FOREST CARBON PARTNERSHIP FACILITY

2d. Buffer Guidelines
Resolution sought

Recap of discussion at CF27

At CF27, the Carbon Fund Participants decided to approve version 4.1 of the FCPF Buffer Guidelines (BGL), which included the following critical changes:

1. **The equation used to estimate the amount of buffer ERs to be cancelled as a result of a reversal, as well as the operational definition of reversal, have been modified** to reflect that all Total ERs may be subject to reversals and to establish a reversal liability limit

2. **ER Programs having suffered a reversal are required to replenish any Reversal Buffer and Pooled Reversal Buffer ERs** they may have cancelled as a result of that reversal

3. **An ER Program affected by a reversal shall not be to transfer any Excess ERs held in its account until it has replenished the Reversal Buffer and the Pooled Reversal Buffer**

Recap of discussion at CF27

Additionally, the CFPs requested the FMT to conduct further consultations on the remaining changes it proposed to the Buffer Guidelines before CF27, i.e.:

Critical revisions to ensure the environmental integrity of the CF:

1. Merging ER Programs´ Reversal Buffers with the Pooled Reversal Buffer

Revisions needed to maintain a healthy Reversal Management Mechanism and a fair allocation of reversal liabilities among ER Programs:

1. Cancelling Uncertainty Buffer ERs and excess ERs in case reversals go beyond the contribution of the ER Program to the Pooled Reversal Buffer
2. Disallowing the transference of excess ERs in cases where the ER Program has not fully replenished the Pooled Reversal Buffer after a reversal
3. Disallowing the release of Uncertainty Buffer ERs in cases where the ER Program has not fully replenished the Pooled Reversal Buffer after a reversal, including disallowing the transference of such credits to an equivalent buffer account at the end of the Crediting Period
4. Requiring the cancellation of Excess ERs to cover Pooled Reversal Buffer debits at the end of the Crediting Period
5. Requiring Uncertainty Buffer ERs to contribute to the Pooled Reversal Buffer before being released as transferrable ERs

Results of the consultations with REDD+ Countries

- Following the request of the CFPs in CF27, the FMT carried out seven online Q&A sessions with REDD+ countries on the proposed modifications to the BGL that were discussed but not adopted at that session.

- Representatives from all 15 FCPF ER Programs joined these sessions. More than 90 people participated.

- Discussions were held during the sessions and in addition, the FMT received feedback from 9 participating countries through an online poll.

- According to feedback received, explanations on the proposed changes and their impact were deemed clear and understandable, and REDD+ Countries did not express any concern.

Results of the consultations with REDD+ Countries

Date	Region	Participating countries	No. of participants
April 8	Pacific	Fiji	1
April 8	Francophone Africa	Madagascar, CIV, DRC, ROC	+20
April 8	LAC	Costa Rica, Guatemala, Chile, Dominican Republic	+18
April 8	Anglophone Africa	Ghana	6
April 16	Africa-Asia	Mozambique, Viet Nam (TTL)	6
April 24	Asia	Indonesia, Laos, Nepal	+24
May 9	Asia	Viet Nam	+10

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1. Merging ER Programs´ Reversal Buffers with the Pooled Reversal Buffer

