

# Independent carbon ratings

Governance



BeZero

# Independent carbon ratings

## About this document

Independent carbon ratings and ratings agencies matter because they allow anyone to objectively assess the quality of any type of carbon project, at any stage, in any carbon market. They are essential to scaling climate action.

Independence is what differentiates ratings as a risk metric from other types of quality scores, broker advisory, or in-house analysis. Independence is what separates ratings agencies from other market actors such as consultants, traders, or investors, who typically play a direct role in transactions and have vested interests.

Financial market regulations in the EU, Singapore, UAE, UK, and US are being applied to the carbon market, making the roles of different market actors more defined and easier to understand.

BeZero welcomes and encourages transparency in the market and has published all of its [ratings methodologies](#) and [headline ratings and summaries](#). BeZero also welcomes regulations and has voluntarily signed up to the International Capital Market Association's Code of Conduct. Rather than waiting for regulations, BeZero already imposes on itself seven key pillars to guarantee its independence.

Together these pillars give BeZero's customers and the broader market confidence that there are no activities or incentive structures in place that could prejudice any ratings outcome irrespective of who commissions it, or who its clients are.

## Pillars of independence

### 1. No internal conflicts

BeZero enforces a separation of commercial and analytical functions, flow of information, and compensation structures.

Once a rating has been contracted and paid for, it is delivered and managed by ratings analysts without any further engagement or involvement of the commercial team. Ratings are only assigned via unanimous consent at a committee of subject matter experts after a rigorous internal peer-review process. Individual analysts are not able to unilaterally assign ratings. The analytical team's compensation structure is also never linked to the specific outcomes or volume of ratings. Finally, for all ex post ratings, commercial team members learn about ratings BeZero has assigned at the same time as everyone else in the market, when they are published on BeZero's public website and platform.

### 2. No trading or developing carbon projects

BeZero is not involved in any type of carbon credit or carbon project transaction or any activities specifically related to the development of a carbon project. All employees are equally prohibited from these activities and must sign a declaration attesting to this.

The only exception to this rule for BeZero is the annual retirement of high quality credits equivalent to BeZero's annual carbon footprint by Molten Ventures, its Series A lead investor. This is a requirement under Molten's ESG policy. Their in-house team is a subscriber to the BeZero Carbon Markets platform and relies on BeZero's ratings to inform their purchasing decisions for all portfolio companies. BeZero is not involved in the selection, purchase or retirement of the credits.

### **3. No MRV consulting**

BeZero does not advise clients on any part of the auditing, accreditation or monitoring, reporting or verification (MRV) process, or provide analysis that can be used directly as an input to these processes. BeZero avoids this conflict because if it did provide analysis that was used to directly evidence a project's issuance, and then rated the project once it issued credits, the rating would in effect be akin to 'marking one's own homework'.

A carbon ratings agency is not a standards body, validation and verification body, or project design consultant. It offers third-party opinions expressed as ratings on the evidence provided by these entities to support a project's climate claims.

### **4. No privileged rating access**

Issued credits from accredited carbon projects with publicly available project development documents are commonly transacted in the spot carbon market.

BeZero makes every headline letter rating of these credits publicly available for free. BeZero releases the rating simultaneously for all audiences, and displays the rating in the same way everywhere. BeZero has done this since it launched - <https://bezerocarbon.com/ratings/listings>.

BeZero's view is that the headline ratings for existing carbon projects are a public good. BeZero's core business is the value-add of providing customers access to deep due diligence and risk analysis that underlies these headline ratings.

The only exception to this approach is for project developers who are consulted pre-rating to ensure there is no pertinent project information missing, and always given the rating in full upon publication at no charge. They also reserve the right to respond and any material new evidence, from them or anywhere else, will be reflected in an updated rating.

BeZero also rates pre-issuance projects - those that have not yet issued credits or completed their accreditation process. Documentation for such projects is often incomplete, non-public, restricted and/or subject to fundamental change. As such, all BeZero pre-issuance ratings are private unless otherwise agreed.

If the project starts to issue credits and BeZero has rated these credits, the headline letter rating will be made public as per above.

### **5. No buyer-seller referrals**

BeZero never actively facilitates introductions between any type of buyer or seller via BeZero's platform, API or over the counter. This is regardless of whether the 'match' is anonymous or known; or

has a commission or not. This process is analogous to being involved in a transaction and carries the same risk of conflicts.

## **6. No advisory**

BeZero will never advise on how to design or change a project, or make recommendations on which projects to buy or sell. Doing so would be in clear conflict with the independence of BeZero's ratings.

For instance, BeZero never stipulates specific project conditions that, if changed, would lead to a directional rating change. Instead, BeZero provides clear evidence-based analysis on the risks a project faces, or doesn't, and is fully transparent in disclosing the methodology and parameters used to perform the rating - <https://bezerocarbon.com/ratings/approach>.

## **7. No results-based payments**

All BeZero Carbon Rating commissions are 100% flat fees, paid upfront. There are no differences in fees based on ratings outcomes. Unlike registries that typically charge based on the size of credit issuance, BeZero does not vary its fees on the size of the project. And there's no special treatment for any client type.

This approach reflects the reality that all carbon market participants have a vested interest in the quality of a carbon project, and by association the outcome of a carbon rating:

Developers want to create better projects with better ratings to get higher prices, lower cost of capital, and ultimately raise more finance for climate interventions.

- Investors want to get better returns on their investments.
- Exchanges and marketplaces want access to reliable liquidity.
- Traders want to buy low and sell high.
- End buyers want to retire high quality credits at the lowest possible price.
- Everyone wants to minimise performance risks that can cause reputational damage.

Any of these actors can be on either side of a transaction with one another, and ratings provide value to the market at all of these stages.

## Disclaimer

The BeZero Carbon Rating of voluntary carbon credits represents BeZero Carbon's current opinion on the likelihood that carbon credits issued by a project achieve a tonne of CO<sub>2</sub>e avoided or removed. The BeZero Carbon Rating and other information made publicly available or available through the BeZero Carbon Markets platform ("Content") is made available for information purposes only. The Content and in particular the BeZero Carbon Rating sets out BeZero Carbon's opinion on a particular carbon credit or project based on publicly available information as at the date expressed and BeZero Carbon shall have no liability to anyone in respect of the Content, opinion and BeZero Carbon Rating. The Content is made available for information purposes only and you should not construe such Content as legal, tax, financial or investment advice. The Content is a statement of opinion as at the date expressed and does not constitute a solicitation, recommendation or endorsement by BeZero Carbon or any third party to invest, buy, hold or sell a carbon credit. The Content is not a statement of fact and should not be relied upon in isolation. The Content is one of many inputs used by stakeholders to understand the overall quality of any given carbon credit. BeZero Carbon shall have no liability to you for any decisions you make in respect of the Content. If you have any questions about BeZero Carbon, the BeZero Carbon Rating, the BeZero Carbon Rating methodology, qualifying criteria, rating process, any element of Content, the BeZero Carbon Markets platform or otherwise please contact us at: [commercial@bezercarbon.com](mailto:commercial@bezercarbon.com).

Document originally published on 08/04/24.