic layers. Live fine roots (of less than the suggested diameter limit for below-ground biomass) are included in litter where they cannot be distinguished from it empirically.	Verified Carbon Standard
Soil Carbon	Soil Carbon is one of seven key agriculture, forestry, and land-use carbon pools. It includes organic matter in mineral and organic soils (including peat) to a specified depth chosen by the country and applied consistently through the time series. Live fine roots (of less than the suggested diameter limit for below-ground biomass) are included with soil organic matter where they cannot be distinguished from it empirically.	Verified Carbon Standard

Word	Definition	Source
Wood Products	Wood Products is one of seven key agriculture, forestry, and land-use carbon pools. It is defined as sawn-wood, wood-based panels, other industrial round wood, paper and paper board, and other long-lived wood products that store carbon.	Verified Carbon Standard

2.5 GENERAL CARBON ACCOUNTING METHODOLOGY VOCABULARY

Word	Definition	Source
Adaptation	Adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities.	United Nations Framework Convention on Climate Change
Agriculture, Forestry and Other Land Use (AFOLU)	Agriculture, Forestry and Other Land Use (AFOLU) consolidates the previous sectors land-use, land-use change, and forestry, and agriculture. AFOLU was introduced by the Intergovernmental Panel on Climate Change's (IPCC's) "2006 Guidelines for national greenhouse gas inventories" to support a simpler and more coherent reporting of all land uses.	United Nations Framework Convention on Climate Change
Allocation	The Allocation of emissions permits or allowances among GHG emitters to establish a mechanism to mitigate climate change. The allocation of emission permits/allowances can be done through grandfathering (based on past emissions) or the auctioning of permits.	United Nations Framework Convention on Climate Change
Approved Consolidated Methodology	Approved Consolidated Methodology is large-scale methodology to calculate emission reductions for a project consolidated from a number of approved methodologies and approved for use by the Clean Development Mechanism (CDM) Executive Board.	United Nations Framework Convention on Climate Change
Assigned Amount Unit (AAU)	Assigned Amount Unit (AAU) is the total assigned amount of GHG that each Annex B country is allowed to emit during the first commitment period of the Kyoto Protocol. An assigned amount unit is a tradable unit of 1 metric ton of carbon dioxide equivalent (CO ₂ e).	United Nations Framework Convention on Climate Change
Baseline	The Baseline represents forecasted conditions (whether carbon-, community-, or biodiversity-related) under a business-as-usual or "without project" scenario (i.e., had the project activities not been implemented). Often referred to as the "baseline scenario" or "reference scenario."	Intergovernmental Panel on Climate Change
Baseline and Credit	Baseline and Credit is a type of emissions trading scheme where firms are encouraged to reduce their GHG emissions below a projected BAU path of increasing emissions. Any reduction below that future path earns offsets for the difference which can be sold to other emitters struggling to contain increases to baseline levels.	The World Bank
Baseline Methodology	Baseline Methodology is a means to estimate the emissions that would have been created in the most plausible alternative scenario to the implementation of the agriculture, forestry, and land-use project activity (called the baseline scenario).	Intergovernmental Panel on Climate Change

Word	Definition	Source
Bioenergy with Carbon Capture and Storage (BECCS)	Bioenergy with Carbon Capture and Storage (BECCS) is a GHG mitigation technology which produces negative carbon dioxide emissions by combining biomass use with geologic carbon capture and storage. The concept of BECCS is drawn from the integration of trees and crops, which extract CO ² from the atmosphere as they grow. This biomass is then used in power plants with the resultant CO ² emissions stored via carbon capture with storage. The IPCC considers BECCS a key technology to mitigate climate change with significant negative emissions.	Intergovernmental Panel on Climate Change
Biofuels	A fuel produced from dry organic matter or combustible oils produced by plants. These fuels are considered renewable as long as the vegetation producing them is maintained or replanted, such as firewood, alcohol fermented from sugar, and combustible oils extracted from soy beans. Their use in place of fossil fuels cuts greenhouse gas emissions because the plants that are the fuel sources capture carbon dioxide from the atmosphere.	United Nations Framework Convention on Climate Change
Carbon Accounting	Carbon Accounting is the tracking of changes in carbon pools associated with human-induced sources and sinks of GHG emissions.	Intergovernmental Panel on Climate Change
Carbon Benefits	Carbon Benefits are the quantity of emissions avoided or carbon sequestered above the “business-as-usual” scenario, after appropriate deductions are made for leakage and impermanence. Usually measured in tons of CO ₂ e.	Intergovernmental Panel on Climate Change
Carbon Biosequestration	Carbon Biosequestration or sequestration or uptake is the storage of carbon by plants, trees, and other flora which absorb carbon dioxide from the atmosphere while they grow, release oxygen, and store the carbon.	Intergovernmental Panel on Climate Change
Carbon Dioxide (CO²)	Carbon dioxide (CO ²) plays a critical role in creating and regulating the Earth’s climate. In 2011, the global average concentration of CO ² in the atmosphere was 391 parts per million, a significant increase above pre-industrial levels of 280 parts per million. Major sources of atmospheric carbon dioxide are deforestation and degradation, burning fossil fuels, combustion of organic matter, respiration processes of living aerobic organisms, and volcanic outgassing. CO ² composes 44/12 ^{ths} or 3.67 of carbon by weight. CO ² persists in the atmosphere for about 200–450 years and its global warming potential is defined as 1.	United Nations Framework Convention on Climate Change

Word	Definition	Source
Carbon Dioxide Equivalent (CO₂e)	Carbon dioxide equivalent (CO ₂ e) is the universal unit of measurement used to indicate the global warming potential of each of greenhouse gases. It is used to evaluate the impacts of releasing (or avoiding the release of) different greenhouse gases. The global warming potentials (GWP) of the three greenhouse gases associated with forestry are as follows: Carbon dioxide persists in the atmosphere for about 200–450 years and its global warming potential is defined as 1, methane (CH ₄) persists for 9–15 years and has a global warming potential of 22 (meaning that it has 22 times the warming ability of carbon dioxide), and nitrous oxide (N ₂ O) persists for about 120 years and has a global warming potential of 310. The current concentration of greenhouse gases already has a heating power equaling that of a concentration of roughly 472 parts per million, which are high enough for a temperature rise of greater than 2° C.	The World Bank
Deforestation	Deforestation, as defined by the Marrakech Accords, is the direct human-induced conversion of forested land to non-forested land (with less than 10 percent crown cover).	United Nations Framework Convention on Climate Change
Degradation	Degradation is the term used to describe the condition of a forest that has been reduced below its natural capacity, but not below the 10 percent crown cover threshold that qualifies as deforestation.	Verified Carbon Standard
Emission Reductions (ER)	Emission Reductions (ER) are the measurable reduction of release of GHGs into the atmosphere from a specified activity or over a specified area, and a specified period of time measured in a standardized unit of metric ton carbon dioxide equivalent.	The World Bank
Forest	A Forest is an ecosystem characterized by a more or less dense and extensive tree cover, often consisting of stands varying in characteristics such as species composition, structure, age class, and associated processes, and commonly including meadows, streams, fish, and wildlife. Forests include special kinds such as industrial forests, nonindustrial private forests, plantations, public forests, protection forests, and urban forests, as well as parks and wilderness.	Society of American Foresters
Forestry	Forestry is the profession embracing the science, art, and practice of creating, managing, using, and conserving forests and associated resources for human benefit and in a sustainable manner to meet desired goals, needs, and values. Forestry includes biological, quantitative, managerial, and social sciences that are applied to forest management and conservation; it includes specialized fields such as agroforestry, urban forestry, industrial forestry, nonindustrial forestry, and wilderness and recreation forestry.	Society of American Foresters

