



SUBSIDIARY GUIDELINES ON INTEGRITY ASSESSMENT CRITERIA AND REQUIREMENTS



**MALAYSIA FOREST
FUND**

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SUBSIDIARY GUIDELINES ON PROJECT REQUIREMENT OF FOREST CARBON OFFSET PROJECTS

(Version 3.0- Public Comment)



3.1 PURPOSE

- 3.1.1 The Subsidiary Guidelines on Integrity Assessment Criteria and Requirements establish the criteria and procedures for evaluating and demonstration the greenhouse gas (GHG) emission reductions, removals, and/ or avoidance realized through projects under the Forest Carbon Offset (FCO) Program.

3.2 SCOPE AND APPLICABILITY

- 3.2.1 The Subsidiary Guidelines on Integrity Assessment Criteria and Requirement, along with all clauses within this document and referenced herein, are mandatory for all project owners and project proponents participating in the FCO program to adhere to.
- 3.2.2 Malaysia Forest Fund (MFF) retains the authority to issue updates, modifications, clarifications or corrections to the Guidelines which will be made available in the MFF Registry. Project proponents must stay current with these updates and incorporate them as needed for their projects by regularly checking the rule updates section in the MFF Registry.
- 3.2.3 Stakeholders may suggest updates, edits, changes or additions to the Guidelines by sending an email to MFF at corporate@myforestfund.com.my. MFF reserves the right to accept or reject such requests at its discretion.

3.3 BASELINE SCENARIO

- 3.3.1 The baseline scenario outlines the activities and greenhouse gas (GHG) emissions that would typically occur in the absence of the project. Defining this scenario is essential for accurately comparing the expected emissions under the baseline with the actual reductions, removals, or avoidance achieved through project implementation.
- 3.3.2 The requirements for baseline scenarios are as follow:
- (a) Project proponents must identify and justify the selection of the baseline scenarios for the project in alignment with the methodologies applied to the project.
 - (b) Project proponents should select assumptions, values, and methods that prevent overestimation of GHG emission reductions, removal or avoidance in developing the baseline scenarios.
 - (c) Consideration should be given to relevant government policies and legal requirements pertaining to the project activity in determining the baseline scenarios.
 - (d) In estimating GHG emission reductions, removals or avoidance in the baseline scenarios, project proponents must adhere to specific methodology requirements or use GHG factors from scientifically peer-reviewed sources suitable for the GHG source or sink.
 - (e) Baselines and their associated assumptions must be made publicly available in the MFF Registry for transparency and accountability.

3.4 DEMONSTRATION OF ADDITIONALITY

3.4.1 For a project activity to be considered additional, it must fulfill the following criteria:

- (a) the activity results in GHG reductions, removal or avoidance that surpass what would occur under a “business-as-usual” scenario;
- (b) the activity would not have taken place without the incentive provided by carbon offsets; and
- (c) the activity is not a requirement mandated by law.

3.4.2 Requirement(s) for demonstration of additionality include:

- (a) The proponent must show that the proposed activity either meets an FCO-approved performance standard and passes a regulatory surplus test outlined in the relevant FCO methodology, or passes an additionality test detailed in **Annex 3A**. Under this test, the project must :
 - (i) Surpass regulatory or legal requirements.
 - (ii) Overcome implementation barriers: institutional and financial.

3.5 CONSERVATIVENESS

3.5.1 All projects must adopt a conservative approach such that the quantification of GHG emission avoidances, reductions or removals from the mitigation activities must consider permanence and carbon leakage. The applicable FCO methodologies should be referred for further guidance. In the case of guidance deemed as insufficient by MFF, the project proponent must account for risk of reversal buffer, permanence period discount, leakage discount factor temporal discount factor and sampling variance discount factor.

3.5.2 Requirements for conservativeness include:

- (a) Project proponents must establish assumptions, quantification methods and monitoring protocols to prevent overestimation of GHG reductions, removals or avoidance, especially when estimation methods, rather than direct measurements, are utilized. This approach should be supported by a materiality threshold framework and historical data.
- (b) The baseline should be constructed on plausible assumptions and methodologies that tend to underestimate rather than overestimate net GHG reductions, aligning with the conservativeness threshold (refer 3.5.1).
- (c) The baseline should mirror historical emissions or activity levels unless there is a justified rationale for deviation, ensuring realism and avoiding over optimism compared to past trends.
- (d) Scenarios included in the baseline must be realistic and feasible, omitting unlikely or extreme projections that could inflate emissions estimates.
- (e) The baseline should consider existing or anticipated regulations or policies

affecting emissions to ensure claimed reductions are not driven by external factors.

- (f) The baseline must conform to established guidelines, methodologies, and principles of the FCO program or other MFF recognized GHG emission reductions, removal or avoidance standards.
- (g) The process for establishing the baseline must be well-documented, transparent, and reproducible to prevent ambiguity or potential overstatement of emissions reductions.

