



LIFE BIODIVERSITY CREDITS - GENERAL RULES FOR MANAGEMENT AND NEGOTIATION

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OBJECTIVE

To present the general rules that must be considered to manage and negotiate LIFE Biodiversity Credits (LBC), aiming at the materiality and traceability of the process, through the LIFE Biodiversity Credits Account, LIFE Biodiversity Credits ownership titles and LIFE Biodiversity Credits Platform.

APPLICATION

It applies to organizations/rural producers that have the LIFE Biodiversity Credits Certificate, Certifying Bodies accredited by the LIFE Institute, LIFE Biodiversity Credits negotiators, and other interested parties.

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1. DEFINITION OF LIFE BIODIVERSITY CREDITS (LBC)

LIFE Biodiversity Credits (LBC) is the *Nature Positive* **material and traceable balance** of an organization, which can be translated as the **net result of positive actions for biodiversity in an area**, discounting its pressure, evaluated through an **independent audit and certification process**.

Only the score directly linked to the creation and management of protected areas is accountable for LBC. The score must be originated from actions that are part of Groups 1 and/or 2 of the LIFE Methodology (described in the Technical Guide 02). The score can be originated from actions that are part of Groups 3 and/or 4 if these actions are linked to a project in Groups 1 and/or 2. In the case of organizations (legal entities) and landowners (individuals) linked to productive activities, only the score that exceeds the Biodiversity Minimum Performance (BMP) required by LIFE Methodology is considered LBC, applying the guarantee factors. In the case of landowners not linked to productive activity, LBC are the score directly linked to the creation and management of protected areas (Groups 1 and/or 2), applying the guarantee factors.

There are two categories for generating LIFE Biodiversity Credits:

1. Legal entities
2. Landowner (natural persons/individuals) - there are two possibilities:
 - Landowner not linked to productive activities
 - Landowner linked to productive activities

The requirements for applying the LIFE Methodology accordingly to the category, as well as the calculation to obtain the LBC, must be verified in the Audit Guide.

2. LIFE BIODIVERSITY CREDITS CERTIFICATE

The Certifying Body (CB) is responsible for issuing the LIFE Biodiversity Credits Certificate, stating the number of credits, according to the model provided by the LIFE Institute.

The Certifying Body must provide the Certificate to the organization/landowner, as well as to the LIFE Institute, immediately after being issued.

It is responsibility of the Certifying Body to audit the organization/landowner to ensure the amount of LIFE Biodiversity Credits (LBC) generated and record the information in the audit report.

Information regarding the procedures that must be adopted by the Certifying Body in audits, as well as requirements that organization/landowners need to meet to be able to receive the LIFE Biodiversity Credits Certificate, can be found in the Audit Guide.

3. GUARANTEE FACTORS

Legal organizations/landowners holding LIFE Biodiversity Credits (LBC) must commit to remain with the project and generate credits for 30 years (commitment term of 6 audit cycles), applying the following guarantee factors:

- **Factor 1 – Project Guarantee Factor:** a 10% discount will be applied to the total credits of all projects before trade takes place. This fund works as insurance, representing the value retained at the time the biodiversity credits are generated, acting as a safeguard in case the biodiversity results are not achieved. In other words, when part of the biodiversity conservation actions are not carried out and/or properly maintained due to unplanned events. This discount factor aims to cover the different risks of biodiversity projects not fulfilling their goal during the commitment period (30 years). Therefore, the right to commercialize all projects represents 90% of the total credit generated, with this value being considered “100%” for commercial purposes. The 10% value of the guarantee fund is not redeemable. Also known as “buffer” given the similarity of the concept applied to carbon credit projects.
- **Factor 2 – Project Leakage Factor:** for all projects, another discount factor of 10% will be applied in addition to the guarantee factor, also on the total of credits, and before trading takes place. This factor aims to guarantee cases where biodiversity credits vary within the project's 30-year commitment period. Leakage is considered the result of biodiversity conservation actions in the area or project in question that cause the displacement of deforestation or other forms of biodiversity loss to other regions. Usually, these leaks are linked to changes in the location of the economic activities that caused the losses.

Therefore, the right to negotiate LBC occurs as per the example presented in Table 01.