Word	Definition	Source
Global Warming Potential (GWP)	Global Warming Potential (GWP) is a way of comparing the climate impacts of different greenhouse gases, taking into account their lifetimes. It compares the amount of heat trapped by a certain mass of the gas in question to the amount of heat trapped by a similar mass of carbon dioxide. A global warming potential is calculated over a specific time interval, commonly 20, 100 or 500 years. Global warming potential is expressed as a factor of carbon dioxide (whose global warming potential is standardized to 1). The global warming potential depends on three factors which are the absorption of infrared radiation by a given species, the spectral location of its absorbing wavelengths, and the atmospheric lifetime of the greenhouse gas.	United Nations Framework Convention on Climate Change
Greenhouse Gases (GHG)	Greenhouse Gases (GHG) are gaseous components of the atmosphere that trap infrared heat and contribute to the Earth's greenhouse effect. The six greenhouse gases targeted by the Kyoto Protocol are carbon dioxide, methane, nitrous oxide, sulfur hexafluoride, hydrofluorocarbons, and perfluorocarbons.	United Nations Framework Convention on Climate Change
Greenhouse Gas Accounting Period	Greenhouse Gas Accounting Period is the time period over which the project will quantify net changes in GHG emissions reductions or removals.	Verified Carbon Standard
Land Use, Land-Use Change and Forestry (LULUCF)	Land Use, Land-Use Change and Forestry (LULUCF) is a greenhouse gas inventory sector that covers emissions and removals of greenhouse gases resulting from direct human-induced land use, land-use change and forestry activities except emissions and removals from the agriculture sector. AFOLU, a broader category consolidates agriculture with LULUCF.	United Nations Framework Convention on Climate Change
Leakage	Leakage is any increase in emissions of GHGs outside the project boundary as a result of project activities.	United Nations Framework Convention on Climate Change
Market Leakage	Market Leakage is an increase in GHG emissions when a project changes the supply and demand equilibrium, causing other market actors to shift their activities. For example, if a large forest-conservation project reduces the local timber supply so that demand is unmet, this may increase prices and pressures on forests elsewhere.	Verified Carbon Standard
Measurement, Reporting and Verification (MRV)	Measurement, Reporting and Verification (MRV) is the collection of data and information at a national (or sub-national) level, and performance of the necessary calculations for estimating emission reductions or enhancement of carbon stocks and associated uncertainties against a reference level.	United Nations Framework Convention on Climate Change
Methodology	Methodology is a detailed approach to determining a project baseline, GHG sources and sinks, specific additionality tests and planned monitoring processes under a standard, specific to the particular project type	Verified Carbon Standard
Mitigation	Mitigation is the term used to describe any action seeking to reduce the amount of GHGs released into the atmosphere by human-related activities. Such actions might include reducing the use of fossil fuels and changing the way land is used, like reducing land clearing and deforestation rates and increasing rates of land reforestation.	United Nations Framework Convention on Climate Change

Word	Definition	Source
Monitoring	Monitoring is the collection and archiving of all relevant data necessary for determining the baseline and project-based measuring of anthropogenic emissions by sources (or sinks) of GHGs within the project boundary (and leakage of emissions).	United Nations Framework Convention on Climate Change
Monitoring Plan (MP)	A Monitoring Plan (MP) is a set of requirements for monitoring and verification of emission reductions achieved by a project during its crediting period.	The World Bank
Mosaic Deforestation	Mosaic Deforestation occurs where population pressure and local land use practices produce a patchwork of cleared lands, where forests are accessible and where the agents of deforestation and degradation typically are present within the region containing the area to be protected.	Verified Carbon Standard
Natural Regeneration	Natural Regeneration is the recovery of a forest following disturbance in the absence of human intervention. This results in increasing ecosystem functionality, vegetation species diversity and structural complexity, and habitat availability, among others.	Verified Carbon Standard
Non-Timber Forest Products (NTFP)	Non-Timber Forest Products (NTFP) are any product or service other than timber that is produced in forests. This includes fruits and nuts; vegetables; fish and game; medicinal plants; resins; essences; and a range of barks and fibers such as bamboo, rattans, and a host of other palms and grasses.	Verified Carbon Standard
Permanence	Permanence is the longevity of a carbon pool and the stability of its stocks, given the management and disturbance environment in which it occurs. A feature of land-based carbon projects is the possibility of a reversal of carbon benefits from either natural disturbances (e.g., fires, disease, pests, and unusual weather events), or from the lack of reliable guarantees that the original land use activities will not return after the project concludes. Strategies have been identified that mitigate potential reversals such as the non-permanence risk analysis and buffer approach adopted or the establishment of contingency offsets, insurance, conservation easements, and mixed portfolios of projects.	Verified Carbon Standard
Photosynthesis	Photosynthesis is the manufacture of organic compounds, particularly carbohydrates, in the chlorophyll cells of plants from carbon dioxide, water, and enzymes in the presence of light as the energy source. This process releases oxygen and water vapor and is dependent on favorable temperature and moisture conditions as well as on adequate atmospheric carbon dioxide concentration.	Society of American Foresters
Project	A Project is a set of actions or activities applied to a defined geographical area for AFOLU climate change mitigation specific purpose.	Climate, Community, Biodiversity Standards
Project Area	Project Area is the land within the carbon project boundary and under the control of the project proponent.	Climate, Community, Biodiversity Standards
Project Lifetime	The Project Lifetime is the time period over which project activities will be implemented.	Verified Carbon Standard

Word	Definition	Source
Project Proponents	Project Proponents are the entities or individuals organizing, proposing, or advocating a particular carbon offset project. The project proponents could be the project designer(s), developer(s) and/or investor(s), or other parties working on behalf of the project.	Verified Carbon Standard
Project Start Date	The “start of the project” is defined as the start of implementation of activities that will directly cause the project’s expected GHG emissions reductions or removals.	Climate, Community, Biodiversity Standards
Project Zone	The Project Zone is the project area and the land within the boundaries of the adjacent communities potentially affected by the project.	Climate, Community, Biodiversity Standards
Reference Area	As pertaining to a forest carbon project, Reference Area is a larger area with similar conditions, agents, and drivers used for comparison over time.	Verified Carbon Standard
Reforestation	Reforestation is the direct human-induced conversion of non-forested land to forested land through planting, seeding, and/or the human-induced promotion of natural seed sources on land that was forested but that has been converted to non-forested land. According to the language of the Kyoto Protocol, reforestation activities are limited to reforestation occurring on lands that did not contain forest at the start of 1990.	United Nations Framework Convention on Climate Change
Remote Sensing	Remote Sensing is a method of measuring deforestation and/or forest degradation by a recording device that is not in physical contact with the forest, such as a satellite.	Center for International Forestry Research
Readiness Preparation Proposal (R-PP)	A Readiness Preparation Proposal (R-PP) is a document submitted by a Forest Carbon Partnership Facility participant country to the Forest Carbon Partnership Facility Participants Committee. The R-PP consists of a summary of the current reducing emissions from deforestation and degradation policy and governance context, what study and other preparatory activities would occur under each major R-PP component, how they would be undertaken in the R-PP execution phase, and then a terms of reference or work plan for each component.	The Forest Carbon Partnership Facility
Sequestration	Sequestration is the process of increasing the carbon content of a carbon pool other than the atmosphere. There are various opportunities to remove atmospheric CO ² , either through biological processes (e.g., the growth of plants and trees), or geological processes (e.g., storage of CO ² in underground reservoirs).	The World Bank
Sustainable Forest Management (SFM)	Sustainable Forest Management (SFM) is an evolving concept that has several definitions. It is the practice of meeting the forest resource needs and values of the present without compromising the similar capability of future generations. It is the stewardship and use of forests and forest lands in a way, and at a rate, that maintains their biodiversity, productivity, regeneration capacity, vitality, and potential to fulfill, now and in the future, relevant ecological, economic, and social functions at local, national, and global levels, and that does not cause damage to other ecosystems.	Society of American Foresters