3.5.3 Business-as-Usual (BAU) baseline represents the anticipated scenario for GHG emissions in the absence of the project, utilizing historical trends and current policies as a basis. The BAU should incorporate historical data, prevailing regulations, and expected activities that would persist in the absence of the project.

3.5.4 The BAU baseline should not include assumptions of emission reductions that cannot be directly linked to the project activities. The methodology used to establish the BAU baseline must be transparent, well-documented, and compliant with MFF recognized GHG emission reductions, removal or avoidance standards or Guidelines of the FCO program.

3.6 QUANTIFICATION OF GHG EMISSION REDUCTIONS, REMOVAL OR AVOIDANCE

3.6.1 Forest Carbon Units (FCUs) issued under the FCO program are determined by the GHG emission reductions, removal or avoidance achieved through successful FCO project implementation. Quantification of emission reductions, removal or avoidance must align with the relevant methodologies.

3.6.2 Requirements for quantifying GHG emission reductions, removal or avoidance include:

- (a) GHG emissions, changes in carbon stocks, or carbon stocks for each relevant source, sink, and reservoir, including leakage, should be estimated per the relevant methodologies and compared against the baseline scenario.
- (b) GHG emission reductions, removals or avoidance resulting from the project must be quantified and reported, with separate quantification and reporting if applicable, following the procedures and equations outlined in the relevant methodologies.
- (c) Metric tons of carbon dioxide equivalent should be the unit of measurement for each FCU, using the 100-year GWP values from the IPCC Sixth Assessment Report (AR6). Refer to Table 1 for the GWP values of eligible GHG established in AR6.

Table 1: GWP values from the IPCC Sixth Assessment Report

Eligible GHG	Chemical Formula	100-year GWP Value
Carbon dioxide	CO ₂	1.0
Methane - non fossil	CH ₄	27.0
Methane - fossil	CH ₄	29.8
Nitrous oxide	N ₂ O	273.0

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Eligible GHG	Chemical Formula	100-year GWP Value
Nitrogen trifluoride	NF3	17,400.0
Sulfur hexafluoride	SF6	24,300.0

- (d) The project proponent should utilize data sources not exceeding 24 months old during validation to determine default values, data, or parameters and subsequently use data not exceeding 12 months old during verification for monitored parameters.

3.7 TENURE SHIP

3.7.1 Project proponents must provide evidence of having the legal authority to manage and conduct project or program activities.

3.7.2 The project registration should include proof of project ownership rights by the project proponents through:

- (a) Tenure ship granted by an authorized governing body through statute, regulation, or decree; and
- (b) Supporting evidence from at least one of the following categories:
 - (i) legal establishment of project tenure ship;
 - (ii) statutory, property or contractual rights in the land, vegetation or conservation, or management process driving GHG emission reductions, removals or avoidance;
 - (iii) agreement with the holders of the statutory, property or contractual rights related to the land, vegetation, conservation, or management process leading to GHG emission reductions, removals or avoidance, which are irrevocable and enforceable;
 - (iv) tenure ship established through adherence to laws, statutes or regulatory frameworks mandating or incentivizing project activities.

3.8 ADDRESSING REVERSALS

3.8.1 The need to address reversals is based on ensuring lasting impact of GHG emission reductions, removals and avoidance from a project and mitigating the risk that these benefits may not be permanent.

3.8.2 Evaluation requirements for reversals include:

- (a) Project proponents must work to prevent and minimize the reversal risks, and if reversals of GHG emissions reductions, removals or avoidance occur, they must be fully addressed according to Section 3.9.
- (b) Reversal risks may stem from factors such as :
 - (i) financial and management issues, changes in asset ownership, and increasing opportunity costs;
 - (ii) regulatory uncertainties, social unrest and political instability;
 - (iii) natural events such as fires, pests, and droughts, storms, hurricanes, floods, landslides, earthquakes, volcanic eruptions, geological faults, and fractures; and
 - (iv) climate change impacts.