Table 01 – Example of application of guarantee factors (Project Guarantee Fund and Project Leakage Factor)

| Audit Cycle | Credits (Annual Audit) | Year | Discount F1 % | Balance Post F1 | Discount F2 % | Balance Post F2 | Redemptions for performance | Available for transactions (100%) |
|--------------------|-------------------------------|-------------|----------------------|------------------------|----------------------|------------------------|--|--|
| 1 | 100,000 | 1 | 10 | 90,000 | 10 | 80,000 | 0 | 80,000 |
| | 100,000 | 2 | 10 | 90,000 | 10 | 80,000 | 0 | 80,000 |
| | 100,000 | 3 | 10 | 90,000 | 10 | 80,000 | 0 | 80,000 |
| | 100,000 | 4 | 10 | 90,000 | 10 | 80,000 | 0 | 80,000 |
| | 100,000 | 5 | 10 | 90,000 | 10 | 80,000 | 10% (ref.: year 1) | 90,000 |
| 2 | 100,000 | 6 | 10 | 90,000 | 10 | 80,000 | 10% (ref.: year 2) | 90,000 |
| | 100,000 | 7 | 10 | 90,000 | 10 | 80,000 | 10% (ref.: year 3) | 90,000 |
| | 100,000 | 8 | 10 | 90,000 | 10 | 80,000 | 10% (ref.: year 4) | 90,000 |
| | 100,000 | 9 | 10 | 90,000 | 10 | 80,000 | 10% (ref.: year 5) | 90,000 |
| | 100,000 | 10 | 10 | 90,000 | 10 | 80,000 | 10% (ref.: year 6) | 90,000 |
| 3, 4 and 5 | <i>Same as Cycle 2</i> | | | | | | | |
| 6 | 100,000 | 26 | 10 | 90,000 | 10 | 80,000 | 10% (ref.: year 22) | 90,000 |
| | 100,000 | 27 | 10 | 90,000 | 10 | 80,000 | 10% (ref.: year 23) | 90,000 |
| | 100,000 | 28 | 10 | 90,000 | 10 | 80,000 | 10% (ref.: year 24) | 90,000 |
| | 100,000 | 29 | 10 | 90,000 | 10 | 80,000 | 10% (ref.: year 25) | 90,000 |
| | 100,000 | 30 | 10 | 90,000 | 10 | 80,000 | Final Redemption Year 30 50% (ref.: years 26 to 30) | 140,000 |

In other words, 100% of the commercial transaction rights will begin with 80% of the generated credits (years 1 to 4), and in year 5 the project holder will be able to redeem the 10% left as a guarantee for leakage; in year 6 the 10% left in year 2 as guarantee is recovered, and so on.

The balance for each year is cumulative. In other words, what was not traded or retired in the previous year(s) is accumulated for sale in the following year(s).

In year 30, the project holder will be able to recover the entire final balance that was retained as a guarantee for the leakage (years 26 to 30) adding a percentage of 50. The credit recovery will take the form of a performance bonus as per Table 02.

Table 02 – Performance award

| Audit Cycle | Year | Awarded for performance |
|-------------------|------|-------------------------|
| 1 | 1 | 0 |
| | 2 | 0 |
| | 3 | 0 |
| | 4 | 0 |
| | 5 | 10 |
| 2 | 6 | 10 |
| | 7 | 10 |
| | 8 | 10 |
| | 9 | 10 |
| | 10 | 10 |
| <i>3, 4 and 5</i> | | |
| 6 | 26 | 10 |
| | 27 | 10 |
| | 28 | 10 |
| | 29 | 10 |
| | 30 | 50 |

4. LIFE BIODIVERSITY CREDITS TRADE

The trading process, meaning the purchase and sale of LIFE Biodiversity Credits (LBC), requires control and traceability of the generated credits, with the credits being linked to LIFE Biodiversity Credits Certificates issued by Certifying Bodies (CB), and LIFE Biodiversity Credits ownership title issued exclusively by the LIFE Institute.

All organizations/landowners with certified LIFE Biodiversity Credits have the right to make their LBC available for trade. To do so, they must open a LIFE Biodiversity Credits Account (LBC Account) to market them through the LIFE Biodiversity Credits Platform.

LBC buyers can also become sellers of these credits within the LIFE Biodiversity Credits Platform, upon presentation of the LIFE Biodiversity Credits ownership title.

4.1. OPENING A LIFE BIODIVERSITY CREDITS ACCOUNT

Organizations/landowners who are interested in trading their LIFE Biodiversity Credits (LBC) must open a LIFE Biodiversity Credits Account (LBC Account) at the LIFE Institute, being considered primary sellers.

The organizations/landowners must have their LIFE Biodiversity Credits Certificate and contact the LIFE Institute to open the LBC Account.