2.6 IMPROVED FOREST MANAGEMENT METHODOLOGY VOCABULARY

Word	Definition	Source
Extended Rotation Age/Cutting Cycle (ERA)	Extended Rotation Age/Cutting Cycle (ERA) is an improved forest management methodology category. This category includes practices that reduce net GHG emissions of evenly aged managed forests by extending the rotation age or cutting cycle and increasing carbon stocks. Because trees are typically harvested at an economically optimal rotation age before they are fully mature, extending the age at which the trees are cut increases the average carbon stock on the land. Extended rotation age activities may also include extending the cutting cycle or harvest schedule in uneven-aged forest management that may have similar effects as extending rotation age in even-aged forest management.	Verified Carbon Standard
Forest Project Protocol	The Forest Project Protocol provides carbon accounting and guidance to calculate, report, and verify GHG emission reductions associated with reforestation, improved forest management, and avoided conversion projects. The Forest Project Protocol is available for public use and is applicable only across the United States. It is applied under the CAR.	Climate Action Reserve
Improved Forest Management (IFM)	Improved Forest Management (IFM) is an agriculture, forestry and land-use project category in the VCS. Forest management activities which result in increased carbon stocks within forests and/or reduce greenhouse gas emissions from forestry activities when compared to business-as-usual forestry practices.	Verified Carbon Standard
Logged to Protected Forest (LtPF)	Logged to Protected Forest (LtPF) is an IFM methodology category in the VCS. This category includes practices that reduce net GHG emissions by converting logged forests to protected forests. By eliminating harvesting for timber, biomass carbon stocks are protected and can increase as the forest regrows and/or continues to grow. Harvesting of trees to advance conservation purposes (e.g., the removal of diseased trees) may continue in the project scenario. LtPF activities include protecting currently logged or degraded forests from further logging and protecting unlogged forests that would otherwise be logged.	Verified Carbon Standard
Low-Productive to High-Productive Forest (LtHP)	Low-Productive to High-Productive Forest (LtHP) is an IFM methodology category in the VCS. This category includes practices that increase carbon sequestration by converting low-productivity forests to high-productivity forests.	Verified Carbon Standard
Reduced Impact Logging (RIL)	Reduced Impact Logging (RIL) is an IFM methodology category in the VCS. Logging techniques that result in significantly less damage to the surrounding forest and forest ecosystem. Examples of reduced impact logging include directional felling, trimming of intercrown vines, and careful road planning.	Verified Carbon Standard
Urban Forest Project Protocol	The Urban Forest Project Protocol is a carbon accounting methodology under the CAR. It provides carbon accounting and guidance to quantify and verify GHG emissions reductions from a planned set of tree planting and maintenance activities implemented to permanently increase carbon storage through trees. The protocol is designed for use by municipalities, educational institutions, and utilities in the United States.	Climate Action Reserve

2.7 PEAT REWETTING AND CONSERVATION METHODOLOGY VOCABULARY

Word	Definition	Source
Combined Categories	Combined Categories is a Peatland Rewetting and Conservation (PRC) methodology category in the VCS. Projects may reduce net GHG emissions from peatland by combining rewetting or avoidance of drainage with other agriculture, forestry and land use activities.	Verified Carbon Standard
Conservation of Undrained or Partially Drained Peatland (CUPP)	Conservation of Undrained or Partially Drained Peatland (CUPP) is a PRC methodology category in the VCS. It includes activities that reduce net GHG emissions by avoiding drainage in undrained (or further drainage in partially drained) peatlands, thereby reducing CO ² emissions from avoided peat oxidation and/or increased fire incidence.	Verified Carbon Standard
Peatland Rewetting and Conservation (PRC)	Peatland Rewetting and Conservation (PRC) is an agriculture, forestry and land use category in the VCS.	Verified Carbon Standard
Rewetting of Drained Peatland (RDP)	Rewetting of Drained Peatland (RDP) is a PRC methodology category in the VCS. This category includes practices that establish a higher water level on peatland that has been drained and reduce net GHG emissions by reducing oxidation and decreasing the rate of peat subsidence or by enabling carbon sequestration through new peat accumulation.	Verified Carbon Standard

2.8 PERFORMANCE VOCABULARY

Word	Definition	Source
Auditor	An Auditor is a recognized, qualified, and independent professional who evaluates whether each of the individual carbon standards criteria are satisfied by the project or program in question.	Climate, Community, Biodiversity Standards
Due Diligence	Due Diligence is investigation and analysis in support of an investment action or recommendation, such as the scrutiny of operations and management and the verification of material facts.	CFA Institute
Global Investment Performance Standards® (GIPS)	The Global Investment Performance Standards® (GIPS) are a set of standardized, industry-wide ethical principles that provide firms with guidance on how to calculate and report their investment results to stakeholders. This provides institutions the capacity to compare financial results of financial instruments.	Global Investment Performance Standards®
Performance Appraisal	Performance Appraisal is the evaluation of portfolio performance; a quantitative assessment of a manager's investment skill.	CFA Institute
Performance Evaluation	Performance Evaluation is the measurement and assessment of the outcomes of investment management decisions.	CFA Institute
Performance Measurement	Performance Measurement is a component of performance evaluation; the relatively simple produced of calculating a carbon offset's rate of return.	CFA Institute
Validation	Validation is the assessment of a project's Project Design Document (PDD) or similar document, which describes its design, including its baseline and monitoring plan, by an	The World Bank

	independent third party, before the implementation of the project against the requirements of the CDM or another standard.	
Validation Report	The Validation Report is a report prepared by an operational entity, or by another independent third party, pursuant to a validation, which reports the findings of the validation process, including the amount of reductions in emission of GHGs that may be issued over the next carbon accounting period.	The World Bank
Verification	Verification is the systematic, independent and documented process for the evaluation of a project's delivery of net carbon and other co-benefits in accordance with the project's validated design and monitoring plan and each of the independent standards criteria.	The World Bank
Verification Report	A Verification Report is a report prepared by an operational entity, or by another independent third party, pursuant to a verification, which reports the findings of the verification process, including the amount of reductions in emission of GHGs that have been found to have been generated over the previous carbon accounting period.	The World Bank

2.9 REDUCING EMISSIONS FROM DEFORESTATION AND DEGRADATION METHODOLOGY VOCABULARY

Word	Definition	Source
Avoided Planned Deforestation (APD)	Avoided Planned Deforestation (APD) is a Reducing Emissions from Deforestation and Degradation (REDD) methodology category in the VCS. The reduction in GHG emissions by stopping deforestation on forest lands that are legally authorized and documented to be converted to non-forest land. This REDD practice can occur in degraded to mature forests. Avoided planned deforestation project proponents must provide the auditor with evidence showing that the project area was planned to be converted.	Verified Carbon Standard
Avoiding Unplanned Deforestation and/or Degradation (AUDD)	Avoiding Unplanned Deforestation and/or Degradation (AUDD) is a REDD methodology category in the VCS. The reduction in GHG emissions by stopping deforestation/degradation of degraded to mature forests at the forest frontier that has been expanding historically, or will expand in the future, as a result of improved forest access, often through construction of roads.	Verified Carbon Standard
Avoiding Unplanned Mosaic Deforestation and Degradation (AUMDD)	Avoiding Unplanned Mosaic Deforestation and Degradation (AUMDD) is a REDD methodology category in the VCS. The reduction in GHG emissions by stopping deforestation/degradation of degraded to mature forests occurring in a mosaic pattern. Such deforestation/degradation typically occurs where population pressure and local land use practices produce a patchwork of cleared lands, degraded forests, secondary forests of various ages, and mature forests; where the forests are accessible; and where the agents of deforestation/degradation typically are present within the region containing the area to be protected.	Verified Carbon Standard

