

Forest Carbon Partnership Facility (FCPF)

Carbon Fund

Call Options for Additional ERs under the FCPF ERPAs

Version 1.0, February 2023

This note outlines the specifics of the Call Options agreed under the Tranche A and Tranche B ERPAs (together referred to as “ERPAs”) of the fifteen ER Programs in the FCPF Carbon Fund portfolio and the requirements and processes involved if and when they are exercised under the ERPAs.

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A. Call Options under the ERPAs

1. All ERPAs include a Call Option for the benefit of the Trustee of the FCPF Carbon Fund to purchase ERs generated under an ER Program that exceed the Contract ER volume (“Additional ERs”). A Call Option provides the Trustee with the exclusive right, but not an obligation, to purchase such Additional ERs. Within a certain time period prescribed in the ERPAs (“Exercise Period”) the Trustee may decide whether or not (and, if so, for which Additional ER volume) to exercise the Call Option through issuance of an Exercise Notice to the Program Entity¹. If the Trustee does not intend to exercise the Call Option, it may either let the Exercise Period expire or waive its right to the Call Option in writing. Details of the Call Option process are described further in this document.
2. The price per Additional ER for which the Call Option is exercised is termed as “Exercise Price” and is specified in each ERPA.
3. The ERPAs of the 15 ER Programs can be grouped into three main categories based on the different pricing structures agreed for the Exercise Price. A detailed table showing the different Call Option volumes and Exercise Prices is included in the annex.

Table 1: ERPAs by Exercise Price category

Category based on Exercise Price	Number of ER Programs	Countries
“To be negotiated” under both Tr A & Tr B	6	Chile, Costa Rica, DR, Indonesia, Mozambique, Nepal
“Fixed” under Tranche A and “to be negotiated” under Tranche B	5	Cote d’Ivoire, Guatemala, Lao PDR, Madagascar, ROC
“Fixed” ² under both Tranche A and Tranche B	4	DRC, Fiji, Ghana, Vietnam

4. Some of the ERPAs limit the Call Option to a specified “Maximum Option Volume” of Additional ERs whereas other ERPAs do not have that volume limitation and allow the Call Option to be exercised for “all Additional ERs”. Usually, the Call Option may be exercised for each Tranche separately as per the respective Tranche pro-rated share in the Additional ERs. In certain limited cases, the ERPAs deviate from the pro-rated approach (e.g., Chile) or apply different Exercise Prices to different Call Option volumes (e.g., DRC).

B. Requirements for exercising the Call Option

5. Article V of the ERPAs (in conjunction with Article IV of the General Conditions) specifies the process by which Call Options can be exercised, including the Exercise Price and the Exercise Period.
6. In accordance with Section 5.02(a) of the ERPAs, the Trustee may exercise the Call Option (on behalf of Carbon Fund Participants) for all or part of the Tranche A share and/or Tranche B share³ of the Additional ERs (capped potentially at a certain overall ‘Maximum Option Volume’). The ERPAs also provide for a right of each Tranche to increase its pro-rated share by an amount of Additional ERs for which the respective other Tranche has not exercised its pro-rated share of the Call Option in full. In

¹ Program Entity means the Party or Parties specified as such in the ERPA and who has or have been authorized by the Host Country, if applicable, to implement the ER Program and enter into an ERPA with the Trustee.

²Note that Fiji, and Ghana have fixed price for a portion of the Maximum Option Volume and a variable price (Fiji: Tr B only; Ghana: Tr A & B) for the remaining portion.

³ Tranche A and Tranche B shares of the Carbon Fund are approximately 5% and 95% respectively. However, the Chile ERPAs deviate from the pro-rated approach and allow each Tranche to exercise the Call Option for an amount of 1 million Additional ERs each.

other words, if the Trustee has not exercised its Call Option in full under the Tranche B ERPA after a given Reporting Period, those remaining Additional ERs become available for the Trustee, to be exercised under the Tranche A ERPA and *vice versa*.

