



# 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/producers that have the LIFE Biodiversity Credits Certificate, Certifying Bodies (CBs) 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 points directly linked to the projects for the creation and management of protected areas are counted as LBC. These points originate from actions classified in Groups 1 and/or 2, and from Groups 3 and/or 4 when they are linked to the same project as Groups 1 or 2, according to the LIFE Methodology (as described in the Technical Guide 02), applying the assurance factors provided in this document.

There are three categories of LIFE Biodiversity Credit generation:

- I. **Organization (Legal entity)**
- II. **Producer (Individual) with productive activity**
- III. **Producer (Individual) without productive activity**

In the case of organizations (legal entities) and/or producers (individuals) with productive activity, only the score that exceeds the Biodiversity Minimum Performance (BMP) required by the LIFE Methodology is considered eligible to generate LBC, applying the assurance factors provided in this document. In the case of producers (individuals) without productive activity in the certified area, the LBC will be the Biodiversity Positive Performance (BPP), applying the assurance factors provided in this document.

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

## 2. ASSURANCE FACTORS

Organizations/producers generating LIFE Biodiversity Credits (LBC) must commit to the permanence of the credit-generating project for 30 years (commitment term of 6 audit cycles), with the following assurance factors applied:

- **Factor 1 – Project Assurance Factor:** A 10% discount factor will be applied to all projects certified as LIFE Biodiversity Credits, deducted from the total credits generated before the certificate and credit title are issued for subsequent negotiation. This factor will serve as a fund for the projects generating LIFE Biodiversity Credits and will cover the discontinuation and/or failure of one or more projects certified under the LIFE Methodology. This 10% value of the assurance fund is non-redeemable.
- **Factor 2 - Project Leakage Factor:** An additional discount factor of 10% will be applied to all projects certified as LIFE Biodiversity Credits, in addition to the Assurance Factor, also deducted from the total credits generated before the certificate and credit title are issued for subsequent negotiation. Leakage refers to unforeseen events, such as natural disasters, changes in land use caused by third parties, or other human activities that may alter the amount of credits generated during the project's 30-year commitment period. This factor may be redeemed, depending on performance, during the course of the project, for cases where the project does not experience a decrease in the amount of credits during its validity, as shown in the table below.

Thus, the right to negotiate LBC occurs as shown in the example presented in Table 01.

**Table 01 – Example of the application of assurance factors (Project Assurance Fund and Project Leakage Factor)**

| <b>Audit Cycle</b> | <b>Credits (Annual Audit)</b> | <b>Year</b> | <b>Discount F1 %</b> | <b>Balance Post F1</b> | <b>Discount F2 %</b> | <b>Balance Post F2</b> | <b>Redemptions by Performance</b>                      | <b>Available for Transactions (100%)</b> |
|--------------------|-------------------------------|-------------|----------------------|------------------------|----------------------|------------------------|--|--|
| 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                                   |
| <b>3, 4 and 5</b>  | <i>Same 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<br>50% (ref.: years 26 to 30) | 140.000                                  |

That is, the commercial right to transact will begin with 80% of the credits generated (years 1 to 4), with the project holder being able to redeem 10% left as leakage guarantee (Factor 2) in year 5; in year 6, the 10% left as leakage guarantee in year 2 will be recovered, and so on. In year 30, the project holder will be able to recover the entire final balance that was retained as leakage guarantee (years 26 to 30), totaling a percentage of 50.

The balance of each year is cumulative. That is, what has not been negotiated or redeemed in the previous year(s) accumulates for sale in the following year(s).

The recovery of credits related to the Project Leakage Factor (Factor 2) of 10% will occur in the form of redemptions by performance, as shown in the table below.

**Table 02 – Redemption by Performance**

| <b>Audit Cycle</b> | <b>Year</b> | <b>Redemptions by Performance %</b> |
|--------------------|-------------|-------------------------------------|
| 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                                  |



### **3. NEGOTIATION OF LIFE BIODIVERSITY CREDITS**

The negotiation process, that is, the buying and selling of LIFE Biodiversity Credits, requires control through traceability methods of the generated credits, which are linked to the LBC Certificates issued by the Certifying Bodies and to the ownership documents of the LIFE Biodiversity Credits issued exclusively by the LIFE Institute.

All organizations/producers certified with LIFE Biodiversity Credits have the right to make their LBC available for negotiation. To do this, they must open an LBC Account to market them through the ownership documents of the LIFE Biodiversity Credits on the LBC Platform.

Buyers of LBC can also become sellers of these credits within the LBC Platform by presenting the ownership document of the LIFE Biodiversity Credits.