Word	Definition	Source
Forest Project Protocol	The Forest Project Protocol is a carbon accounting category in the CAR. It provides carbon accounting and guidance to calculate, report, and verify GHG emission reductions associated with reforestation, improved forest management, and avoided conversion projects. The Forest Project Protocol is available for public use and is applicable only across the United States. It is applied under the CAR.	Climate Action Reserve
Mexico Forest Protocol	The Mexico Forest Protocol is a carbon accounting category in the CAR. It standardized carbon accounting methodology and guidance for projects within a CAR REDD+ framework. Communal lands and private ownerships are eligible to develop projects. A territorial baseline approach to the project design enables both sequestration and activities that avoid emissions to be credited, allowing avoided deforestation, improved forest management, reforestation, agroforestry, and urban forestry to be included in the project design.	Climate Action Reserve
Nested Approach	A Nested Approach is a hybrid approach to REDD accounting that includes elements of both sub-national and national approaches to REDD. Under this approach, countries can adopt two unique features: firstly, the capacity to scale up from a sub-national to a national approach over time. Secondly, countries have the option to account for and receive international offsets at sub-national and national levels simultaneously.	Verified Carbon Standard
Nested REDD	See "Nested Approach."	Verified Carbon Standard
Reducing Emissions from Deforestation and Degradation (REDD)	Reducing Emissions from Deforestation and Degradation (REDD) is an agriculture, forestry and land use project category in the VCS.	Verified Carbon Standard
REDD+	This is Reducing Emissions from Deforestation and Forest Degradation in developing countries and the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks.	United Nations – REDD Program
REDD+ Social and Environmental Standards (REDD + SES)	REDD+ Social and Environmental Standards (REDD+ SES) is a voluntary initiative used to provide a comprehensive framework of national-level or sub-national standards for the social and environmental performance of REDD programs. The international standards are intended to be adapted to each national context, to provide guidance to assist with REDD+ national program design and for monitoring and reporting on performance.	REDD+ Social and Environmental Standards

2.10 REGULATORY AND ACCOUNTING VOCABULARY

Word	Definition	Source
------	------------	--------

Word	Definition	Source
American Carbon Registry (ACR)	American Carbon Registry (ACR) is a carbon standard and registry managed by Winrock International. ACR details requirements and specifications for the quantification, monitoring, and reporting of forest project-based GHG emissions reductions and removals, methodological acceptance, verification, registration, and issuance of offsets for trade in the global voluntary and U.S. pre-compliance carbon markets. Methodologies are available for afforestation, reforestation, and revegetation; improved forest management; and REDD projects categories. ACR carbon methodologies are not eligible under the CDM.	American Carbon Registry
Activity Shifting Leakage	Activity Shifting Leakage is related to forest carbon activities that directly cause carbon-emitting activities to be shifted to another location outside of the project boundaries, cancelling out some or all of the project's carbon benefits. One example would be a plantation project that displaces farmers and leads them to clear adjacent forests.	Verified Carbon Standard
Additionality	Environmental or emissions Additionality refers to the carbon accounting procedures whereby projects must demonstrate real, measurable, and long-term results in reducing or preventing carbon emissions that would not have occurred in the absence of carbon activities. Proof of additionality is critical because developing countries do not have legally binding reduction commitments by which to judge changes in national baselines.	The World Bank
Annex I, Annex B Countries/Parties	Annex I and Annex B Countries/Parties are the signatory nations to the Kyoto Protocol that are subject to caps on their emissions of GHGs and committed to reduction targets—countries with developed economies. Annex I refers to the countries identified for reduction in the United Nations Framework Convention on Climate Change (UNFCCC) while the Annex B is an adjusted list of the countries identified under the more recent Kyoto Protocol. Annex B countries have their reduction targets formally stated.	United Nations Framework Convention on Climate Change
Bilateral Transaction	Bilateral Transaction is a transaction made on a direct one-on-one basis that does not include an intermediary such as an exchange.	Center for International Forestry Research
Bundling	Bundling refers to a combination of several small-scale project activities to form a single project activity or portfolio under a carbon standard in order to decrease transaction costs per unit of emission reductions.	Center for International Forestry Research
Business-as-Usual (BAU)	Business-as-Usual (BAU) is the land use and emissions profile for a forest carbon project area prior to intervention, which serves as a benchmark to measure the impact of agriculture, forestry and land use actions. Also referred to as “baseline.”	Center for International Forestry Research
Cap-and-Trade	Cap-and-Trade is an emissions trading scheme where regulatory authorities cap or limit the amount of emissions allowed and issue allowances for the permitted emissions. These allowances can be traded in carbon markets where those with spare allowances can sell it to those emitting more than their permitted cap.	Center for International Forestry Research

Word	Definition	Source
Carbon Market	Transactions, with one metric ton CO ₂ e as the unit of exchange, for the sale of permits, reductions, or offsets together compose the carbon market. There exists no unified international market for emission reduction purchases. Instead, there are various markets, in operation around the world, which can be classified as either “regulatory” or “voluntary” markets and which interact with one another in different ways.	United Nations Framework Convention on Climate Change
Carbon Rights	Carbon Rights refer to the claims on the benefit streams from carbon pools, for example, the benefit from a specific parcel of forest. Where a market exists for GHG emissions reductions carbon rights may have a financial value. Carbon rights may also define the management responsibilities associated with a specific area of forest. Issues concerning carbon rights include how the rights are defined, how they work in places where land ownership is unclear, and whether legal institutions are strong enough to protect the rights.	Center for International Forestry Research
CarbonFix Standard	CarbonFix Standard is a non-profit organization registered under German law. Its statutory purpose is to foster voluntary climate afforestation and reforestation projects. CarbonFix Standard carbon methodologies are not eligible under the CDM.	CarbonFix Standard
Certified Emission Reduction (CER)	A Certified Emission Reductions (CER) is a unit of greenhouse gas emission reductions issued pursuant to the Clean Development Mechanism of the Kyoto Protocol, and measured in metric tons of carbon dioxide equivalent.	The World Bank
CFA Institute (CFAI)	CFA Institute (CFAI) is a global, not-for-profit organization comprising the world’s largest association of investment professionals. With over 100,000 members, and regional societies around the world, it is dedicated to developing and promoting the highest educational, ethical, and professional standards in the investment industry.	CFA Institute
Chicago Climate Exchange (CCX)	Chicago Climate Exchange (CCX) was North America's largest and longest-running GHG emission reduction program. Operating from 2003–2010, CCX operated as a comprehensive Cap-and-Trade program with an offsets component. In 2011, CCX launched the Chicago Climate Exchange Offsets Registry Program to register verified emission reductions, including forestry offsets from forestry projects, based on a comprehensive set of established protocols. CCX carbon methodologies are not eligible under the CDM.	Chicago Climate Exchange
Clean Development Mechanism (CDM)	The Clean Development Mechanism (CDM), provided by Article 12 of the Kyoto Protocol, designed to assist developing countries in achieving sustainable development by permitting industrialized countries to finance projects for reducing GHG emission in developing countries and receive credit for doing so.	United Nations Framework Convention on Climate Change
Clearinghouse	A Clearinghouse is an entity associated with a futures market that acts as middleman between the contracting parties and guarantees to each party the performance of the other.	CFA Institute
Climate Action Reserve (CAR)	The Climate Action Reserve (CAR) is a standard and registry managed in conjunction with California’s Air Resources Board. CAR carbon methodologies are not eligible under the CDM.	Climate Action Reserve