7. The right to exercise a Call Option on behalf of both Tranches of the FCPF Carbon Fund at the agreed Exercise Price is the exclusive right of the Trustee. However, that decision will be subjected to the Program Entity's preference regarding the Additional ERs and the Trustee will gather this information through discussions with the Program Entity as soon as submitted ER Monitoring Reports pass the completeness and quality check. More information on the process is provided in Section D.
8. **The decision whether to exercise a Call Option has to be decided at the respective Tranche level for the entire Tranche.** A Tranche cannot exercise a Call Option for the benefit of a fraction of Tranche participants only. Each decision must be taken by consensus⁴. However, if consensus among Tranche participants cannot be reached the decision is made by a double 2/3 majority of the votes by the participants in the respective Tranche (see Section 12.4(b) of the FCPF Charter). A double 2/3 majority means 2/3 of the votes counted on the basis of both (i) one vote per Carbon Fund Participant in the respective Tranche, and (ii) one vote per US\$1 million of the contribution to the respective Tranche.
9. Where the Exercise Price is fixed, the Additional ERs will be paid for at that price (see section C for additional considerations).
10. Where the Exercise Price is open for negotiation, that price shall be negotiated and agreed between the Trustee (on behalf of Carbon Fund Participants) and the Program Entity (the "Parties") within sixty (60) calendar days following receipt of a final Verification Report indicating that Additional ERs have been generated under the ER Program during a Reporting Period. **If the Parties cannot agree on an Exercise Price within such time period, the Call Option shall lapse upon the end of such time period for that Reporting Period only.**
11. The Call Option must be exercised through the issuance of an Exercise Notice to the Program Entity during a specific Exercise Period.
 - In a fixed Exercise Price scenario, the Call Option must be exercised through issuance of an Exercise Notice within sixty (60) calendar days following receipt of the final Verification Report indicating that Additional ERs have been generated during a Reporting Period.
 - In a negotiable Exercise Price scenario, the Call Option must be exercised through issuance of an Exercise Notice within sixty (60) calendar days following agreement between the Parties of the Exercise Price.
12. The transfer of the Additional ERs for which the Call Option has been exercised must be completed by the Program Entity within ninety (90) calendar days following receipt of the Exercise Notice ("Exercise Completion Date").
13. With regard to Tranche B, any Additional ERs for which the Call Option is exercised, and which are paid for and transferred by the Exercise Completion Date are subsequently to be re-transferred to the Program Entity and may be used for the sole purpose of meeting its Nationally Determined Contribution (NDC).
14. In the event that the Trustee does not exercise the Call Option for a Tranche in full during the Exercise Period at the end of a Reporting Period or expressly waive its right to exercise the Call Option for that

⁴ Decision making criteria described in paragraph 7 of Section B can be used by Tranche A and Tranche B Participants to reach agreement regarding Call Options.

Tranche for a Reporting Period, the Program Entity is free to sell the Additional ERs for which the Call Option has been waived or not exercised, to any third party at a price to be agreed with such third party.

15. Where the ERPA General Conditions allow the Trustee to reduce the Contract ER volume and convert those reduced Contract ER amounts into Additional ERs (e.g. in case of a Force Majeure event (Sec. 13.02(c)) or an Event of Default (Sec. 16.03)), thereby increasing the 'Maximum Option Volume' available under the Call Option, the Trustee may also exercise a Call Option for the portion of the increased amount of the Maximum Option Volume, provided that the Exercise Price that would be paid for the increased amount of the Additional ERs will be the Unit Price, i.e., US\$5/tCO₂e, and not the Exercise Price agreed in the ERPA.

