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nfs
natural forest standard

Natural Forest Standard Risk Buffer Policy

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1. Risk Buffer Function

The purpose of the NFS Risk Buffer Reserve mechanism is to provide assurance for the permanence of verified and issued Natural Capital Credits. The mechanism is required to ensure that any credits issued to areas of forest that unintentionally get deforested can be replaced from the pooled Risk Buffer Reserve. The integrity of the NFS and the issued NCCs is ensured by setting appropriate levels of reserves that must be maintained across the portfolio of NFS projects. This safeguard is in place to cover the non-permanence risk that is applicable to NFS projects whilst provide a balance between the needs of the project being able to generate sufficient cash flows to address the deforestation pressures, and purchasers of the NCCs to have assurance that the conservation and project benefits are permanent.

The NFS ensures the permanence of avoided emissions through the following mechanisms:

- All projects are required to constantly monitor the project and leakage areas, and annually report the carbon stocks and any project area emissions that have occurred in each crediting period. Projects are also required to be re-verified, including site visit, no less than every 5 years for the duration of the project lifespan.
- Agreement from the project developer that they are obligated to contribute the prescribed percentage of all verified NCCs to the Risk Buffer Reserve, per issuance and are obligated to compensate for any intentional reversals.
- Pooled maintenance of the Risk Buffer Reserve to provide insurance against reversals of avoided emissions due to unintentional reversals across the NFS project portfolio.
- Fixed 10% contribution for the initial credit issuance, with reviews carried out annually by the independent NFS Risk Panel to ensure the appropriateness of the contribution level and applying any adjustments deemed appropriate based on the nature of the risks in the project area over time.

2. Definitions of Reversals

Unintentional risks can only be mitigated by a project developer to a limited extent; intentional risks are risks that can be influenced by a project developer.

(i) Unintentional reversals

Unintentional reversals are reversals that occur outside the projects control and that may occur in the future, due to natural disturbances or political circumstances beyond a project developers control such as wildfires, wind and flooding, pests and diseases and unexpected political changes. Unintentional risks can only be mitigated by a project developer to a limited extent as they are deemed to be dependent on the physical location of the project.

(ii) Intentional reversals

Intentional reversals are classified as reversals caused by purposeful actions of the project participants such as land clearing and intentionally-set fires. These risks can normally be influenced by project developers through means such as quality of management, and the implementation of measures to minimise social, biodiversity and financial risks. Intentional reversals are deducted from annual quantification calculations prior to credit issuance and shall not be replaced from the Risk Buffer Reserve.

3. Definition of Permanence for NFS Projects

It is important for the integrity of the Standard and the issued NCC's that the permanence timeframe is set appropriately and should have a long-term climate mitigation effect. The NFS has taken a reasonable,



approach to defining permanence and identifies permanence to be Project Duration plus 20 years; therefore permanence a minimum 40 years, as the NFS requires a project to have a minimum duration of 20 years.

4. About the Risk Buffer Reserve

The NFS Risk Buffer Reserve is held on the NFS Registry and distinctly records the total number of NCCs set aside from NFS projects. NCCs are deducted from all issuance instances to NFS projects, and all NCCs held in the Reserve are non-tradeable. The Risk Buffer Reserve can be viewed freely via the NFS Registry public view.

The Risk Buffer Reserve is administered by the NFS Registry Administration team and all Risk Buffer Reserve contributions are held as a pooled account across the NFS project portfolio. All projects shall contribute an agreed percentage of NCCs to the Risk Buffer Reserve each time they are issued NCCs for verified avoided emissions. The Risk Buffer Reserve is subject to periodic reconciliation; procedures for this shall be established within 2 years of the first issuance of NCCs generated by NFS projects.

5. Risk Buffer Reserve Contribution

All NCC issuance is ex-post. The risk buffer shall be a fixed 10% contribution for the initial crediting period and is the minimum contribution to apply to projects during years 1-5. This contribution is subject to increase during this period if deemed appropriate by the independent Risk Panel, through carrying out their annual review process.