Word	Definition	Source
Climate, Community, Biodiversity Standards (CCB)	The Climate, Community & Biodiversity Standards (CCB) were created to foster the development and marketing of projects that deliver credible and significant climate, community, and biodiversity benefits in an integrated, sustainable manner. Projects that meet the Standards adopt best practices to deliver robust and credible GHG reductions while also delivering net positive benefits to local communities and biodiversity. CCB projects may be eligible under the CDM if an approved CDM carbon accounting mechanism is applied.	Climate, Community, Biodiversity Standards
Climate Reserve Tonnes (CRT)	Climate Reserve Tonnes (CRT) are the unit of offset credits used by the CAR. One CRT is equal to one metric ton of GHG reduced/sequestered.	Climate Action Reserve
Collateral	Collateral refers to the assets used to secure a loan.	CFA Institute
Commingled (Pooled)	A Commingled or Pooled account mixes assets from unrelated accounts under a single, professionally managed vehicle.	CFA Institute
Compliance Market	A Compliance Market is a market for carbon offsets created by the need to comply with a regulatory act. In a Cap-and-Trade emissions reductions market, actors buy and sell carbon offsets to comply with the cap or limit imposed on their emissions. This is in contrast to a voluntary market where participants purchase emissions reductions for public relations or personal reasons. Examples of compliance carbon markets are the Kyoto Protocol, the European Union emissions trading system, California emissions trading system, Australia emissions trading system, British Columbia emissions trading system, and the New Zealand emissions trading system.	United Nations Framework Convention on Climate Change
Custodian	A Custodian is an entity that effects trade settlement, safekeeping of assets, and the allocation of trades to individual custody accounts.	CFA Institute
Dealer	A Dealer is a business entity that is ready to buy an asset for inventory or sell a carbon asset from inventory. Synonym is market maker.	CFA Institute
Delivery Option	The Delivery Option is a feature of a future or forward contract giving the seller of the asset—the short—the right to make decisions about what, when, and where to deliver the carbon asset to the buyer. A short is the seller of a derivative contract such as a future or forward contract. Related terms are future and forward contracts.	CFA Institute
Designated National Authority (DNA)	A Designated National Authority (DNA) is an office, ministry, or other official entity appointed by a Party to the Kyoto Protocol to review and give national approval to projects proposed under the CDM.	United Nations Framework Convention on Climate Change
Double Approval Process	The VCS approval process which requires any project methodology to undergo two independent assessments by different auditors. The first assessment shall be carried out by an auditor accredited for the Verified Carbon Standard Program and appointed by the project proponent. The Verified Carbon Standard Secretariat, acting on behalf of the Verified Carbon Standard Board, shall choose a different Verified Carbon Standard Program accredited auditor to carry out a second assessment. Both assessments shall cover all relevant Verified Carbon Standard Program requirements.	Verified Carbon Standard

Word	Definition	Source
Escrow Agreements	An escrow is an arrangement made under contractual provisions between transacting parties, whereby an independent, trusted third party receives and disburses money and/or documents for the transacting parties, with the timing of such disbursement by the third party dependent on the fulfillment of contractually agreed-upon conditions by the transacting parties, or an account established by a broker, under the provisions of license law, for the purpose of holding funds on behalf of the broker's principal or some other person until the consummation or termination of a transaction; or, a trust account held in the borrower's name to pay obligations such as property taxes and insurance premiums.	CFA Institute
Exchange	Exchange is a regulated venue for the trading of investment instruments, including carbon offsets.	CFA Institute
Financial Accounting Standards Board (FASB)	Financial Accounting Standards Board (FASB) has been the designated organization in the private sector for establishing standards of financial accounting that govern the preparation of financial reports by nongovernmental entities. Those standards are officially recognized as authoritative by the Securities and Exchange Commission (SEC)	Financial Accounting Standards Board
Fungible	Fungible means being of such a nature that one part or quantity may be replaced by another equal part or quantity in the satisfaction of an obligation. The fungibility of a ton of CO ₂ e, for example, allows for the use of various types of gas, e.g., methane. Fungibility can also allow for the possibility to exchange, or use interchangeably, different types of offsets achieved under different mechanisms (e.g., certified emissions reductions for assigned allowance units).	Verified Carbon Standard
Intergovernmental Panel on Climate Change (IPCC)	The Intergovernmental Panel on Climate Change (IPCC) was established in 1988 as a special body by the United Nations Environment Program and the World Meteorological Organization to provide assessments to policymakers of the results of ongoing climate change research. The IPCC is responsible for providing the scientific and technical foundation for the UNFCCC, primarily through the publication of periodic assessment reports.	Intergovernmental Panel on Climate Change
IPCC 2006 GL for AFOLU	The IPCC's 2006 Guidelines for National Greenhouse Gas Inventories for Agriculture, Forestry and Other Land Use Volume 4 Agriculture, Forestry and Other Land Use.	Intergovernmental Panel on Climate Change
International Organization for Standardization (ISO) 14064-1:2006	International Organization for Standardization (ISO) 14064-1:2006 specifies principles and requirements at the organization level for quantification and reporting of GHG emissions and removals. It includes requirements for the design, development, management, reporting, and verification of an organization's greenhouse gas afforestation and reforestation inventory. ISO 14064-1:2006 carbon methodologies are not eligible under the CDM.	International Organization for Standardization
Joint Implementation (JI)	Joint Implementation (JI) is a mechanism provided by Article 6 of the Kyoto Protocol, whereby a country included in Annex I of the UNFCCC and the Kyoto Protocol may acquire Emission Reduction Units (ERUs) when it helps to finance projects that reduce net emissions in another industrialized country (including countries with economies in transition).	United Nations Framework Convention on Climate Change

Word	Definition	Source
Jurisdictional Nested REDD+ Initiative (JNRI)	Jurisdictional Nested REDD+ Initiative (JNRI) is an integrated, jurisdiction-wide accounting framework that enhances environmental integrity by ensuring all project and other reducing emissions from deforestation and degradation activities in a given jurisdiction are developed using consistent baselines and crediting approaches. They mitigate the risk of “leakage”—the displacement of emission-causing activities to areas outside the project boundary—by monitoring emissions across an entire jurisdictional area. They also they provide a way for jurisdictions to go beyond projects and credit the full range of policies and programs that reduce emissions. The ultimate goal is to ensure emission reductions “add up” at the jurisdictional level, whether national or sub-national, with each participant receiving proper credit for their contribution. This is similar to a sub-national and nested REDD approaches.	Verified Carbon Standard
Kyoto Protocol to the UNFCCC	The Kyoto Protocol to the UNFCCC establishes legally binding commitments for Annex I (“developed”) countries to reduce GHG emissions collectively by more than five percent below 1990 levels by 2008–2012. The Kyoto Protocol includes a set of mechanisms in addition to domestic mitigation—such as international emissions trading, Joint Implementation, and the CDM—that allow countries to achieve their commitments.	United Nations Framework Convention on Climate Change
Liquidity	Liquidity is the ability to trade without delay at relatively low cost and in relatively large quantities. Related term is liquidity risk.	CFA Institute
Markit Environmental Registry	Markit Environmental Registry is an independent third party that is the most common registry for offset transactions covering the vast majority, greater than 80 percent, of all issued AFOLU offsets.	Markit Environmental Registry
Nationally Appropriate Mitigation Actions (NAMA)	Nationally Appropriate Mitigation Action (NAMA) refers to a set of policies and actions that countries undertake as part of a commitment to reduce GHG emissions. The term recognizes that different countries may take different nationally appropriate action on the basis of equity and in accordance with common but differentiated responsibilities and respective capabilities. The relationship between Nationally Appropriate Mitigation Actions and activities Reducing Emissions from Deforestation and Degradation is not yet determined.	United Nations Framework Convention on Climate Change
New Zealand Permanent Forest Sink Initiative (PFSI)	The New Zealand Permanent Forest Sink Initiative (PFSI) promotes the establishment of permanent forests on previously afforested land. It offers landowners of permanent forests established after 1 January 1990 the opportunity to earn Kyoto Protocol-compliant emission units (Assigned Amount Units) for the carbon sequestered by their forests since 1 January 2008. New Zealand PFSI carbon methodologies are not eligible under the CDM.	New Zealand Permanent Forest Sink Initiative
Operational Entity (OE)	An Operational Entity (OE) is an independent entity, accredited by the Clean Development Mechanism Executive Board, which validates CDM project activities, and verifies and certifies emission reductions generated by such projects.	The World Bank