#### **3.1. OPENING OF LIFE BIODIVERSITY CREDITS ACCOUNT**

Organizations/producers interested in negotiating their LIFE Biodiversity Credits must open an LBC Account at the LIFE Institute, being considered primary sellers.

To open the LBC Account, the organization/producer must have their LIFE Biodiversity Credits Certificate and contact the LIFE Institute.

The LBC Account must be opened in the name of the organization/producer, as described in the holder of the LIFE Biodiversity Credits Certificate. The legal representative of the organization/producer must sign the commitment term/contract regarding the negotiation process of LIFE Biodiversity Credits, which should outline the conditions and premises involving the payment of fees for the LBC Account (opening and maintenance, document analysis, project evaluation, and issuance of the ownership document of the credits).

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

LBC buyers are not required to open an LBC Account.

For those interested in becoming sellers of acquired credits (secondary, tertiary, etc.), here qualified as secondary sellers, opening the LBC Account is mandatory, through signing a contract with the LIFE Institute, addressing issues related to fees (opening and maintenance, document analysis, and issuance of the ownership document of the credits).

Once the LBC Account is validated and the term/contract is signed between the parties (organizations/producers and the LIFE Institute), the account details will be forwarded to the LBC Platform.

### 3.1.1. Fees for the LIFE Biodiversity Credits Account

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

**Table 03 – LBC Account Fees**

| Description                                   | up to 10 thousand LBC | 10 to 20 thousand LBC | 20 to 50 thousand LBC | > 50 thousand LBC | % | Periodicity  |
|---|-----------------------|-----------------------|-----------------------|-------------------|---|--------------|
| Account Opening                               | U\$ 10.00             | U\$ 50.00             | U\$ 70.00             | U\$ 140.00        |   | fixo/entrada |
| Account Maintenance                           | U\$ 10.00             | U\$ 40.00             | U\$ 50.00             | U\$ 140.00        |   | anual        |
| Project Evaluation*                           | U\$ 20.00             | U\$ 50.00             | U\$ 70.00             | U\$ 400.00        |   | anual        |
| Issuance of the ownership document of the LBC | U\$ 10.00             | U\$ 30.00             | U\$ 40.00             | U\$ 50.00         |   | cada         |
| LBC Negotiation                               |                       |                       |                       |                   | 5 | cada         |

*\*only for the holders of projects that generated the credits..*

### **3.2. LIFE BIODIVERSITY CREDITS PLATFORM**

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

The LBC Platform is the virtual space that gathers all the information for negotiating LIFE Biodiversity Credits, providing the public with the commercial contact details of the LBC holders/brokers, the quantity of LBC per project and ecoregion available for sale, country of origin, biome, and basic information about the biodiversity conservation projects that generate the LBC. The management of this platform is the responsibility of the LIFE Institute, with the information contained being a shared responsibility among the parties involved in the platform (sellers and the LIFE Institute).

The LBC Platform must be updated after each buying and selling process of LIFE Biodiversity Credits.

### **3.3. OWNERSHIP DOCUMENT OF LIFE BIODIVERSITY CREDITS**

The ownership document of LIFE Biodiversity Credits is the official document for the negotiation of LBC, issued only by the LIFE Institute, which provides traceability information for the credits. It must be issued in all buying/selling processes of the LBC.

This document will be linked to each LIFE Biodiversity Credits Certificate issued by the Certifying Body. The holder of the LBC Certificate must request the ownership document of LIFE Biodiversity Credits from the LIFE Institute.

In the event of an LBC negotiation process, the organization/producer must send to the LIFE Institute, within 15 days, a copy of the purchase/sale contract, containing the seller's and buyer's details (e.g., name, LEGAL ENTITY/INDIVIDUAL, address, and name of the legal representative), for validation of the commercial transaction between the parties and issuance of the ownership document of the LIFE Biodiversity Credits.

Thus, the process is duly formalized, and the quantity of credits is transferred to the buyer and subtracted from the seller, being updated on the LBC Platform.

The ownership document of LIFE Biodiversity Credits will include the following information:

- Name of the organization/producer, address, name of the legal representative of the sellers and buyers;
- Name of the Certified Project;
- Size of the area linked to the Project;
- Ecoregion of the Certified Project;
- Credits Quantity;
- Expiration date of the LIFE Credits (30 years from the date of issuance of the LIFE Biodiversity Credit Certificate);
- LIFE traceability code;
- Date of issuance of the ownership document of the LIFE Biodiversity Credits.