C. Third party pricing considerations as part of the decision whether/how to exercise Call Option

16. There may be situations in which a Program Entity provides conclusive evidence of a third party offering a higher price than the agreed Exercise Price under the ERPAs for all or part of the Additional ERs prior to or during the Exercise Period. In such case, the Trustee may decide not to exercise a Call Option as a way to enable the Program Entity to increase its access to result-based finance.
17. Evidence of a third-party offer must be a legally binding written commitment by the third party (e.g., a confirmed offer, ERPA if already available, etc.) indicating the price per ER and the amount of ERs (for the Additional ERs) that it is willing to pay to the Program Entity. It must also include the agreed commitment by the Program Entity that any such third-party revenue will be channeled through the Benefit Sharing Plan for the ER Program.
18. Where there is a legally binding written commitment by the third party, in a fixed Exercise Price scenario, the Trustee in consultation with the Tranche A and Tranche B participants may either insist on exercising the Call Option at the agreed (lower) fixed price or may decide not to exercise or to waive the Call Option for the amount of Additional ERs covered by the higher third party offer in order to allow the Program Entity to take advantage of such higher price and sell those Additional ERs to such third party. In the case of Tranche A, if the decision is to match the higher third-party price as the new fixed Exercise Price, the Parties would have to amend the ERPA accordingly.
19. Similarly, in a negotiable Exercise Price scenario, the Trustee (on behalf of and following consultations with Carbon Fund participants) may agree with the Program Entity that the price offered by such third party shall serve as the negotiated Exercise Price under the respective ERPA.
20. A Program Entity may also indicate a preference to sell to a third-party without already having a legally binding written commitment by the third party. The Trustee, in consultation with Tranche A and Tranche B participants, may decide to waive its right to exercise the Call Option on this basis, and the related Additional ERs will instead be considered as Excess ERs that can be transacted outside of the ERPA. The Program Entity, however, should be aware that this also comes with risks in case it is unable to find a third-party buyer for the Excess ERs. As explained in para 10, if a Call Option for Additional ERs generated during a Reporting Period is not exercised within the Exercise Period or is waived, the Call Option will lapse for that Reporting Period and can no longer be purchased by the Trustee through a unilateral exercise of a Call Option in subsequent Reporting Periods. The Trustee cannot unilaterally decide to exercise Call Options for Additional ERs of previous Reporting Periods unless there is an agreement (**on an exceptional basis only**) between the Trustee (in consultation with Tranche participants) and the Program Entity to treat such Excess ERs from a previous Reporting Period as Additional ERs under the subsequent Reporting Period.

D. Processing steps and Roles and Responsibilities in exercising Call Option

21. Every exercise of a Call Option requires a certain process to be followed with the Trustee, Carbon Fund Participants, World Bank task team, and the Program Entity having specific roles and responsibilities. Some of the steps in the process have to be taken well ahead of time to meet the strict deadlines set out in the ERPA. The following sections details the various steps and timeline that will guide the process of exercising a Call Option.

I. Roles and Responsibilities

Table 2: Roles and Responsibilities of Stakeholders in the Call Option process

Stakeholders	Roles & Responsibilities
Carbon Fund Participants (CFPs)	<ul style="list-style-type: none"> • Indicate the willingness to exercise or waive a Call Option
Trustee	<ul style="list-style-type: none"> • Communicates to CFPs when Additional ERs are reported through the ER Monitoring Reports; • Liaise with the Program Entity (through the WB task team) on use of Additional ERs; • Consult with CFPs regarding their preference to exercise or waive Call Option; • Provide clarifications as needed regarding the Call Option process, to CFPs and Program Entity;
World Bank (WB) task team	<ul style="list-style-type: none"> • Facilitate discussions with the Program Entity on its intention to secure higher priced third party offers and other related preferences and clarify requirements and deadlines; • Facilitate the process of ERPA amendment, etc. with the Program Entity as well as internal processing;
Program Entity	<ul style="list-style-type: none"> • Prepare and submit to the World Bank periodic ER Monitoring Reports; • Inform the Trustee (through the WB task team) about their preferences regarding the Additional ERs, including on any third-party offers, if relevant;

II. Process

Part 1: Once periodic ER Monitoring Report is submitted by the Program Entity

22. The Trustee will conduct a completeness and quality check of the ER Monitoring Report, which is then revised, as needed, by the Program Entity and subsequently confirmed by the Trustee of readiness to proceed with validation and verification.
23. If there are Additional ERs (beyond the Contract ERs) reported in the ER Monitoring Report, the Trustee will inform the Tranche A and Tranche B Participants of the potential availability of such Additional ERs.
24. The Trustee will also request the WB task team to liaise with the Program Entity to understand what their preference is with regards to the Additional ERs, including if the Program Entity intends to sell the Additional ERs to any third-party. As there are specific timelines involved in the Call Option process once the final Verification Report is issued, the Trustee will also provide all the necessary guidance to the Program Entity on the entire process so as to avoid issues later including any lapse of a Call Option.