Word	Definition	Source
Payment for Ecosystem Service (PES)	Payments for Ecosystem Services (PES) are one type of economic incentive for those that manage ecosystems to improve the flow of environmental services that they provide. Generally these incentives are provided by all those who benefit from environmental services, including local, regional, and global beneficiaries. PES is an environmental policy tool that is becoming increasingly important in developing and developed countries.	Center for International Forestry Research
Pending Issuance Unit (PIU)	A Pending Issuance Unit (PIU) is a unit that represents a contractual right to an anticipated delivery of an emission reduction offset. These units can now be listed, held, and tracked on the Markit Environmental Registry.	Markit Environmental Registry
Pending Issuance Unit Registry	The Pending Issuance Unit Registry is distinct from the issued offset in that it reflects the units pending issuance in the Markit Environmental Registry and therefore represents the future rights to an offset once the project achieves the anticipated emission reductions or removals in accordance with the VCS.	Markit Environmental Registry
Plan Vivo System	The Plan Vivo System is a framework for developing and managing community-based land-use projects with long-term carbon, livelihood and ecosystem benefits. Participants are rural smallholders and communities dependent on natural resources for livelihoods. Activities are implemented on smallholder or community land (owned or long-term user rights). It is applicable globally. Plan Vivo System carbon methodologies are not eligible under the CDM.	Plan Vivo
Program of Activities (POA)	Program of Activities (POA) is a modality of project development under the CDM. Currently, there are no accepted program of activities for the agriculture, forestry and land-use sector.	United Nations Framework Convention on Climate Change
Registry	A Registry is an electronic database that tracks and records all transactions under a GHG emissions trading system.	United Nations Framework Convention on Climate Change
Social Carbon	Social Carbon standard developed by the Ecologica Institute certifies voluntary emission reduction projects for their contributions to sustainable development. It is founded on the principle that transparent assessment and monitoring of the social and environmental performance of projects can improve their long-term effectiveness and thus add value to the voluntary emission reductions generated. The standard is applied and independently verified according to each project monitoring period to encourage progress and ensure continual improvements. Social Carbon carbon methodologies are not eligible under the CDM.	Social Carbon

Word	Definition	Source
Sub-National Approach	A sub-national approach is a national climate change policy, carbon accounting framework, and MRV system, whereby emissions reductions are rewarded only at the sub-national or project level. Using this approach, both Reducing Emissions from Deforestation and Degradation accounting and implementation would be focused on a defined geographic area or project site. Project development activities could be undertaken by individuals, communities, non-governmental organizations, private companies, and different levels of government. Forest CO ² emission baselines and subsequent monitoring, reporting, verifying, and rewarding would only be for the sites in question. Projects would have to account for any “leakage” or displacement of destructive activities from the project site to other forest areas outside the project area. See Nested Approach and Jurisdictional Nested REDD+ Initiative.	Center for International Forestry Research
Transparency	Transparency refers to the availability of timely and accurate market and trade information.	CFA Institute
Verifiable	Verifiable indicates that the GHG emission offset can be registered and tracked.	The World Bank
Verified Carbon Standard (VCS)	The Verified Carbon Standard (VCS) provides a robust, global standard and program for approval of credible voluntary offsets. The VCS was formally known as the Voluntary Carbon Standard. VCS carbon methodologies are not eligible under the CDM.	Verified Carbon Standard
Voluntary Markets	Voluntary Markets is the term used to describe carbon markets outside the regulatory carbon framework that does not involve international agreements. These markets are driven by voluntary commitments from organizations (e.g., energy companies, airlines) and individuals.	Verified Carbon Standard

2.11 RISK MANAGEMENT VOCABULARY

Word	Definition	Source
Accounting Risk	Accounting Risk refers to the risk associated with the change in accounting standards and the lack of standardization between financial accounting standards that vary from country-to-country or with any uncertainty about how certain transactions should be recorded.	CFA Institute
Buffer	Buffer is the amount of carbon offsets, determined by risk analysis or the rules of a particular standard, which are set aside and not commercialized to ensure validity of carbon offsets from a project in the event of leakage or impermanence.	Verified Carbon Standard
Buffer Pool	A Buffer Pool is an approach for addressing non-permanence is to require that projects maintain adequate buffer reserves of non-tradable carbon offsets to cover unforeseen losses in carbon stocks. These non-tradable carbon offsets are pooled into a commingled Buffer Pool with each project having its own buffer pool account.	Verified Carbon Standard
Business Risk	Business Risk refers to the risk that comes from the nature of the not-for-profit or for-profit firm's operating earnings. Operating earnings are uncertain because total revenues and many of the expenditures contributed to produce those revenues through climate change mitigation activities are uncertain.	CFA Institute

Word	Definition	Source
Contingent Claims	Contingent Claims are derivatives in which the payoffs occur if a specific event occurs. Generally referred to as options.	CFA Institute
Credit Enhancement	Credit Enhancement describes the process of a bond issuer implementing risk mitigation measures so that the bond they issue receives a higher credit rating.	CFA Institute
Credit Risk	Credit Risk refers to the risk of loss caused by counterparty's failure to make a timely payment resulting in impacting the counterparty's credit. Related term is default risk.	CFA Institute
Currency Risk	Currency Risk is the risk associated with the uncertainty about the exchange rate at which proceeds in the foreign currency can be converted into the investor's home currency.	CFA Institute
Decentralized Risk Management	Decentralized Risk Management is a system that allows individual units within an organization to manage risk.	CFA Institute
Default Risk	Default Risk is the risk of loss caused by counterparty's failure to make a timely payment. Related term is credit risk.	CFA Institute
Directors and Officers Insurance (D&O)	Directors and Officers Insurance (D&O) is liability insurance payable to the directors and officers of a company, or to the organization(s) itself, to cover damages or defense costs in the event they suffer such losses as a result of a lawsuit for alleged wrongful acts while acting in their capacity as directors and officers for the organization.	CFA Institute
Diversification	Diversification is a risk management technique that involves investing in a group of projects that are heterogeneous by risk and return characteristics.	CFA Institute
Enterprise Risk Management (ERM)	Enterprise Risk Management (ERM) is an overall assessment of a company's risk position. Similar term is centralized risk management.	CFA Institute
Environmental, Social, Governance Risk (ESG)	Environmental, Social, Governance Risk (ESG) is the risk to a publicly traded or privately held firm's valuation resulting from environmental, social, and governance factors. ESG factors include climate change and related factors.	CFA Institute
Errors and Omissions Insurance (E&O)	Professional liability insurance, also called professional indemnity insurance, but more commonly known as Errors and Omissions Insurance (E&O) in the United States, is a form of liability insurance that helps protect professional advice- and service-providing individuals and companies from bearing the full cost of defending against a negligence claim made by a client and damages awarded in such a civil lawsuit.	CFA Institute
Fiduciary Duty	Fiduciary Duty is the responsibility of managers of institutional investment funds to act in the best interest of the fund beneficiaries. Also, a person or entity standing in a special relation of trust and responsibility with respect to other parties	CFA Institute
Financial Risk	Financial Risks are risks derived from events in the external financial markets, such as changes in equity prices, interest rates, or currency exchange rates, that impact an institutions capacity to fund its required payments to meet obligations. Financial Risks also includes risk that environmental, social, or governance risk factors will result in significant costs or other losses to a company and its shareholders. Related term is ESG Risk.	CFA Institute
Guarantees	Guarantees are insurance for risk that are difficult to quantify.	CFA Institute