Proposed revisions

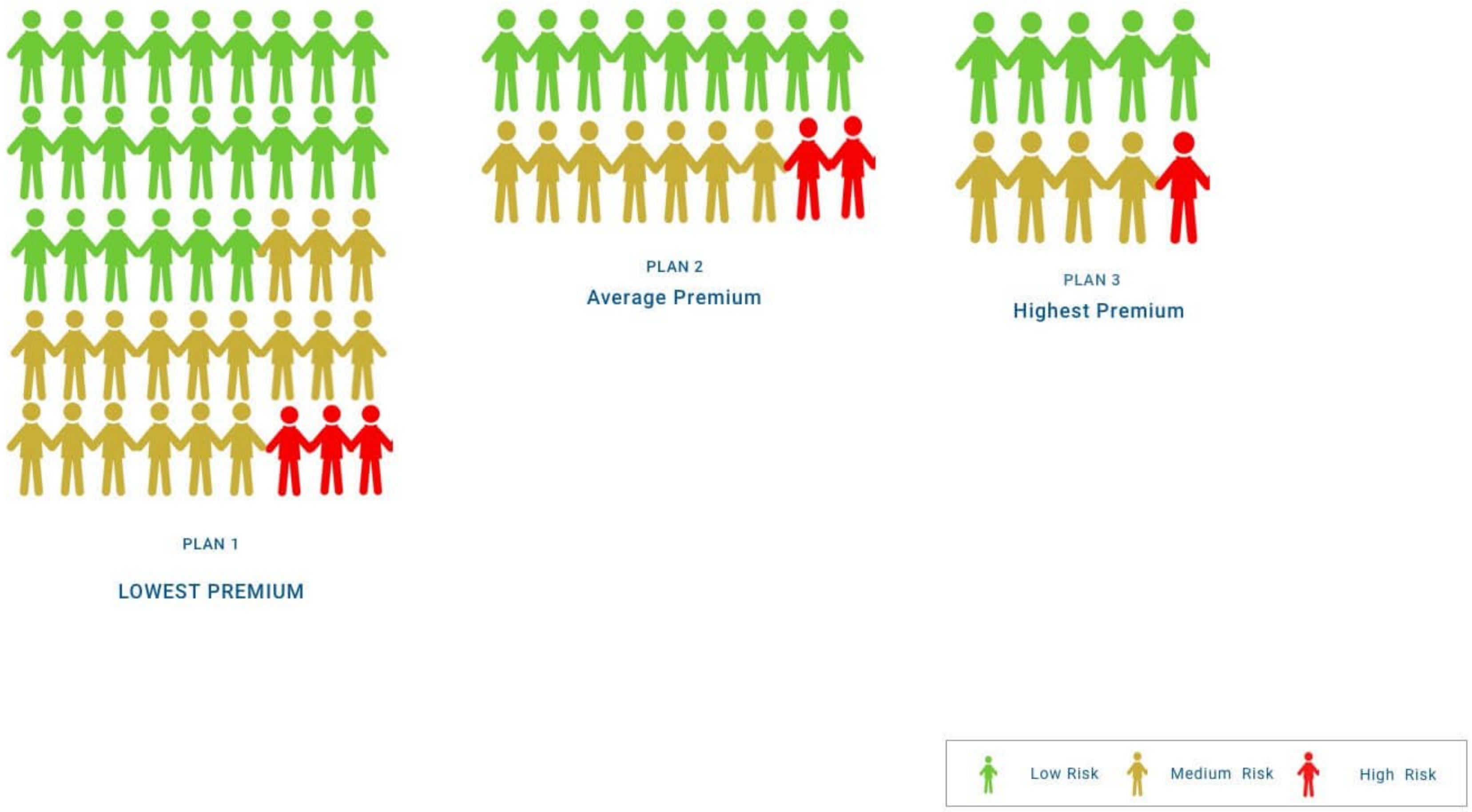
Merging the Reversal Buffer and Pooled Reversal Buffer into a single Pooled Reversal Buffer to allow for total pooling

Why pooling?

- Risk pooling is a strategy that **combines the potential risks of a number of participants into a single pool**
    - By **distributing the risks among a larger group, the impact of individual risks is reduced**, allowing for more predictable and manageable outcomes.

- The **benefits of risk pooling** include:
    - **<u>Spreading risk</u>**: **the impact of individual losses is distributed among the entire pool**. This **reduces the burden on individual participants** and provides them with **protection in case of unexpected events**
    - **<u>Affordability</u>**: Risk pooling **makes contributions more affordable for individual participants**. The **contribution each policyholder pays is typically smaller than the potential losses they might face**, making **participation accessible to a broader population**.

1. Merging ER Programs´ Reversal Buffers with the Pooled Reversal Buffer



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1. Merging ER Programs´ Reversal Buffers with the Pooled Reversal Buffer

Rationale for the proposed revision

- Modelling by FMT has shown that **the limited volume of the Pooled Buffer (5% of ERs generated after uncertainty discount) would have significant limitations to cover potential reversals**, affecting the integrity of the RMM.

Impact of Mozambique´s reversal on the Reversal Buffer

Reversal buffer + pooled buffer case	tCO2e
Mozambique´s reported loss	7,464,200
Quantity of buffer ERs to be canceled (Rc)	4,146,258
Mozambique´s Reversal Buffer account balance before the reversal	1,165,228
Pooled Buffer balance before covering MZ´s reversal	5,223,737
Shortfall after deducting Mozambique´s Reversal Buffer ERs	2,981,030
Pooled Reversal Buffer balance after covering MZ´s shorfall	2,242,706
Magnitude of the shortffall covered by the Pooled Reversal Buffer compared to the initial Pooled Reversal Buffer balance	**53.35%**

