



PERMANENCE AND RISK MANAGEMENT

BCR TOOL

**BCR project holder take actions to ensure the project
benefits are maintained over time**

BIOCARBON CERT[®]

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1 Introduction

The BCR STANDARD sets out the rules and requirements for project holders to take measures, in addition to reducing or removal GHG emissions, to ensure that the benefits of the project are maintained over time. Given the risk of reversal, project holders shall take measures to assess and mitigate the occurrence of significant leakage, and project planning should include measures to monitor and compensate for any material incidence of non-permanence.

As part of project certification and registration in the GHG Crediting Program, the project holder shall identify potential reversal risks, propose, and implement mitigation measures to avoid any carbon releases, and follow BCR rules and requirements to compensate for any reversal that occur during the project quantification period.

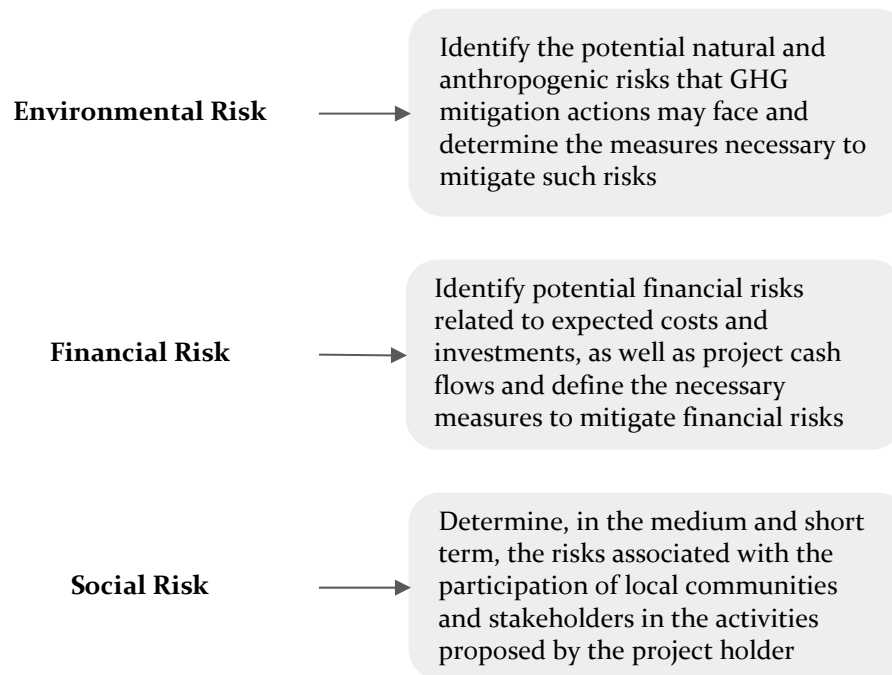
2 Risk management

The GHG project holder shall assess the risks related to the implementation of the project activities in terms of environmental, financial, and social dimensions.

Based on the identification of risks in these three dimensions, the project holder shall design measures to address the risks, so that the reduction or removal of GHG emissions is maintained during the project's quantification period.

In this regard, the project holder shall:

- (a) identify the potential natural and anthropogenic risks that GHG mitigation actions may face and determine the measures necessary to mitigate such risks;
- (b) identify potential financial risks related to expected costs and investments, as well as project cash flows and define the necessary measures to mitigate financial risks;
- (c) determine, in the medium and short term, the risks associated with the participation of local communities and stakeholders in the activities proposed by the project holder.