Word	Definition	Source
Insured	Insured indicates adequate commercial insurance policies such as E&O, D&O, environmental impairment, general liability, property/forest, and non-delivery of carbon offsets or equivalent risk transfer methods have been instituted to warranty permanence of issued forest carbon offset.	CFA Institute
Legal/Contract Risk	Legal/Contract Risk refers to the risk that failures by company managers to effectively manage a company's environmental, social, and governance risk exposures will lead to lawsuits and other judicial remedies, resulting in potentially catastrophic losses for the company; the risk that the legal system will not enforce a contract in case of dispute or fraud. Related term is ESG Risk.	CFA Institute
Liability	A Liability is a financial obligation. Present obligations of an enterprise arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits; creditors' claims on the resources of a company.	CFA Institute
Liquidity Risk	Liquidity Risk is any risk of economic loss because of the need to sell relatively less liquid assets to meet liquidity requirements.	CFA Institute
Market Risk	Market Risk is the risk associated with interest rates, exchange rates, and equity prices.	CFA Institute
Marking to Market	Marking to Market is a procedure used primarily in futures markets in which the parties to a contract settle the amount owed periodically. Related term is daily settlement.	CFA Institute
Measurable	Measurable indicates that a GHG emission offset can be quantified repeatedly using the same methodology.	Verified Carbon Standard
Model Risk	Model Risk is the risk that a financial (or carbon accounting) model is incorrect or misapplied. Also implies the improper use of the correct model.	CFA Institute
Non-Permanence Risk Analysis	Non-Permanence Risk Analysis is the process by which a project risk assessment is conducted, and subsequently validated independently by an auditor. Based on this assessment, the auditor assigns a project risk rating and determines the percentage of the project's carbon offsets to be transferred into agriculture, forestry and land use pooled buffer account.	Verified Carbon Standard
Operations Risk	Operations Risk is the risk of loss from failures in a company's systems or procedures (for example, due to computer failures or human failures) or events completely outside of the control of organizations (which would include "acts of God" and terrorist actions). Synonym is Operational Risk.	CFA Institute
Political Risk	Political Risk is the risk of war, government collapse, political instability, expropriation, confiscation, or adverse changes in taxation. Synonym is Geopolitical Risk.	CFA Institute
Price Risk	Price Risk is the risk of fluctuations in market price.	CFA Institute
Professional Liability Insurance (PLI)	Professional Liability Insurance (PLI), also called professional indemnity insurance, but more commonly known as E&O in the United States, is a form of liability insurance that helps protect professional advice- and service-providing individuals and companies from bearing the full cost of defending against a negligence claim made by a client and damages awarded in such a civil lawsuit.	CFA Institute
Real	Real indicates that a reduction in GHG emission has taken place.	Verified Carbon Standard

Word	Definition	Source
Regulatory Risk	Regulatory Risk is the risk associated with the uncertainty of how a transaction will be regulated or with changes in regulations.	CFA Institute
Reinvestment Risk	Reinvestment Risk is the risk of reinvesting carbon revenue, coupon income or principal at a rate less than the original investment rate.	CFA Institute
Risk Categories	Under the VCS, Risk Categories refers to one of four categories representing the general level of non-permanence risk associated with a given project.	Verified Carbon Standard
Risk Governance	Risk Governance is the process of setting overall policies and standards in risk management.	CFA Institute
Risk Tolerance	Risk Tolerance is the capacity to accept risk; the level of risk an investor (or organization) is willing and able to bear	CFA Institute
Secured	Secured indicates all reasonable methods used in proactively protecting the integrity of the certified forest carbon offset. Methods to include definitive actions required to alleviate potential frivolous or legitimate legal exposures throughout the project design, registry listing, verification, certification, and potential reversal stages.	CFA Institute
Settlement Risk	Settlement Risk refers to the risk that one party could be in the process of paying the counterparty while the counterparty is declaring bankruptcy (or otherwise unable to pay the liability) when settling a contract.	CFA Institute
Sovereign Risk	Sovereign Risk is a form of credit risk in which the borrower is the government of a sovereign nation. Related term is credit risk.	CFA Institute

2.12 VALUATION VOCABULARY

Word	Definition	Source
Allowance	Allowance is an authorization to emit a fixed amount of a pollutant (e.g., one ton of CO ₂ e).	United Nations Framework Convention on Climate Change
Arbitrage	Arbitrage is the condition in a financial market in which equivalent assets or combination of carbon assets sell for two different prices sometimes leading to profit taking.	CFA Institute
Ask Price	The Ask Price is the price at which a dealer will sell a specified quantity of a carbon asset.	CFA Institute
Asset-Backed Security	Asset-Backed Security is a financial security that is backed by a future flow of revenues that are held legally separate from the originating institution.	CFA Institute
Assets Under Management (AUM)	Assets Under Management (AUM) is a financial term used to denote the market value of carbon funds being managed by a financial institution on behalf of its clients, investors, depositors, etc. The AUM can be calculated by different methods.	CFA Institute
Auctioning	Auctioning is a common term used for the sale of allowances, as opposed to allocating them for free.	CFA Institute
Backwardation	Backwardation is a condition in the futures markets in which the benefits of holding a carbon asset exceed the costs, leaving the futures price less than the spot price.	CFA Institute
Beneficiaries	Beneficiaries are entities that receive financial support from an endowment, foundation, charitable organization, or financial institution. Related term is Remaindermen.	CFA Institute

Word	Definition	Source
Bid Price	The Bid Price is the price at which a dealer will buy a specified quantity of a carbon asset.	CFA Institute
Bond	A Bond is a debt-based financial instrument that a government or private institution can sell into private capital markets to raise up-front finance.	CFA Institute
Bondholder	A Bondholder is a public or private sector entity that purchases a bond.	CFA Institute
Broker	A Broker is an agent who executes carbon trades and transactions on behalf of a client.	CFA Institute
Call	A Call is an option that gives the holder the right to buy an underlying carbon asset from another party at a fixed price over a specific period of time. Related term is Option.	CFA Institute
Carbon Asset	A Carbon Asset is the potential of actual GHG emission reductions that a project is able to generate and sell.	The World Bank
Carbon Credit	A Carbon Credit is a certificate or instrument which represents the reduction of emissions of GHGs by the equivalent of one ton of CO ₂ e relative to an agreed baseline.	United Nations Framework Convention on Climate Change
Carbon Offsets	Carbon Offsets are credits issued in return for a reduction of atmospheric carbon emissions through agriculture, forestry and land use projects. By paying for such emission-reducing activities, individuals and organizations can use the resulting offsets to offset their own emissions, either voluntarily or under the rules of most emissions trading schemes. One offset is equivalent to an emission reduction of one metric ton of CO ₂ e.	United Nations Framework Convention on Climate Change
Concessional Lending	Concessional Lending is the lending of money at cheaper interest rate and at times longer maturity than typical lending in normal credit markets.	CFA Institute
Contango	Contango is a condition in the futures markets in which the costs of holding a carbon asset exceed the benefits, leaving the futures price more than the spot price.	CFA Institute
Cost Basis	Cost Basis is the amount paid to acquire a carbon asset.	CFA Institute
Cost of Carry	Cost of Carry is the cost of holding a carbon asset.	CFA Institute
Coupon Payment	Coupon Payment is a detachable portion of a bond that is given up in return for a payment of interest.	CFA Institute
Credit Default Swap (CDS)	Credit Default Swaps (CDS) are a form of insurance on a loan or bond. The purchaser pays the seller a pre-agreed amount at regular intervals. If certain conditions are met, usually that the borrower or bond issuer defaults, then the seller will compensate the purchaser.	CFA Institute
Debt-for-Nature-Swap (DNS)	Debt-for-Nature-Swaps (DNS) occur when a portion of a developing nation's foreign debt is forgiven in exchange for that country making local investments in environmental conservation.	Tropical Forest Conservation Act
Derivative	A Derivative is a financial instrument that offers a return based on the return of some other underlying asset.	CFA Institute
Emission Reduction Purchase Agreement (ERPA)	An Emission Reduction Purchase Agreement (ERPA) is a binding purchase agreement signed between buyers and sellers of carbon offsets.	The World Bank