- (c) Project proponents need to conduct a risk assessment to identify, assess and mitigate non-permanence risks. An overall percentage-based risk rating must be calculated considering avoidable and unavoidable reversals and include a risk mitigation plan.
- (d) Relevant information related to reversal risks and mitigation plans should be included in the PDD submitted for registration.
- (e) Project risk assessments should be reviewed and updated every five (5) years from the start of the first crediting period. The monitoring plan should also be reviewed and revised at the start of each new crediting period or whenever additional risk factors are identified, under the following conditions:
 - (i) Revisions to the monitoring plan may be necessary if concerns arise as identified by MFF in either the monitoring plan or risk assessment plan.
 - (ii) Any new risk factors discovered after a reversal that were not previously accounted for or appropriately handled in the monitoring and the risk assessment plan may require plan adjustments; and
 - (iii) If relevant laws or regulations mandate the consideration of risk factors that were not previously contemplated or sufficiently addressed in the monitoring and the risk assessment plans, revisions may be needed.
- (f) If a reversal is identified after validation, project proponents must inform MFF within 30 business days, providing details of the event such as brief description of the event, including the time, date(s) and location of the occurrence.
- (g) Upon receipt of such notification, MFF will suspend the issuance, transfer, and retirement of credits related to the events. Project proponents must prepare and submit to MFF a monitoring report verified by VVB within 365 days of the event.
- (h) Upon receiving the monitoring report, MFF will evaluate whether the reported magnitude of the reversal and classification of the event as avoidable or unavoidable are accurately depicted. Based on this assessment, MFF will take the necessary actions outlined in Section 3.9. Concurrently, project proponents must reassess and update the project's risk assessment and adjust the risk rating accordingly. This may lead to an increased contribution to the FCO Buffer Account in alignment with the heightened risk rating and necessitates the formulation of strategies to prevent any further release of stored GHG.
- (i) MFF has the authority to resume suspended operations as detailed in paragraph 3.8.2 (g) provided that a robust demonstration is presented through a verified monitoring report that the observed event did not result in an actual reversal.
- (j) The project proponent retains the responsibility for executing the project, encompassing the implementation of all necessary processes, actions and measures.

3.9 REMEDIATION OF REVERSALS

- 3.9.1 When reversals of stored GHG occurs after the issuance of FCUs, the reversals must be addressed through the actions outlined in this section and any additional directives from MFF.
- 3.9.2 Projects that have undergone validation but have not yet generated any credits must promptly collaborate with MFF to evaluate and implement necessary actions in response to events like peat fires to reduce the likelihood of potential reversals.
- 3.9.3 Requirements for remediation of reversals include:
- (a) Upon identifying a reversal event and completing a review of the monitoring report by MFF documenting the reversals, MFF will promptly inform project proponents of the review outcomes. The notification will specify the quantity of buffer credits needed for remediation, corresponding to the magnitude of the reversals.
 - (b) In cases of avoidable reversals where FCUs have been moved from the FCO Buffer Account, project proponents are accountable for replacing the credits in full, which will be automatically deducted from the subsequent issuance. The buffer credits will only be cancelled after the crediting period concludes, ensuring that remediation is not reliant on the timing of the next issuance.
 - (c) MFF reserves the right to provide additional guidance on both avoidable and unavoidable reversals to further inform the remediation process.

3.10 AVOIDANCE OF LEAKAGE

- 3.10.1 Leakage occurs when there is an increase in GHG emissions outside of the project boundary due to the implementation of the FCO project within the boundary.
- 3.10.2 Reversals refer to the instances of GHG emissions reduction, removal or avoidance being reversed due to avoidable or unavoidable incidents within the project. These reversals result in a net negative impact compared to the baseline or previous issuance of carbon credits, which MFF deducts and records in the MFF Registry system as per these Guidelines.
- 3.10.3 Requirements for avoiding leakage include:
- (a) Project proponents must strive to minimize uncertainties associated with quantifying GHG emission reductions and removals to the extent feasible;
 - (b) Project proponents should account for and mitigate the risk of leakage, factoring in any residual leakage when calculating net removals in accordance with the prescribed methodologies.
 - (c) Project proponents are obligated to document all potential sources of leakage attributable to the project, explain how each source is being managed, and provide justification for excluding any source of leakage.
 - (d) Leakage beyond the host country boundaries (i.e. international leakage), does not need to be quantified.
 - (e) Positive leakage, where GHG emissions decrease or removals increase outside the project area due to project activities, should not be considered.

- (f) In cases where the applied methodology does not specify how to determine if leakage is insignificant, projects can utilize the process outlined in the CDM A/R methodological *Tool for testing significance of GHG Emissions in A/R CDM Project Activities*.
- (g) Any identified leakage must be deducted from the tally of reductions, removals or avoidance eligible for certification as FCUs.

3.11 RISK ASSESSMENTS

3.11.1 The risk analysis criteria and buffer withholding percentages outlined in Subsidiary Guidelines for FCO Methodologies will be utilized to guarantee that the FCO Buffer Account always retains sufficient buffer credits to offset any project setbacks effectively.

3.12 BUFFER CREDITS

3.12.1 Buffer credits are non-tradeable FCUs designated to address the non-permanence risks associated with project. These credits are used to offset GHG emissions reductions, removals or avoidance that are deemed to have been lost by the project.