25. If the Program Entity intends to sell to a third-party, discussions with such third-party should take place in parallel to the Validation and Verification process to be ready to inform the Trustee of any third-party offer by no later than the beginning of the Call Option Exercise Period.
26. The general timeline for the Validation and Verification from start to finish is between eight (8) to twelve (12) months⁵. The total time taken will depend on the number of issues raised during the Validation and Verification and the efficiency of the Program Entity to respond to the issues raised by the Validation and Verification Body (VVB). During this time, the Trustee will try to facilitate as much as possible the discussion with the Program Entity (through the WB task team) and subsequently with the respective Tranches regarding the Additional ERs. This will be critical so that there is enough lead time for respective Tranches to convene amongst themselves and discuss internally prior to them receiving the FMT note for a Call Option (see below). Subsequently, this will also enable the Trustee to effectively make the decision within the Call Option's Exercise Period following the issuance of a final Verification Report for the Reporting Period during which the Additional ERs are reported.

Part 2: After final Verification Report is issued

27. After the final Verification Report is issued, and assuming that the final Verification Report confirms that Additional ERs have been generated, the ERPA provides a specific timeline for the Trustee to decide on the Call Option and to issue a formal Exercise Notice.
28. Based on the information that the Trustee receives from the Program Entity about their intention regarding the Additional ERs, the Trustee will prepare an FMT Note for consultation with Tranche A and Tranche B Participants.
29. The FMT Note will lay out the amount of Additional ERs available to be exercised under a Call Option under each Tranche for the relevant Reporting Period, information as applicable on third-party offer, and amount of available funding in the Carbon Fund (under each Tranche) to exercise the Call Option. Preparation of the FMT Note can start even before the final Verification Report is issued if the Trustee already has a clear indication from the Program Entity on its intention with regards to the Additional ERs.
30. Tranche A and Tranche B Participants will be provided with three (3) weeks from the issuance of the FMT Note to indicate the respective tranche's willingness to exercise or waive the Call Option. This preference will be provided on the basis of a negotiable or fixed price scenario, and in the absence or presence of a third-party offer, whichever is relevant under the concerned ERPA. Below is an explanation of the process.
- 31. If the Tranche A and Tranche B Participants do not respond to the FMT note within the 3-week timeline noted above, the Trustee will proceed as follows:**
- (i) In the absence of a third-party offer and where the Program Entity prefers to transact the Additional ERs under the Call Option, the Trustee will move forward to exercise the Call Option in accordance with the proposal in the FMT note, and subsequently issue the Exercise Notice (for next steps Part 3 below); OR
 - (ii) In the presence of the third-party offer, or where a legally binding written commitment by the third party is not already available, but the Program Entity has indicated a preference for a future

⁵ For the first Reporting Period Verifications, the Trustee has seen the timeline stretch to as long as 12 months, mainly because it is the first time that countries undergo the process.

sale of the Additional ERs to third party buyers, the Trustee will waive its right to exercise the Call Option for all of the Additional ERs available to be exercised as detailed in the FMT note.

32. Any Additional ERs for which the Call Option is waived, will instead be considered as Excess ERs which can be used by the Program Entity outside of the ERPA – including to transact with third parties as FCPF ER credits. Such transactions can be of any form (bilateral agreements between the host country and buyer, auction, etc.). The Trustee of the FCPF will not be party to such transactions. The Trustee can only facilitate by providing information of available options to transact Excess ERs, providing capacity building on market transactions⁶, helping the host country to connect with auction providers and retailers, but in principle the Trustee will not take an active role in the process.

33. If Tranche A and Tranche B Participants respond within the 3-week timeline, the feedback shall follow the process below.

34. Fixed Exercise Price Scenario:

- a) **In the absence of a third-party offer or other Program Entity preferences**, Tranche A and Tranche B Participants respectively shall indicate their respective tranche's willingness to exercise or waive all or part of the Call Option for the Additional ERs as proposed by the Trustee.
 - i. If Tranche A and/or Tranche B Participants indicate willingness to waive all or part of the Call Option amount proposed, the Trustee will inform the Program Entity that those Additional ERs will instead be considered as Excess ERs and it is free to use such ERs as it prefers as noted in para 32.
 - ii. If Tranche A⁷ and or/Tranche B Participants indicate the willingness to exercise the Call Option (whether in full or in part), the Trustee will then move to step 34 (c) below.
- b) **If there is a third-party offer or other Program Entity preferences**, Tranche A and/or Tranche B Participants shall indicate whether they:
 - i. Insist that the Call Option be exercised at the previously agreed fixed price; or
 - ii. waive the Call Option; or
 - iii. in the case of Tranche A, indicate its willingness to match the third-party price (if available) which would then serve as the new Exercise Price for all future Additional ERs and would be reflected in an amended ERPA.
- c) Where either or both Tranches have indicated their respective tranche's willingness to exercise the Call Option (in full or in part) as outlined above, the Trustee will subsequently issue a formal Exercise Notice to the Program Entity, indicating the amount of Additional ERs to be exercised at either the 'fixed price' per Additional ER as established under the ERPAs, or new Exercise Price, whichever is relevant.
- d) Issuance of the Exercise Notice shall take place as soon as the response to the FMT note is received from the respective Tranches and cannot be later than sixty (60) calendar days following the issuance of a final Verification Report.