Word	Definition	Source
Emission Reduction Unit (ERU)	An Emission Reduction Unit (ERU) is an emission reduction issued pursuant to Joint Implementation. This unit is equal to one metric ton of carbon dioxide equivalent.	United Nations Framework Convention on Climate Change
Equity	Equity is the portion of ownership of a carbon offset that is based on an equity investment after subtracting liabilities.	CFA Institute
Ex-Ante Crediting	Ex-Ante Crediting is the issuance of carbon offsets in expectation of future emission reductions.	Verified Carbon Standard
Ex-Post Crediting	Ex-Post Crediting is the issuance of carbon offsets after independent verification of emission reductions.	Verified Carbon Standard
Forward Contract	A Forward Contract is an unstandardized agreement between two parties to buy or sell a carbon asset (which can be of any kind) at a pre-agreed future point in time at a pre-agreed price. Usually forward contracts are completely customized with significant counterparty risk, are unregulated, negotiated directly between counterparties, and have no guarantee of settlement until the date of maturity.	CFA Institute
Futures Contract	A Futures Contract is a standardized contract, traded on a futures exchange, to buy or sell a certain underlying carbon instrument at a certain date in the future, at a specified price. Initial margin is required. Futures are a government regulated market with very low counterparty risk. The contracting point is a clearinghouse with standardized contracts.	CFA Institute
Illiquidity Premium	Illiquidity Premium refers to compensation for the risk of loss relative to an investment's fair value if an investment needs to be converted to cash quickly.	CFA Institute
Impact Investing	Impact Investing is an investing practice whereby investors are willing to compromise on their preferred financial qualities of an investment as long as positive social or environmental benefits of that investment are assured.	CFA Institute
Institutional Investors	Institutional Investors are institutions that invest in assets, similar to pension and insurance funds.	CFA Institute
Internal Rate of Return (IRR)	Internal Rate of Return (IRR) is the discount rate that makes net present value equal 0; the discount rate that makes the present value of an investment's costs (outflows) equal to the present value of the investment's benefits (inflows).	CFA Institute
Investment Constraints	Investment Constraints are both restricting conditions and also a specific component of a formal investment policy statement which are a set of guidelines by which financial funds are managed by both public and private institutions.	CFA Institute
Investment Grade Credit Rating	Investment Grade Credit Rating is a credit rating that is considered investment quality for an institutional investor.	CFA Institute
Investment Objectives	Investment Objectives are: 1) return objectives (income, growth in principal, maintenance of purchasing power) and 2) risk tolerance (suitability, stability of values). Related terms are Risk Objectives and Return Objective.	CFA Institute
Investment Policy Statement (IPS)	An Investment Policy Statement (IPS) is a written document that sets out a client's Return Objectives and Risk Objectives (tolerance) over a relevant time horizon, along with applicable Investment Constraints such as liquidity needs, tax considerations, regulatory requirements, and unique circumstances.	CFA Institute

Word	Definition	Source
Investment Strategy	Investment Strategy refers to the organization's documented investment policies and procedures, sometimes called an investment policy statement. The following are taken into consideration: investment objectives, investment constraints, and performance measurement.	CFA Institute
Issuer	An Issuer is an organization that sells a bond or an offset to raise financing.	CFA Institute
Long	Long refers to the buyer of a derivative contract such as a future or forward. Also refers to the position of having bought a derivative.	CFA Institute
Maturity	Maturity is the time at which a bond expires usually requiring the repayment of principal.	CFA Institute
Option	Option is a financial instrument that gives one party the right (but not the obligation) to purchase or sell a carbon asset at a fixed price in the future.	CFA Institute
Private Equity	Private Equity refers to ownership interests in non-publicly-traded institutions.	CFA Institute
Project Crediting	Project Crediting involves the issuing of offsets to an emissions reduction project, e.g., a CDM project.	Verified Carbon Standard
Project Crediting Period	The Project Crediting Period is the period of time for which net GHG emissions reductions or removals will be verified, which may be equivalent to the project lifetime.	Verified Carbon Standard
Project Design Document (PDD)	The Project Design Document (PDD) is the document that describes the design of a project and the ways in which it meets each of the requirements of the independent standards.	Climate, Community, Biodiversity Standards
Project Developer	In relation to agriculture, forestry and land use, the Project Developer is an organization, company, or multi-stakeholder partnership responsible for the development of agriculture, forestry and land use projects.	Verified Carbon Standard
Project Document (PD)	The Project Document is the document that describes the design of a project and the ways in which it meets each of the requirements of the independent standards.	Verified Carbon Standard
Project Information Note (PIN)	A Project Information Note (PIN) is a short project description that provides basic information about the project such as type, size, and location of the project; estimation of the anticipated total amount of GHG reductions compared to the BAU scenario.	The World Bank
Put	Put refers to an option that gives the holder the right to sell an underlying carbon asset to another party at a fixed price over a specific period of time.	CFA Institute
Return Objective	An investor objective that addresses the required or desired level of returns with a project or program.	CFA Institute
Risk Objective	An investor objective that addresses risks associated with project and program financing and design.	CFA Institute
Short	Short refers to the seller of a derivative contract such as a future or forward. Also refers to the position of having sold a derivative.	CFA Institute
Socially Responsible Investing (SRI)	Socially Responsible Investing (SRI) is an approach to investing that integrates ethical values and societal concerns with investment decisions.	CFA Institute
Spot Transaction	Spot Transaction is a financial transaction that does not occur in a futures or forward market. The buyers and sellers of the asset agree to purchase the offset at present market value and to settle the transaction usually within the next three days.	CFA Institute

Word	Definition	Source
Term Sheet	Term Sheet is a bullet-point document outlining the material terms and conditions of a business agreement.	CFA Institute
Time Horizon	Time Horizon refers to the time period associated with an investment objective.	CFA Institute
Valuation	Valuation is the process of determining the value of an asset or service including ecosystem services.	CFA Institute
Venture Capital	Venture Capital is the equity financing of new or growing private companies.	CFA Institute
Verified Carbon Unit (VCU)	Verified Carbon Units (VCUs) are carbon emission reduction units issued by the VCS. These offsets must be real, the abatement must have occurred previous to issuance, they must be additional by going beyond business-as-usual activities, be measurable, permanent, not temporarily displace emissions, and the findings need to be independently verified and unique so they cannot be used more than once to offset emissions.	Verified Carbon Standard
Voluntary Emission Reduction Purchase Agreement (VERPA)	Voluntary Emission Reduction Purchase Agreement (VERPA) is a binding purchase agreement signed between buyers and sellers of carbon offsets.	Verified Carbon Standard

REFERENCES

- American Carbon Registry, <http://www.americancarbonregistry.org/>.
- CarbonFix Standard, <http://www.carbonfix.info/CarbonFix-Standard.html>.
- Center for International Forestry Research, <http://www.cifor.org/>.
- CFA Institute, <https://www.cfainstitute.org/pages/index.aspx>.
- Chicago Climate Exchange, <https://www.theice.com/ccx.jhtml>.
- Climate Action Reserve, <http://www.climateactionreserve.org/>.
- Climate, Community, Biodiversity Standards, <http://www.climate-standards.org/>.
- Convention on Biological Diversity, <http://www.cbd.int/doc/cbd-voc.aspx>.
- Financial Accounting Standards Board, <http://www.fasb.org/home>.
- Food and Agriculture Organization of the United Nations, <http://aims.fao.org/website/AGROVOC-Thesaurus/sub>.
- Intergovernmental Panel on Climate Change, <http://www.ipcc.ch/>.
- International Emissions Trading Association, <http://www.icta.org/>.
- International Organization for Standardization, <http://www.iso.org/iso/home.html>.
- International Union of Forest Research Organizations (IUFRO), <http://www.iufro.org/science/special/silvavoc/>
- Markit Environmental Registry, <http://www.markit.com/en/products/registry/markit-environmental-registry.page>.
- New Zealand Permanent Forest Sink Initiative, <http://www.maf.govt.nz/forestry/funding-programmes/permanent-forest-sink-initiative>.
- Plan Vivo, <http://www.planvivo.org/>.
- REDD+ Social and Environmental Standards, <http://www.redd-standards.org/>.
- Social Carbon, <http://www.socialcarbon.org/>.
- Society of American Foresters, <http://dictionaryofforestry.org/>.
- The Forest Carbon Partnership Facility, <http://www.forestcarbonpartnership.org/fcp/>.
- The International Network for Bamboo and Rattan (INBAR), <http://www.inbar.int/publication/txt/tr17/sin-thy/glo.htm>.
- The World Bank, <http://www.worldbank.org/>.
- Tropical Forest Conservation Act, http://www.usaid.gov/our_work/environment/forestry/tfca.html.
- United Nations Framework Convention on Climate Change, <http://unfccc.int/2860.php>.

United Nations – REDD Program, <http://www.un-redd.org/>.

World Agroforestry Centre, <http://www.worldagroforestry.org/>.

Verified Carbon Standard, <http://www.v-c-s.org/>.

U.S. Agency for International Development

1300 Pennsylvania Avenue, NW

Washington, DC 20523

Tel: (202) 712-0000

Fax: (202) 216-3524

www.usaid.gov