The LBC Account must be opened in the name of the organization/landowner, as described by the holder of the LIFE Biodiversity Credits Certificate. The legal representative of the organization/landowner must sign the term of commitment/contract with the trade process of LIFE Biodiversity Credits (LBC), in which the conditions and assumptions involving payments of LBC Account fees (opening and maintenance, documentation analysis, project evaluation and issuance of the ownership title) must be described.

The term/contract also reinforces the commitment to the permanence of LBC for 30 years, linked to the maintenance of projects and their biodiversity conservation actions. The projects/actions must be maintained or, as a last resort, replaced by others of equal content or same Group 1 and/or 2 of the LIFE Methodology (described in Technical Guide 02).

LBC buyers do not need to open an LBC Account.

For those who are interested in selling acquired credits (secondary, tertiary, etc.), qualified here as secondary sellers, the opening of the LBC Account is mandatory, by signing a contract with the LIFE Institute, providing for fees (opening and maintenance, documentation analysis and issuance of the credit).

Once the LBC Account is validated and the term/contract signed between the parties (organizations/landowners and LIFE Institute), the data of this account is forwarded to the LBC Platform.

4.1.1. LIFE Biodiversity Credits Account Fees

The LBC Account fees charged by LIFE Institute are shown in Table 03.

Table 03 – LBC Account Fees

| Description | up to 10k LBC | 10 to 20k LBC | 20 to 50k LBC | > 50k LBC | % | Periodicity |
|-----------------------------|---------------|---------------|---------------|------------|---|-------------|
| Opening the Account | USD 10.00 | USD 50.00 | USD 70.00 | USD 140.00 | | fixed/entry |
| Account Maintenance | USD 10.00 | USD 40.00 | USD 50.00 | USD 140.00 | | annual |
| Project Evaluation * | USD 20.00 | USD 50.00 | USD 70.00 | USD 400.00 | | annual |
| Issuing LBC ownership title | USD 10.00 | USD 30.00 | USD 40.00 | USD 50.00 | | each |
| LBC Trading | | | | | 5 | each |

** restricted to project holders who generated the credits.*

4.2. LIFE BIODIVERSITY CREDITS PLATFORM

The management of LIFE Biodiversity Credits is controlled by the LIFE Institute, through the LIFE Biodiversity Credits Platform.

The LIFE Biodiversity Credits Platform is the virtual space that gathers all the information for the negotiation of LIFE Biodiversity Credits (LBC), making available to the public the commercial contact of the holders/brokers of the LBC, the amount of LBC available for commercialization,

country of origin, ecoregion and basic information about the conservation projects to the biodiversity generating the LBC.

The LIFE Institute is responsible for the management of LBC Platform, and the information contained is a shared responsibility between the parties that constitute the platform (sellers and LIFE Institute).

The LBC Platform must be updated with each LBC purchase and sale process.

4.3. LIFE BIODIVERSITY CREDITS OWNERSHIP TITLES

The LIFE Biodiversity Credits ownership title is the official document for the negotiation of LIFE Biodiversity Credits (LBC), issued only by the LIFE Institute, which presents the traceability information of the credits. It must be issued in all LBC purchase/sale processes.

Once the LBC trading process has taken place, the organization/landowner must send a copy of the purchase/sale contract to the LIFE Institute within 15 days, containing the seller's and buyer's data (e.g. name, personal/corporate tax number, address, and name of the legal representative), to validate the commercial transaction between the parties and issue the LBC ownership title.

Thus, the process is duly formalized, and the amount of credits is transferred to the buyer and subtracted from the seller, being updated in the LIFE Biodiversity Credits Platform.

The LIFE Biodiversity Credits ownership title must contain the following information:

- Name of the organization/landowner, personal/corporate tax number, address, name of the legal representative of the sellers and buyers.
- Name(s) of the certified project(s).
- Size of protected area linked to project(s).
- Ecoregion of certified project(s).
- Number of credits negotiated.
- Expiration date of LIFE Credits (30 years from the date of issuance of the LIFE Biodiversity Credits Certificate).
- Traceability LIFE code.

- Date of issuance of the LBC ownership title.

5. PARTICIPATION (BENEFICIARIES) LIFE BIODIVERSITY CREDITS

The projects that generate LIFE Biodiversity Credits (LBC) may be composed of different stakeholders and each of them will receive for their participation in the project. The composition of the stakeholders can be formed by:

- **Guardians of the Area(s):** the guardians of the areas can be composed of several stakeholders: holders of the area of possession and/or right of use, project and/or area managers. Example: The owner of the area may be the government, an organization, or a landowner. The right to use can be from a community or even from an adverse possessor of the area. There may also be a manager of the area and the project in question. There may be various formats of guardians of the area.