⁶ This will be done in coordination with other initiatives, such as the WB's Partnership for Market Implementation (PMI)

⁷ For clarification regarding Corresponding Adjustments (CA) – the FCPF Carbon Fund does not require a mandatory CA for ERs transacted under the ERPAs (Contract ERs and Additional ERs). If Tranche participants require this, it will have to be a separate discussion and agreement between the Tranche participant/s and the host country.

35. Negotiable Exercise Price Scenario:

Negotiations will take place via email exchanges, however, if needed, meetings can be arranged to discuss critical issues.

- a) **In the absence of a third-party offer or other Program Entity preferences**, Tranche A and Tranche B Participants shall indicate their willingness to exercise, or waive, all or part of the Call Option for the Additional ERs as proposed by the Trustee.
 - i. As in 34 (a) (i), if Tranche A and/or Tranche B Participants indicate a preference to waive the Call Option in full or in part, the Trustee will proceed accordingly.
 - ii. If Tranche A and/or Tranche B Participants indicate a willingness to exercise the Call Option (in full or in part), they shall indicate the price they are willing to pay for the Additional ERs. The Trustee will subsequently inform the Program Entity of the proposed price. Once the price has been agreed between the Trustee and the Program Entity, the agreed price will serve as the Exercise Price for the Additional ERs generated during the relevant Reporting Period. The Trustee will then proceed with step 36 below. **The negotiation and agreement on the Exercise Price between the Trustee and the Program Entity shall conclude no later than sixty (60) calendar days from the issuance of the final Verification Report.** Failure to reach agreement within this time-period will result in a lapse of the Call Option for that Reporting Period (see paragraph 10).
- b) **If there is a third-party offer or other Program Entity preferences**, Tranche A and/or Tranche B Participants shall indicate if they wish to:
 - i. waive the Call Option; or
 - ii. in the case of Tranche A, indicate its willingness to match the third-party price (if available) which would then serve as the new Exercise Price for the relevant Reporting Period and would be reflected in an amended ERPA.

36. Where either or both of the Tranches have indicated willingness to exercise the Call Option (in full or part) as outlined above, and following agreement on the Exercise Price, the Trustee will have sixty (60) calendar days (from the date of agreement of the Exercise Price) to issue a formal Exercise Notice to the Program Entity, indicating the amount of Additional ERs to be exercised and the agreed Exercise Price per Additional ER.

Part 3: Exercise Completion Period

37. Upon receipt of the Exercise Notice, the Program Entity has an Exercise Completion Period of **ninety (90) calendar days** from receipt of the Exercise Notice to complete the transfer of Additional ERs for which the Call Option has been exercised.

38. In all cases, whether in a 'fixed' or 'negotiable' Exercise Price scenario, if the respective Tranches have indicated a willingness to exercise a Call Option for Additional ERs, the respective ERPA would need to be amended to include the additional expenditures required to be paid for such Additional ERs.

39. ERPA amendment and restructuring:

- a) The Trustee (with support from WB legal counsel) will prepare the draft ERPA amendment for the respective ERPA under which a Call Option is being exercised.

- b) The WB task team will prepare and finalize the necessary internal documentation (including the restructuring paper for the ER program) elaborating on the payment that will be made for the Additional ERs generated by the ER program. This step can be initiated as soon as there is a clear confirmation that the Call Option will be exercised and at what Exercise Price.
- c) The process for restructuring shall follow the IPF policy and procedure applicable to ER Programs.

40. ER transfer and payment

- a) In parallel to the ERPA amendment and restructuring process, the Program Entity may also start preparing the draft ER transfer forms for the Additional ERs for which the Call Option will be exercised. Once the ERPA amendment and restructuring process is complete, the ER transfer and payment may proceed.
- b) The ER transfer and payment for the Additional ERs shall follow the same process as for Contract ERs.

