PERMANENCE AND RISK MANAGEMENT

BCR TOOL

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

BIOCARBON REGISTRY®

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Table of contents

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 BioCarbon Registry 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.

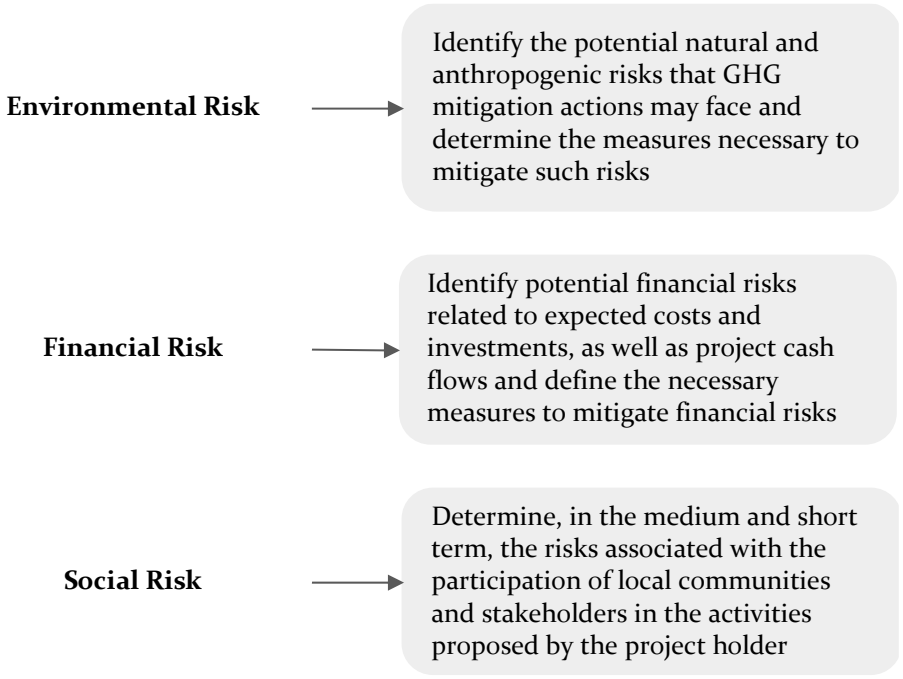
Based on the identification of risks in these three dimensions, the project holder shall design measures to address the risks, so that the reduction or removal of GHG emissions is maintained during the project's quantification period.

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.

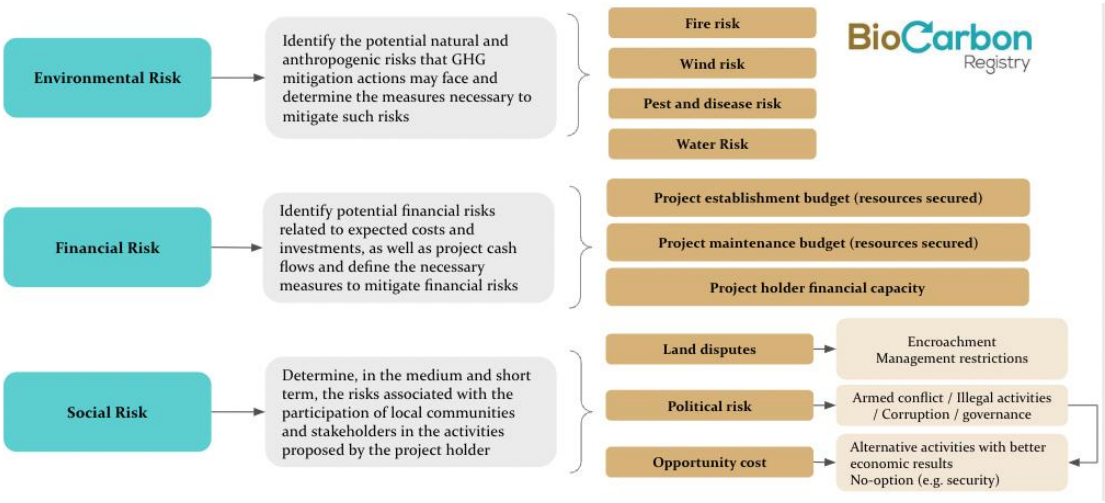


The GHG project holder shall use appropriate methodologies to carry out the assessment of the expected risks (direct and indirect) and consider mitigation measures, within the framework of adaptive management.

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 must 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 must 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.

Nevertheless, the above-mentioned, in any case, for the AFOLU projects, once the GHG emission removals or reductions (estimated based on the selected quantification methodology) have been registered, the system will automatically discount and maintain a reserve of 20% of the total quantified GHG emission reductions or removals for each verified period.

This reserve guarantees the replacement of lost credits by occurs events that require the replacement of credits placed in the market. BIOCARBON REGISTRY periodically reviews this percentage and, if necessary, adjust it.

The 10% discount on Verified Carbon Credits in each verification period is held in a reserve account for the project to which they belong. The remaining 10% will be placed in a General Reserve Account in the BioCarbon Registry. In addition, to the end of the quantification period, the last reserve of all projects, at the moment of the process of the last verification, the percentage corresponding to the project reserve will go to a general reserve account called the BCR Reserve. In this account, the VCCs are kept covering potential reversals in any project in the future.

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 REGISTRY within a period of no more than one year after the event occurred. Once BIOCARBON REGISTRY receives such report and examines the veracity and timeliness of the information, if applicable, it will cancel the related amount from the registration system and issue a withdrawal statement, which will be sent to the project holder.

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 system. Provided that there has been no cancellation of such credits, as described above.

Moreover, in order to assuring all the necessary previsions, the 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.

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.