For cases where there are communities involved in the project that generated LBC, they cannot receive a benefit of less than 30% of the amount of the credit negotiation. This distribution will be a point of attention to be verified in the audits carried out by the accredited Certifying Bodies.

- **Guardians of Credit(s):** the guardians of LBC are the accredited Certifying Bodies (responsible for third-party audits and issuing the LBC Certificate) and the LIFE Institute (responsible for issuing LBC ownership titles and management of LBC Platform).

6. RETIREMENT OF LIFE BIODIVERSITY CREDITS

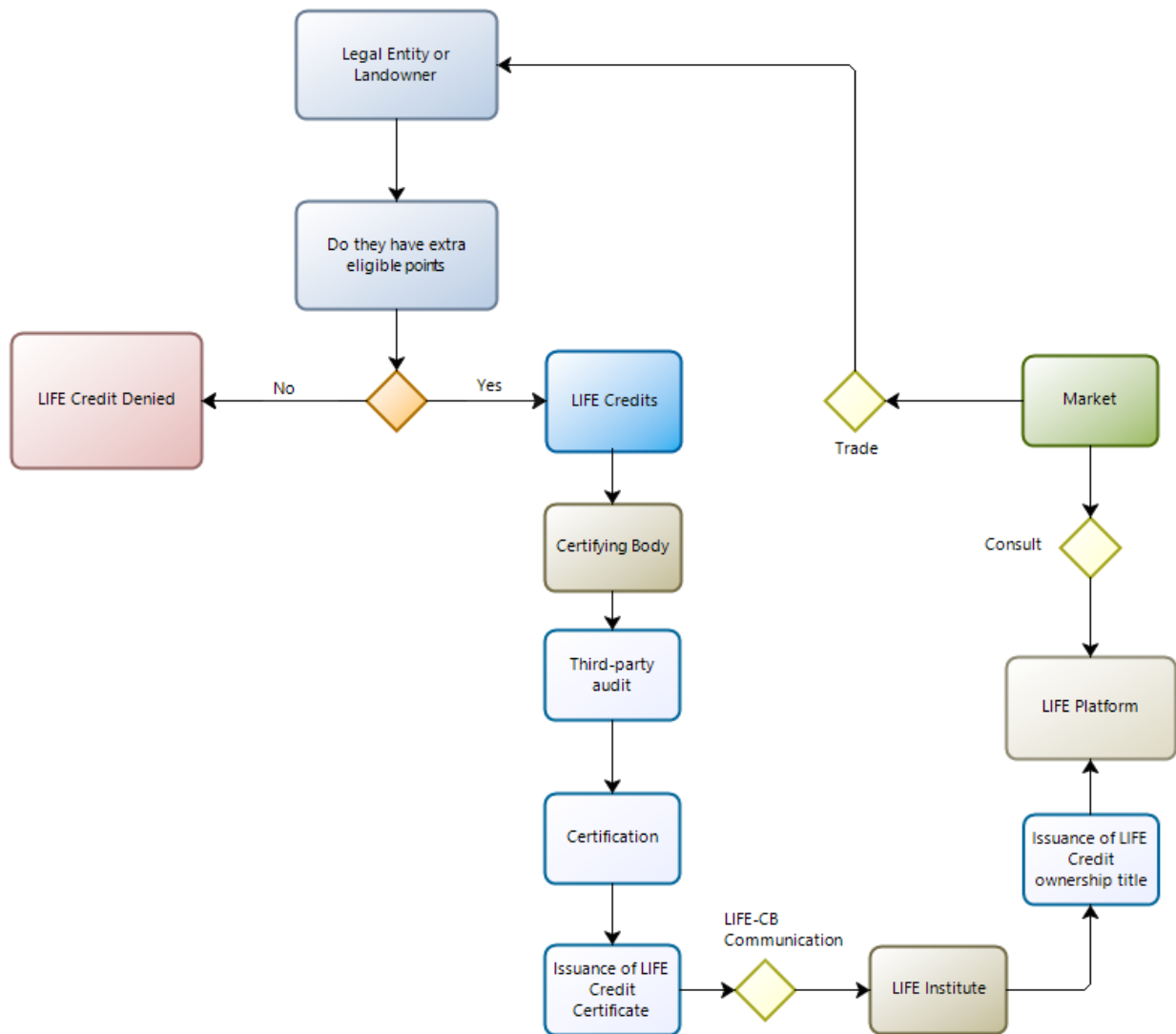
Organizations that decide to acquire LIFE Biodiversity Credits (LBC) can use them to offset their Biodiversity Minimum Performance (BMP) in their LIFE Business and Biodiversity Certification process. The credits used to offset the LIFE Certification on Business and Biodiversity will be retired, meaning they will no longer be available for trade in the credit market.