#### 4. PARTICIPATION (BENEFICIARIES) OF LIFE BIODIVERSITY CREDITS

Projects generating LIFE Biodiversity Credits may consist of different actors, and each of them will receive compensation for their participation in the project. The composition of the actors may include:

- **Guardians of the Area(s):** The guardians of the areas can consist of various actors: holders of the area with possession and/or usage rights, managers of the project and/or the area. For example, the holder of the area can be the government, an organization, or a producer. The usage rights can belong to a community or even to the holder of the area. Additionally, there may be a manager for the area and the project in question. Various formats of guardians of the area may exist.

In cases where communities are involved in the project that generated LBC, they cannot receive a benefit of less than 30% of the total amount from the credit negotiation. This distribution will be a point of attention to be verified during audits conducted by Certifying Bodies accredited by the LIFE Institute.

- **Guardians of the Credits:** The guardians of the LIFE Biodiversity Credits are the Certifying Bodies accredited by the LIFE Institute (responsible for audits and issuance of the LIFE

Biodiversity Credit Certificate) and the LIFE Institute (issuer of the ownership document of the credits and manager of the LBC Platform).

## **5. RETIREMENT OF LIFE BIODIVERSITY CREDITS**

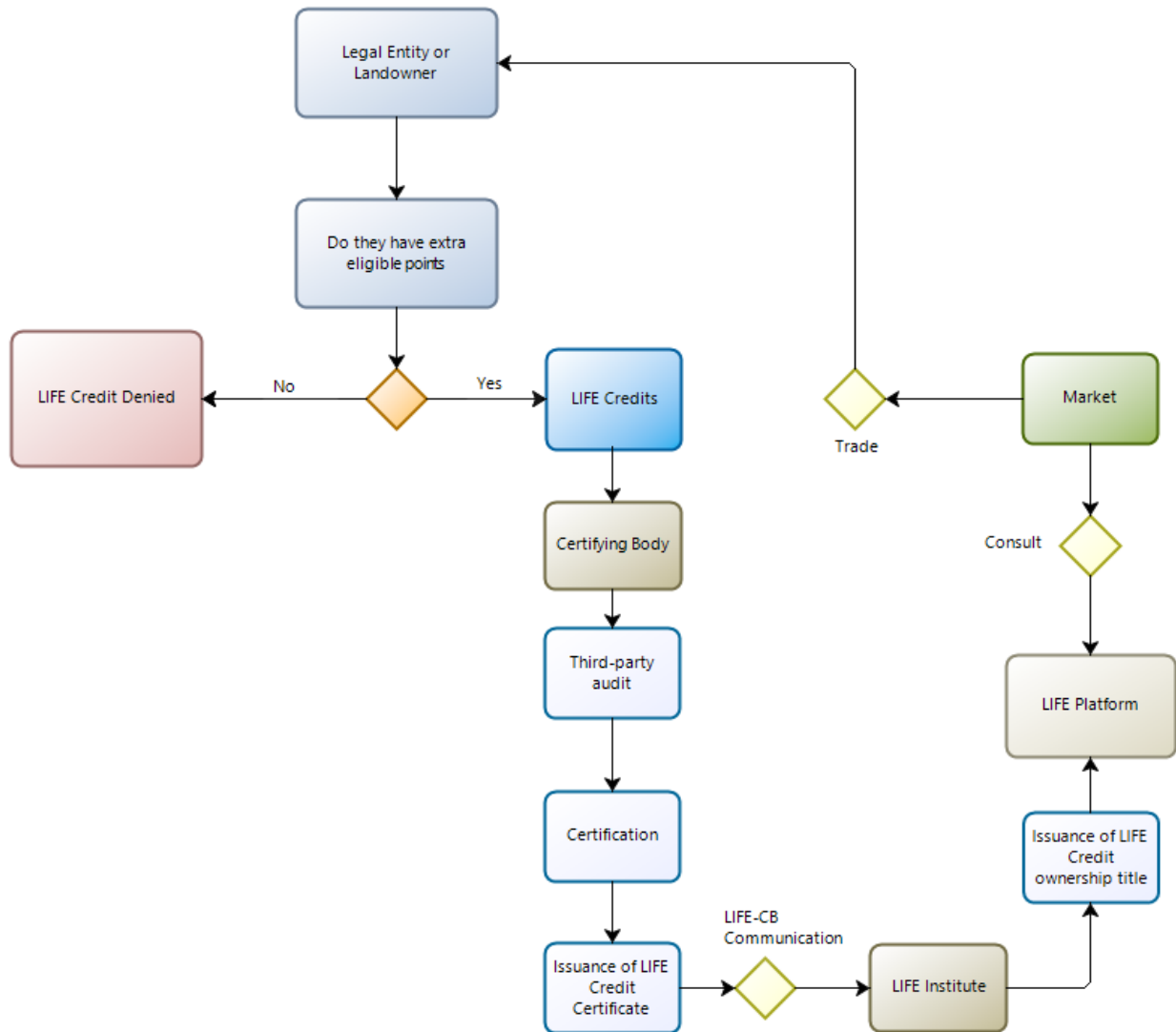
LBC will be retired in cases where organizations acquire these credits to offset their Biodiversity Minimum Performance (BMP) in their LIFE Business and Biodiversity Certification process. Thus, these credits will be retired, meaning they will no longer be available for transactions in the credit market.