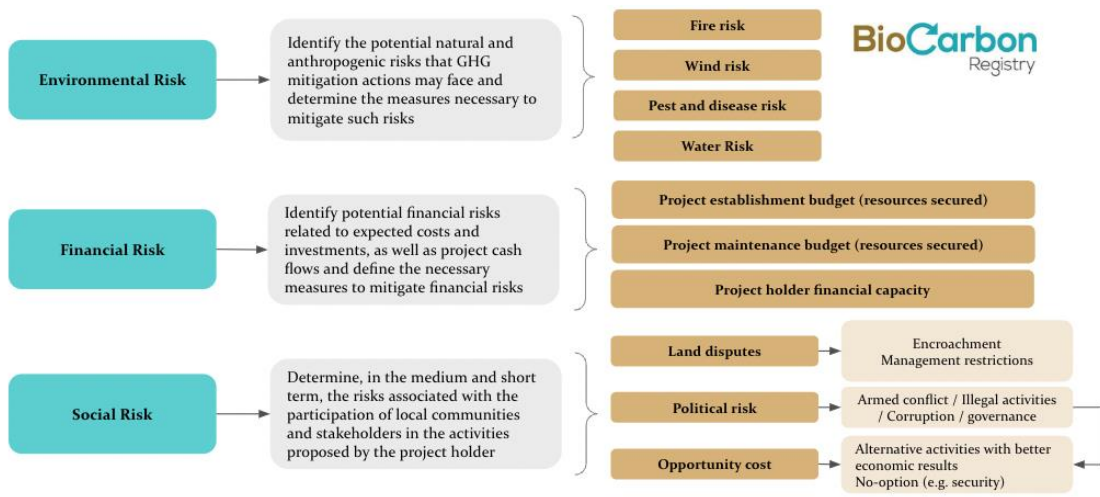


The GHG project holder shall use appropriate methodologies to carry out the assessment of the expected risks (direct and indirect) and consider mitigation measures, within the framework of adaptive management.

Adaptive management is a process by which project actions can be adapted to future conditions to ensure the achievement of the proposed objectives. It is a structured decision-making process that considers the impact variables in order to reduce uncertainty about the results.

Finally, and taking into consideration the above, risk assessment and management shall be adequate, accurate and objective.

The following diagram represents some of the variables to be considered per component.



During each verification, the project holder should update the risk assessment and score the potential reversal risk of each variable evaluated. High risk means the reversal risk associated with the variable can impact more than 10% of the carbon benefits accumulated by the project to the verification time. Medium risk represents a reversal risk of releasing 5-10% of the VCCs issued, and low risk represents the risk of releasing less than 5% of the VCCs. All the risks scored as medium and high should include a mitigation measurement and should be monitored.

3 Leakage and non-permanence

GHG Projects should use mechanisms for managing the risk of leakage, taking account the established in the methodological documents of BCR STANDARD.

Likewise, the GHG Project Holder shall ensure the permanence of the project activities to quantify the GHG reductions or removals, following the conditions set forth by the BCR STANDARD. The monitoring of project activities, through verifications, shall evaluate the permanence of project activities.

Additionally, the BCR STANDARD considers the validity of the VCC as follows:

- (a) VCC issued for projects in the energy, transport and waste sectors expire 3 years after the end of the quantification period of the GHG Project.
- (b) VCC issued for a project in the AFOLU sector expire 5 years after the end of the quantification period of the GHG Project.

4 Reversal risk management

The GHG project holder shall demonstrate the actions taken to ensure that the project is maintained over time, by including clauses or provisions focused on this objective in the agreements or contracts, or by implementing a management plan associated with the risk of reversal.

In consequence, by following these requirements, projects holders can maintain transparency, accountability, and environmental integrity in managing and addressing any adverse events that may impact their mitigation results.

4.1.1 Reserve percentage and reserve accounts

AFOLU projects

In any case, for the AFOLU projects, during each verification registration, the system automatically discounts a reserve of 20% of the total quantified GHG emission reductions or removals for each verified period.

Any reserve of credits is calculated and deducted from the issuance total, ensuring a permanent reserve of credits for a project in the event of a reversal. 10% for this discount is placed in a reserve account specifically designated for that project. The remaining 10% of VCC generated during the verification process will be placed in a General Reserve Account in the BIOCARBON registry.