- Mozambique´s reversal implies cancelling 53.35% of the Reversal Pooled Buffer balance
- Mozambique´s reversal risk set-aside percentage in its ER PD and subsequent MRs was 35%
- However, this reversal represents 100% of the program´s Total ERs generated to date
- **Lessons learned:**
  - **Reversal risk assessments need to be improved (already took measures on this in version 4.0 of the BGL)**
  - **Total pooling is needed to strengthen the Reversal Management Mechanism**

Impact on the pooled buffer of each ER Program´s potential reversals - limited pooling (current)

ER Program	Total ERs	Total pooled buffer ERs	Impact of 100% reversal (Total ERs/total buffer ERs)	Impact of 80% reversal (Total ERs/total buffer ERs)	Impact of 50% reversal (Total ERs/total buffer ERs)	Impact of 30% reversal (Total ERs/total buffer ERs)	Impact of 20% reversal (Total ERs/total buffer ERs)	Impact of 10% reversal (Total ERs/total buffer ERs)
Costa Rica	4,145,230	5,223,737	79.35%	63.48%	39.68%	23.81%	15.87%	7.94%
Ghana 1+2	5,874,536	5,223,737	112.46%	89.97%	56.23%	33.74%	22.49%	11.25%
Mozambique	4,146,258	5,223,737	79.37%	63.50%	39.69%	23.81%	15.87%	7.94%
Cote D'Ivoire	9,614,995	5,223,737	184.06%	147.25%	92.03%	55.22%	36.81%	18.41%
DR Congo	10,774,679	5,223,737	206.26%	165.01%	103.13%	61.88%	41.25%	20.63%
Dominican Republic	1,880,281	5,223,737	35.99%	28.80%	18.00%	10.80%	7.20%	3.60%
Fiji	1,041,961	5,223,737	19.95%	15.96%	9.97%	5.98%	3.99%	1.99%
Guatemala	9,237,210	5,223,737	176.83%	141.47%	88.42%	53.05%	35.37%	17.68%
Indonesia	35,470,590	5,223,737	679.03%	543.22%	339.51%	203.71%	135.81%	67.90%
Lao PDR	4,435,614	5,223,737	84.91%	67.93%	42.46%	25.47%	16.98%	8.49%
Madagascar	2,663,796	5,223,737	50.99%	40.80%	25.50%	15.30%	10.20%	5.10%
Vietnam	22,169,429	5,223,737	424.40%	339.52%	212.20%	127.32%	84.88%	42.44%

Grey cells represent the approximate risk set-aside percentage reported by ER Programs

Red numbers represent reversals that could represent more than 50% of the Pooled Reversal Buffer balance

MZ´s preliminary reversal estimate impact "limited liability“ (version 4.1 of the BGL) = 57.07%

Impact on the pooled buffer of each ER Program´s potential reversals - total pooling

ER Program	Total ERs	Total pooled buffer ERs	Impact of 100% reversal (Total ERs/total buffer ERs)	Impact of 80% reversal (Total ERs/total buffer ERs)	Impact of 50% reversal (Total ERs/total buffer ERs)	Impact of 30% reversal (Total ERs/total buffer ERs)	Impact of 20% reversal (Total ERs/total buffer ERs)	Impact of 10% reversal (Total ERs/total buffer ERs)
Costa Rica	4,145,230	17,948,195	23.10%	18.48%	11.55%	6.93%	4.62%	2.31%
Ghana 1+2	5,874,536	17,948,195	32.73%	26.18%	16.37%	9.82%	6.55%	3.27%
Mozambique	4,146,258	17,948,195	23.10%	18.48%	11.55%	6.93%	4.62%	2.31%
Cote D'Ivoire	9,614,995	17,948,195	53.57%	42.86%	26.79%	16.07%	10.71%	5.36%
DR Congo	10,774,679	17,948,195	60.03%	48.03%	30.02%	18.01%	12.01%	6.00%
Dominican Republic	1,880,281	17,948,195	10.48%	8.38%	5.24%	3.14%	2.10%	1.05%
Fiji	1,041,961	17,948,195	5.81%	4.64%	2.90%	1.74%	1.16%	0.58%
Guatemala	9,237,210	17,948,195	51.47%	41.17%	25.73%	15.44%	10.29%	5.15%
Indonesia	35,470,590	17,948,195	197.63%	158.10%	98.81%	59.29%	39.53%	19.76%
Lao PDR	4,435,614	17,948,195	24.71%	19.77%	12.36%	7.41%	4.94%	2.47%
Madagascar	2,663,796	17,948,195	14.84%	11.87%	7.42%	4.45%	2.97%	1.48%
Vietnam	22,169,429	17,948,195	123.52%	98.82%	61.76%	37.06%	24.70%	12.35%