It should always be remembered that the credits have a validity period of 30 years and can be revalidated through the continued certification of the original credit generator and revalidation of the ownership documents of the LIFE Biodiversity Credits.

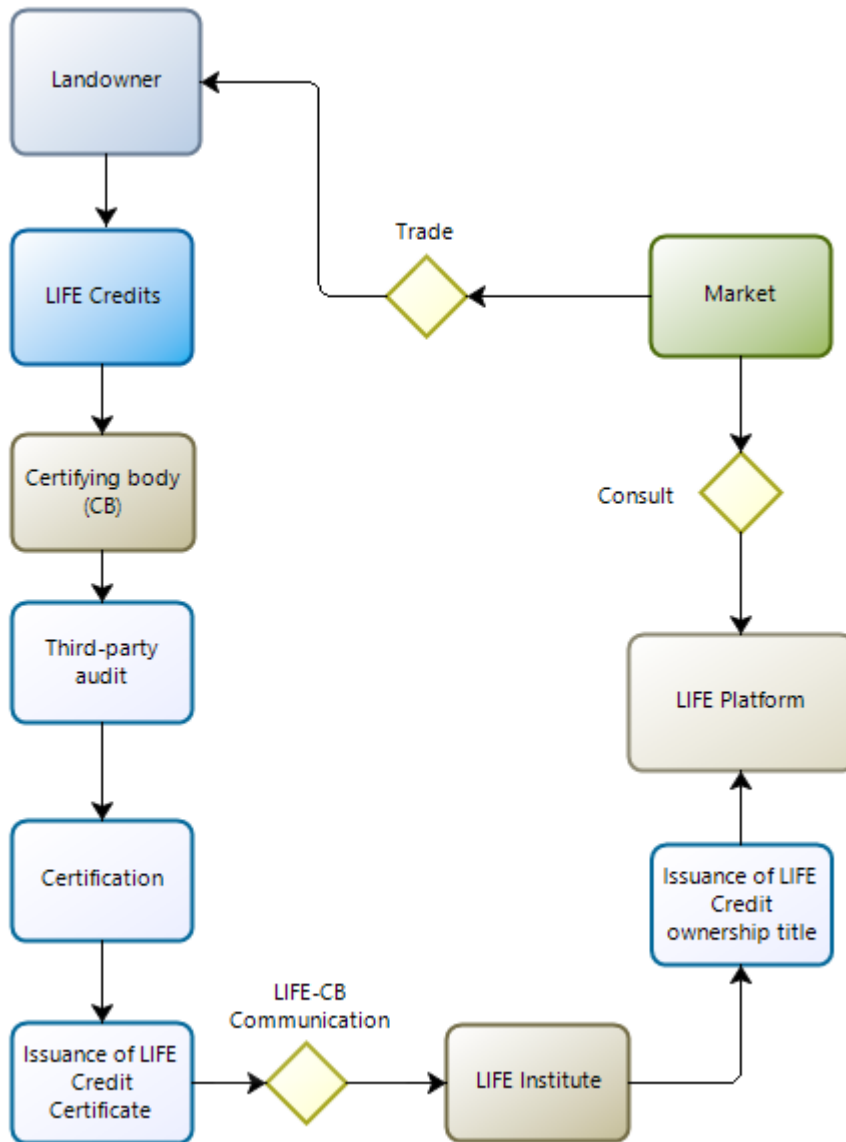
In cases of cancellation and discontinuation of the project, all credits linked to it lose their validity unless they have been retired. Therefore, they will no longer be available for transactions in the credit market.

## 6. FLOWCHARTS OF THE PROCESS FOR OBTAINING AND NEGOTIATING LIFE BIODIVERSITY CREDITS

### 6.1. ORGANIZATION (LEGAL ENTITY) AND PRODUCER (INDIVIDUAL) WITH PRODUCTIVE ACTIVITY



6.2. PRODUCER (INDIVIDUAL) WITHOUT PRODUCTIVE ACTIVITY



## **7. GLOSSARY**

The terms used in this document are available in the LIFE Glossary.



**INFORMATION ABOUT THE 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.

Versão 1.0-R2: approved on 10/18/2024, by the LIFE Institute. Text review.