At the end of the quantification period, when the last verification process is complete, any remaining reserve funds in the project's reserve will be transferred to a general reserve account called the BCR Reserve. In this account, the VCCs are kept to account for any potential reversals in the future.

Verified Carbon Credits placed in the project reserve account may be released and placed on the market at a later verification, if and only if the GHG Project remains under the BCR Standard and active in the BioCarbon registry. Provided that there has been no cancellation of such credits, as described below.

This approach aims to maintain a balance between the reserve in the general reserve account and the credits deducted from all AFOLU projects, ensuring environmental integrity.

This balance assures that the total number of Verified Carbon Credits (VCCs) issued by projects experiencing reversals does not exceed the cumulative sum of reserves and

credits deducted. This approach reduces the risk of reversals and supports the credibility of GHG projects within the AFOLU sector.

Moreover, in order to assure that all necessary provisions have been taken for reversal risk management, the CAB shall demonstrate that it has assessed the risks derived from its validation or verification activities. Also, adequate arrangements to cover the responsibilities derived from its activities of validation or verification in the geographic areas it operates.

In this sense, the CAB shall submit proof of having civil liability insurance. Hence, the CAB shall have civil liability insurance covering responsibility for validation and verification processes.

Other projects than AFOLU sector

In any case, for the projects in sectors energy, waste and transportation, during each verification registration, the system automatically discounts a reserve of 10% of the total quantified GHG emission reductions for each verified period. This percentage of the VCC generated during the verification process will be placed in the General Reserve Account in the BIOCARBON.

4.1.2 Lost Event Report

In all cases, if an event occurs that means loss or decrease of the VCCs issued and registered in the registry platform, the project holder shall inform and provide a report to BIOCARBON within a period of no more than one year after the event occurred. Once BIOCARBON receives such report and examines the veracity and timeliness of the information, if applicable, it will retire the related amount from the Reserve Account in the registration system and issue a retirement statement, which will be sent to the project holder.

The lost event report shall include a conservative estimate of the loss of previously verified emission reductions/removals due to losses in carbon stocks from the project, based on monitoring report. The project holder shall demonstrate that the loss estimate is true and accurate in all material aspects.

Where a loss event report is not submitted within one year of the date the loss event occurred, the project shall no longer be eligible to issue VCCs.

4.1.3 Procedures for holding and reserving credits

The reserve accounts serve as a guarantee to replace any lost VCC due to unforeseen events that may require the replacement of credits already sold in the market. BIOCARBON will periodically review and adjust this percentage as necessary.

Where a loss event or a reversal occurs, the project holder shall comply with the following for reporting a loss event:

- (a) in all cases where an event occurs that results in the loss or decrease of the VCCs issued and registered in the registry platform, the project holder shall inform and submit a report to BIOCARBON using the Loss Event Report Template, including an estimate of the loss in carbon stocks;
- (b) the loss event report shall be submitted within one year of the loss event. If a loss event report is not submitted within one year of the loss event, the project will no longer be eligible to issue VCCs;
- (c) reserve credits are permanently deducted from the total eligible units to be issued for the verification period;
- (d) reserve credits are retired to cover known or presumed lost carbon, VCCs already issued to registered projects that subsequently experience a reversal are not retired and do not need to be retired.

During the monitoring and verification period, subsequent to the loss event, the monitoring report shall reflect the loss from the loss event and calculate the net GHG benefit for the monitoring period in accordance with the methodology applied.

Finally, BioCarbon has the responsibility to ensure and confirm that such reversals are fully compensated upon notification in a manner prescribed by the above-described procedures.

History of document

Type of document

BCR Tool Permanence and risk management

Version	Date	Nature of the document
Version 1.0	March 7, 2023	First version of the Tool.
Version 1.1	March 19, 2024	Reserve percentage and reserve accounts Lost Event Report Procedures for holding and reserving credits