Grey cells represent the approximate risk set-aside percentage reported by ER Programs

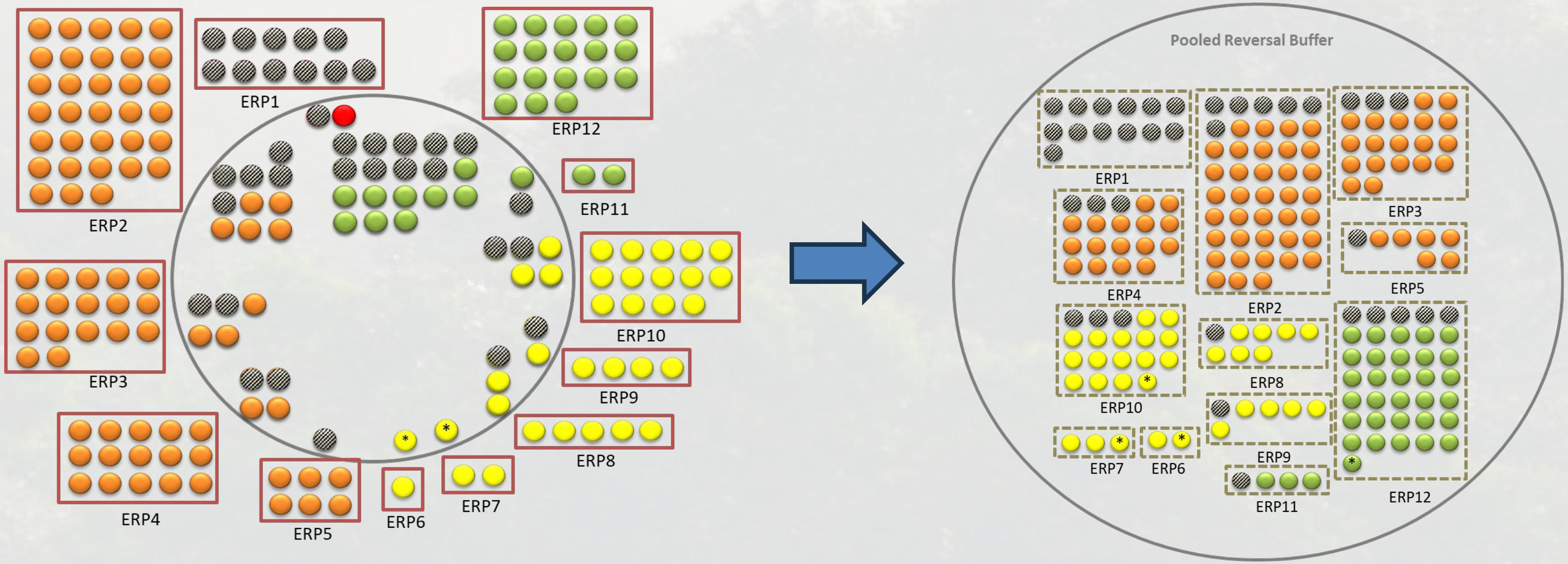
Red numbers represent reversals that could represent more than 50% of the Pooled Reversal Buffer balance

MZ´s preliminary reversal estimate impact "limited liability“ (version 4.1 of the BGL) = 23.10%

1. Merging ER Programs´ Reversal Buffers with the Pooled Reversal Buffer

Proposed revision

- It is proposed to eliminate the ER Programs´ Reversal Buffer accounts and to transfer all their current and any future Buffer ERs to a **newly created Pooled Reversal Buffer Account**
- However, each **individual** ER Program´s Pooled Reversal Buffer **contributions will be identifiable**



1. Merging ER Programs´ Reversal Buffers with the Pooled Reversal Buffer

Implications for ER Programs

- ER **Programs will have more coverage against potentially significant reversals through the Pooled Reversal Buffer**
- **Contributions** to the Pooled Reversal Buffer **remain relatively low and increased contributions are avoided**

Proposed action and decision

- The FMT seeks a decision from CFPs on the proposed revised version of the FCPF Buffer Guidelines.

- Once this new version is approved through specific resolution, the FMT will proceed with the implementation and to publish the new version of the BGL in the FCPF website and FCPF Standard micro-site.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