The 10% contribution shall be based on full verification of a project with no qualifications or limiting conditions set by the verifier. If there are any qualifications or limiting conditions set out in the verification report that may result in an increased risk of reversal, either intentional or unintentional, then the Risk Panel may determine an increased percentage for the risk buffer contribution in year 1, appropriate to the increased risk potential.

Project developers may be able to reduce the Risk Buffer contribution through actions that lower the risk profile of the project after the initial 5 year project period is complete. A performance-based review shall be carried out upon each 5-year verification event and where buffer deductions for the project are deemed to be exceeding requirements, due to low or nil reversals/emissions occurring, the project may be rewarded for this through partial release of already deposited buffer credits; this will be entirely based on project performance.

6. Risk Review Process

The NFS requires projects to continuously monitor and maintain the project area, and provide annual reports including quantification of emissions for each crediting period. Following the initial contribution of 10% in Year 1, all subsequent Risk Buffer contributions from Year 2 onwards shall be subject to review by the NFS Risk Panel, and based on the project performance over time.

The initial Risk Panel review for each active NFS project shall occur upon the submission to the NFS of the annual report respective to the second crediting period of the project; the review will be completed and agreed prior to issuance of the NCCs due for this crediting period. All subsequent Risk Panel reviews shall occur prior to credit issuance for each respective crediting period.

The NFS Risk panel, consisting of independent individuals with relevant expertise of risk management, will review the applicability of the 10% contribution based on the projects ability to demonstrate longevity, sustainability and ability to mitigate risks based on the annual reporting submitted as a requirement of the NFS. The contribution may be subject to increase; however a minimum contribution of 10% shall be



appropriate for all projects within the first 5 crediting periods. Any changes to the contribution percentage will not be retroactive (i.e. they will only apply to subsequent risk buffer contributions).

7. Compensating for a Reversal

The NFS requires that all reversals be compensated through the retirement of NCCs. The NFS Risk Buffer Reserve is in place to ensure against unintentional and catastrophic reversal occurrences. Intentional reversals shall be taken into account when a project quantifies the potential credits for each crediting period. When a reversal occurs, regardless of cause, the project must include details in the annual report corresponding to the time period in which the reversal occurred. The project must detail the nature of the reversal and provide quantified estimates of the carbon stocks lost due to the reversal.

The NFS will review the details of all reversal events. Upon the outcome of the review, and as is consistent with the NFS AM001 methodology, any emissions from deforestation occurring in the project or leakage area shall be counted as project-intentional emissions unless the project can demonstrate they are caused by external or unintentional risk threats, and are not project-intentional reversals.

If it is determined that a reversal was unintentional, NCCs shall be retired from the pooled Risk Buffer Reserve where there are negative net GHG emission reductions or removals associated with the project. In this instance, the NFS Registry administrator shall retire an appropriate quantity of NCCs from the pooled Risk Buffer Reserve, of an amount equivalent to the estimated loss reported as a reversal. If a reversal occurs that is determined as intentional, this is taken into account when a project quantifies the potential credits for each crediting period, through the identification, quantification and deduction of any emissions that have occurred within the project and leakage area; therefore intentional reversals will not be deducted from the Risk Buffer Reserve.

If a catastrophic reversal occurs and there are not sufficient credits set aside in the pooled Risk Buffer Reserve, the project developer for which the reversal occurred must replace the deficit from their previous or subsequent credit issuance.

8. Release of Reserve Credits

If it is determined that the project is over-performing and no or very little requirement has befallen the Risk Buffer Reserve, after the initial 5 year period, the project may be rewarded for this positive performance through partial release of previously deducted credits, or the percentage of buffer deduction may be decreased, upon negotiation and based upon verified results. The first release of buffer credits shall occur no sooner than 5 years after the initial verification event, and will require a subsequent verification event prior to any buffer credit release. Buffer credits shall not be release more often than once every 5 years, consistent with each verification event.

9. Suspension of NCC Issuance

The NFS reserves the right to suspend the issuance of credits to any NFS project where there is evidence to suggest serious breakdown in the management of the project or intentional emissions from the project area increase considerably, until issues are rectified.

10. Risk Policy Review

The NFS Risk Policy will be subject to periodic review by the independent NFS Technical Review panel. The first review shall occur within two years of the first issuance of NCCs generated by NFS projects.