3.12.2 Requirements for buffer credits:

- (a) MFF will establish an FCO Buffer Account recorded in the MFF Registry system. This account is intended to fully remediate reversals by canceling a corresponding amount of FCUs.
- (b) Upon the issuance of FCUs, an amount equivalent to the project's risk rating as per the applicable FCO methodologies will be allocated to the FCO Buffer Account to cover potential losses in case of reversals or performance discrepancies throughout the project's lifespan.
- (c) The final issuance of FCUs to projects is adjusted based on the project's risk rating, with buffer credits subtracted from the GHG emissions reductions, removals or avoidance linked to project risks.

3.13 ADDITIONAL INTEGRITY AND MARKET LABELS

3.13.1 Any project that intends to be developed for International Objectives shall also include the achievement of at least two (2) sustainable development goals, and supplemental integrity label(s) in their project design. Incorporating supplementary label(s) is voluntary but once the proponent includes Integrity and Market Labels, monitoring and reporting of such activities are compulsory.

3.13.2 The provisions for integrity and market labels are prescribed in the [*Subsidiary Guidelines on Sustainable Development Goals and Safeguards Compliance*](#).

3.14 DISCLOSURE OF INTEGRITY INFORMATION

3.14.1 To successfully undergo the project validation process, project proponents must compile thorough documentation outlining the project's activities related to GHG emissions reductions, removal or avoidance activities. Similarly, for the project verification process, project proponents are required to prepare a monitoring report

detailing the data and information associated with monitoring GHG emissions reductions, removal or avoidance.

3.14.2 Requirements for disclosure of integrity Information:

- (a) All information contained in project documents is presumed to be public unless project proponents can demonstrate, to the satisfaction of MFF, that such information is commercially sensitive.
- (b) Unless explicitly agreed upon by MFF, the following information in project documents must be made publicly available and should not be deemed commercially sensitive:
 - (i) Project boundary with location coordinates
 - (ii) All national and sub-national registration numbers (also referred to as identifiers)
 - (iii) Details of the ultimate beneficiaries
 - (iv) Compliance to all national and international laws (including laws governing financial transactions such as anti-money laundering)
 - (v) Assumptions and establishment of the baseline scenario.
 - (vi) Proof of additionality.
 - (vii) Quantification of both estimated and actual GHG emission reductions, removals and avoidance.
 - (viii) Monitoring of GHG emission reductions, removals and avoidance.
 - (ix) Risk assessment and mitigation plan.
 - (x) Monitoring and prevention plan.

3.14.3 Project proponents must furnish comprehensive documentation as outlined in Annex 3B to fulfill the disclosure requirements.

-End of document-

Forest Carbon Offset Program Additionality Test

Project proponents shall demonstrate additionality of the project that exceed those that would have occurred in the absence of the project activity and under a “business-as-usual” scenario, guided by the following key questions:

Test	Key Questions
Regulatory Surplus	Is there an existing law, regulation, statute, legal ruling, or other regulatory framework in effect as of the project Start Date that mandates and enforces the project activity or effectively requires the GHG emission reductions and/ or removals? YES = FAIL NO = PASS
Implementation Barriers	CHOOSE AT LEAST ONE OF THE FOLLOWING THREE
Financial	Do the project face capital constraints that carbon revenues could address; or is carbon funding reasonably expected to incentivize the project’s implementation; or are carbon revenues a key element to maintaining the project action’s ongoing economic viability after its implementation? YES = PASS NO = FAIL
Institutional	Do the project face significant organizational, cultural, or social barriers to implementation, and are carbon market incentives a key element in overcoming these barriers? YES = PASS NO = FAIL

Project proponents shall consider relevant circumstances, including existing policies, measures, regulatory framework, legal mandates, social, economic, environmental and technological, based on robust data and verifiable information.

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Annex 3B

Forest Carbon Offset Program Project Integrity Checklist

Project Proponent	:	
Focal Point	:	
Correspondence E-mail	:	
Project Name	:	
Location	:	
FCO Methodology	:	

Please tick (✓) the following, where applicable:

Information	Yes	No	Remarks
Project Area			
GIS imagery (land-use)			
GIS imagery (aboveground biomass)			
Project boundary (.kmz or .shp file)			
Historic vegetation trend			
Emission or removal factors by FCO trusted service provider (state-specific)			
Tenure ship			
Land title			
Provision of relevant statute, regulation, or decree			
Relevant legal ownership/ tenure ship document			
Agreement with relevant landowner			
Additionality			
Relevant laws and regulatory/ legal mandates			
Description of common practices			
Description of implementation barriers (institutional, financial or technical)			
Statistical quantification of expected GHG emission avoidances, reductions and/ or removals (based on methodology)			
GIS imagery (land-use)			
GIS imagery (aboveground biomass)			
Risk Management			
Risk assessment			
Mitigation plan			
Reversal Management			
Monitoring report			
Prevention plan			