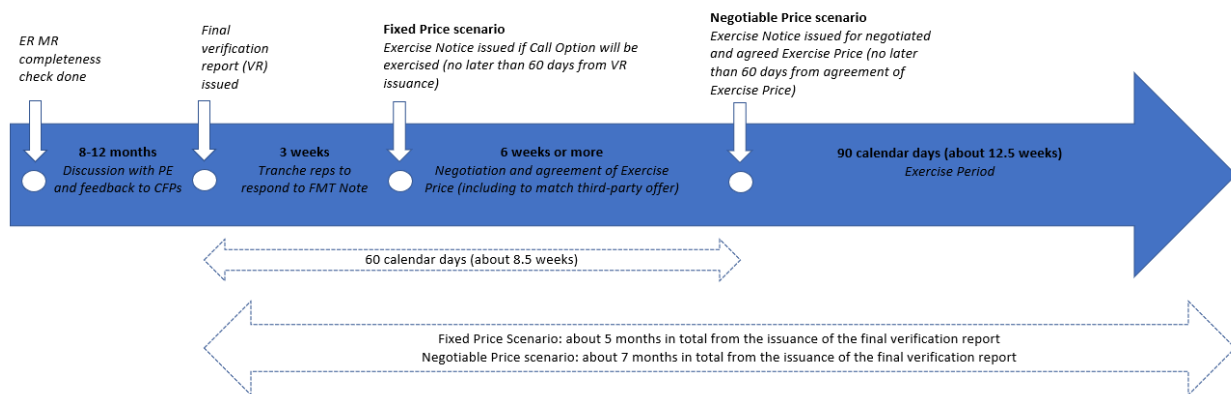


Figure 1: Timeline for the Call Option process

E. Exercising Call Options based on FCPF Carbon Fund Available Funding

- 41. Call Options will be exercised under the Tranche A and Tranche B ERPAs based on the available funding at the time when they will be exercised.
- 42. As of December 31, 2022, the FCPF Carbon Fund had a total of US\$53.6 million in uncommitted funds which may be used towards exercising Call Options (pro-rated for each Tranche). This amount may increase over time in the event that one or more ER programs are under-performing and related Contract ER volumes as well as related committed funding are being reduced.

Annex: Call Option Volumes and Exercise Prices of the 15 ERPAs

ERPA	Contract Value @\$5/tCO ₂ e	Maximum Call Option Volume	Exercise Price Tranche A	Exercise Price Tranche B
Chile	\$ 26,000,000	2,000,000 ⁸	to be negotiated	to be negotiated
Costa Rica	\$ 60,000,000	5,000,000	to be negotiated	to be negotiated
Cote d'Ivoire	\$ 50,000,000	not specified	\$ 6	to be negotiated
DR Congo	\$ 55,000,000	5,000,000 ⁹	\$ 5	\$ 5
		1,000,000 ¹⁰	\$ 6	n/a
DR	\$ 25,000,000	not specified	to be negotiated	to be negotiated
Fiji	\$ 12,500,000	1,000,000	\$ 5	\$ 5
		All beyond 1 m	\$ 6	to be negotiated
Ghana	\$ 50,000,000	1,000,000	\$ 5	\$ 5
		All beyond 1 m	to be negotiated	to be negotiated
Guatemala	\$ 52,500,000	not specified	\$ 6	to be negotiated
Indonesia	\$ 110,000,000	20,000,000	to be negotiated	to be negotiated
Lao PDR	\$ 42,000,000	2,600,000	\$ 6	to be negotiated
Madagascar	\$ 50,000,000	2,000,000	\$ 6	to be negotiated
Mozambique	\$ 50,000,000	4,000,000	to be negotiated	to be negotiated
Nepal	\$ 45,000,000	4,000,000	to be negotiated	to be negotiated
ROC	\$ 41,795,000	11,000,000	\$ 6	to be negotiated
Vietnam	\$ 51,500,000	5,000,000	\$ 5	\$ 5
Total	\$ 721,295,000			

⁸ 1 million ERs for Tranche A and 1 million ERs for Tranche B

⁹ Call Option Volume 1

¹⁰ Call Option Volume 2 only applicable to Tranche A ERPA

Version history

Version	Date	Revisions
1.0	February, 2023	First version of the Call Options note.