It is worth remembering that the credits are valid for 30 years and that they can be revalidated by continuing the certification of the original credit generator, and revalidation of the LIFE Biodiversity Credits ownership title.

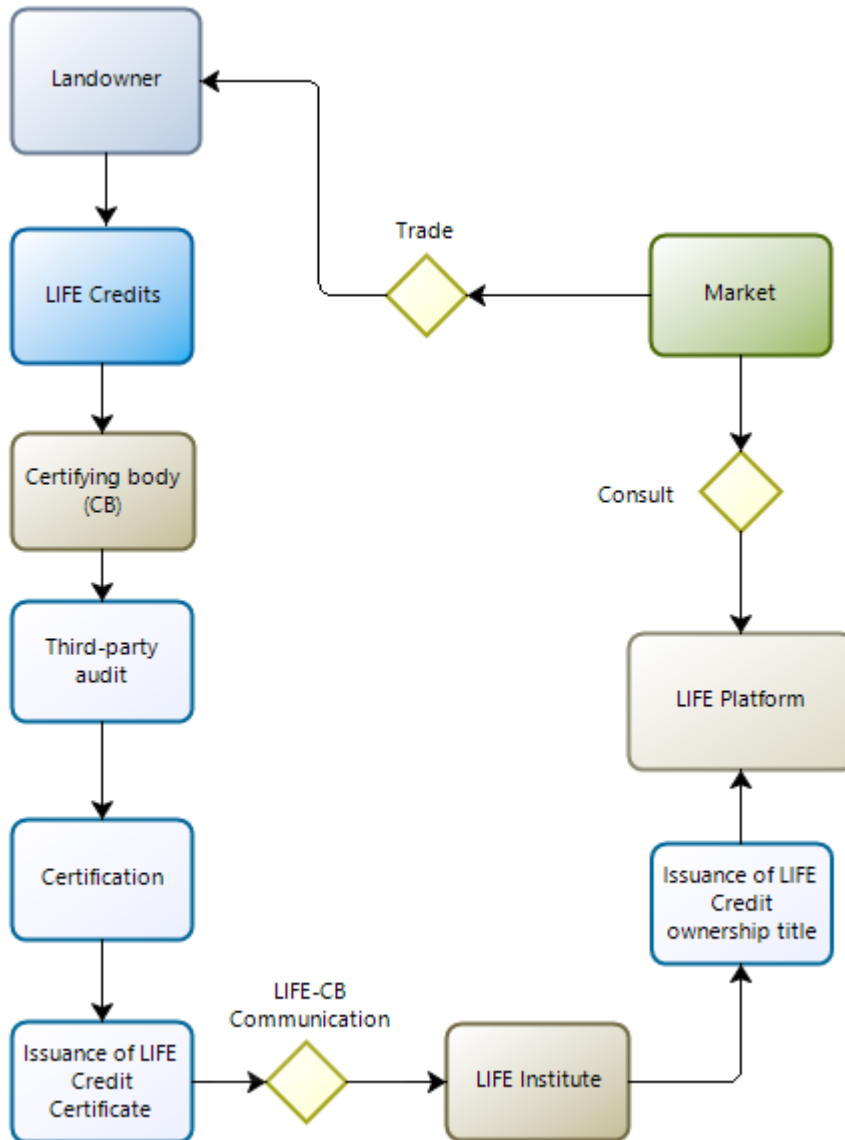
If the project is canceled or discontinued, all the credits linked to it become invalid if they are not retired. They will therefore no longer be available for trading in the credit market.

7. FLOWCHARTS OF THE PROCESS OF OBTAINING AND NEGOTIATING LIFE BIODIVERSITY CREDITS

7.1. LEGAL ENTITY AND LANDOWNER (INDIVIDUALS) LINKED TO PRODUCTIVE ACTIVITY



7.2. LANDOWNER (INDIVIDUALS) NOT LINKED TO PRODUCTIVE ACTIVITY



NOTES ON DEVELOPMENT OF THIS DOCUMENT

Version 1.0: approved on 8/31/2023, by the LIFE Institute Board of Directors. Initial issuance of the document.

Version 1.0-R1: approved on 03/28/2024 by the LIFE Institute Board of Directors. Update of the credit retirement rule. Improved definition of the LIFE Credits ownership title document.