

# BeZero's approach to ratings governance

Governance



BeZero

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## Introduction

A rating is an assessment of risk or likelihood of an event happening. A carbon rating is an assessment of the likelihood of a carbon credit delivering on its promise of avoiding or removing 1 tCO<sub>2</sub>e.

It is an analytical opinion based on a combination of qualitative and quantitative factors, overlaid with analytical judgement. It is not an absolute measure.

Robust carbon credit ratings cannot be assigned solely through a quantitative model, a questionnaire, or even a combination of the two. It is an involved process requiring access to comprehensive, curated datasets, a deep understanding of carbon risk factors, and multi-disciplinary expertise. The process needs to be objective, independent, transparent, and backed by analytically robust criteria and clear rating definitions.

The governance around assigning a rating is an essential component of a ratings agency.

Ratings governance at BeZero Carbon is built on six key pillars:

1. Expertise in risk assessment
2. Cross sectoral knowledge
3. Skills in 'relative assessments'
4. Consistency in applying criteria and methodologies
5. Time and commitment
6. Internal rating committee

## Expertise in risk assessment

Carbon efficacy ratings are an assessment of the likelihood of the carbon credit delivering on its promised 1 tCO<sub>2</sub>e avoided or removed.

The essential thesis of risk assessment is to dig deep into 'what can go wrong', extensively interrogate evidence to onboard expectations/assumptions and bring it all together to arrive at an overall risk assessment.

It is an evolved area of expertise prevalent primarily at ratings agencies, fixed income research organisations (e.g. sell-side banks) and insurance companies. BeZero ratings incorporate hands-on involvement from people who have this experience to ensure a robust assessment.

## Cross sectoral knowledge

Carbon credits can be issued by projects across a wide range of sectors, such as Renewables, Afforestation, Reforestation & Restoration, REDD, Oil Recovery, Blue Carbon, etc. Each sector has a unique way of seeking to avoid/remove emissions from the atmosphere. Understanding these factors is essential to assessing the efficacy of the project activities and its likelihood of delivering on its carbon commitments.

Sector knowledge exists at various levels. For sectors that have been in existence for a number of years (renewables, forestry etc) there would be a number of people who have worked in the sector and possess a large body of knowledge. For emergent and evolving sectors (direct air capture, biochar etc), this deep sector expertise may be less readily available.

A ratings agency requires sector knowledge to understand the sectoral nuances and the relative effectiveness of activities being undertaken, i.e. the means by which emissions avoidance/removal are achieved. This provides context to the opinion-based rating.

BeZero acknowledges that a robust rating process requires a large number of analysts with deep knowledge of individual sectors and sub-sectors, and ensures this is reflected in its employment and training of carbon credit analysts.

## Relative assessment

Ratings are not absolute, and do not operate on a pass-fail threshold. They are relative assessments – comparable in relation to all other ratings across sectors, countries and other ratings. This helps in a granular assessment and pricing of risk embedded in the credits issued by projects.

It is therefore essential for a sound ratings process to have a common set of people who understand, deliberate, and opine on individual ratings across sectors and countries over time.

A robust rating process must have a formal rating committee composed of a common set of individuals who have extensive experience in participating and deliberating at a large number of rating committees over time.

At BeZero, this is achieved by the rating committee. Members of the rating committee comprise senior members of the analytical team who question and challenge the presenting analyst(s). They also interrogate how a proposed rating compares to other ratings within the sector and across all sectors.

## Consistency in applying criteria and methodologies

Ratings are assigned based on published criteria and methodologies. Consistent application of these criteria and methodologies is expected from the rating process.

Ratings involve complex analysis of projects of all types. They are analytical opinions based on a range of qualitative and quantitative inputs leveraging various data sources, models, and analytical judgement.

Robust ratings methodologies are comprehensive in nature, and require supporting sector-specific frameworks to help take project context into account. They are not a questionnaire that can be answered to arrive at a rating, and they are not simply the product of running data into a predefined algorithm.

Since ratings seek to provide a common language of risk across sectors, countries, and carbon credit types, the consistent application of criteria and methodologies becomes an essential prerequisite to the process. This requires a deep understanding of the criteria and methodologies, and experience in applying them across a large number of projects.

At BeZero, consistent application of criteria and methodologies is achieved through the rating committee, whose members have overseen and ensured ratings consistency over hundreds of projects.

This further underscores the importance of a formal rating committee to ensure the robustness of the rating process.

## **Time commitment**

Robust ratings processes require dedicated time and effort to consistently apply predefined criteria and methodologies, factor in sectoral nuances, and refine assessments to arrive at a relative grading of risk.

A typical ratings exercise takes between four and 12 weeks to complete. The proposed ratings involve detailed deliberations at rating committees; few pass (i.e. reach consensus agreement) the first time.

Ratings analysts need to be engaged in it full time, as do the rating committee members. At BeZero, it is a full time occupation, not a part time advisor-/consultant-driven process.

The full time commitment of the entire ratings team and the rating committee is an essential component underpinning the rigour of BeZero's rating governance.

## **Internal Rating Committee**

The importance of rating committees as the key driver of governance in the ratings process is critical.

A rating committee consisting of a broad membership with various skills and backgrounds ensures that no one analyst can determine and/or influence the rating process. It also ensures that the rating represents the views of the organisation and not a single analyst.

BeZero's rating committee provides oversight over the analytical process, ensures consistency in application of rating criteria and methodologies, and comparability of ratings across sectors and countries.

In financial markets, internal rating committees are the norm; reputable ratings agencies operate through internal rating committees who are responsible for assigning and reviewing all ratings.

A rating committee composed of internal staff is a well proven mechanism to ensure robust rating governance.

BeZero Rating committees are composed only of full time staff. This ensures extensive time commitment required to ensure consistency in application of rating criteria and methodologies, and comparability of ratings across sectors and countries.

# Ratings governance at BeZero Carbon

BeZero's rating committees have a formal governance structure. Each committee has a pre-agreed agenda, designated chair, and has minimum quorum requirement. All meetings are formally minuted.

Rating committees are 'open meetings' for members of the ratings analytical team. Any rating analyst can attend and contribute at rating committee meetings. They can ask questions and share their views on the rating under discussion.

Rating decisions are taken only via unanimous vote - this is a higher bar than at financial sector ratings agencies, where a simple majority carries the decision.

In the last 24 months, BeZero rating committee members have attended more than 350 rating committee meetings (average duration is two hours), and deliberated hundreds of ratings. This unique experience has translated into an unmatched expertise in carbon ratings, difficult to replicate by any other organisation.

## 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@bezerocarbon.com](mailto:commercial@bezerocarbon.com).

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