



SOCIALCARBON®

Guidance for Tokenisation and use of Distributed Ledger Technology.

Version 1.0

socialcarbon.



Purpose of this Document

Distributed Ledger Technology (DLT), also known as Blockchain, offers opportunities to enhance the international carbon markets. Through the tokenisation of issued carbon credits a number of innovations are made possible, including but not limited to, peer-to-peer transactions and decentralised finance. SOCIALCARBON itself utilised DLT for its registry; every SOCIALCARBON Unit (SCU) is a unique fungible token. Doing so creates significant efficiency and transparency benefits.

The purpose of this document is to provide clarity on SOCIALCARBON's standpoint on tokenisation and DLT. It outlines requirements that third parties must comply with in order to tokenise SCUs and utilise DLT.

What is Distributed Ledger Technology

Distributed Ledger Technology

At its core, Blockchain is decentralized accounting software. It tracks assets, typically recorded as Tokens (digital representations of an asset), their transactions and ownership.

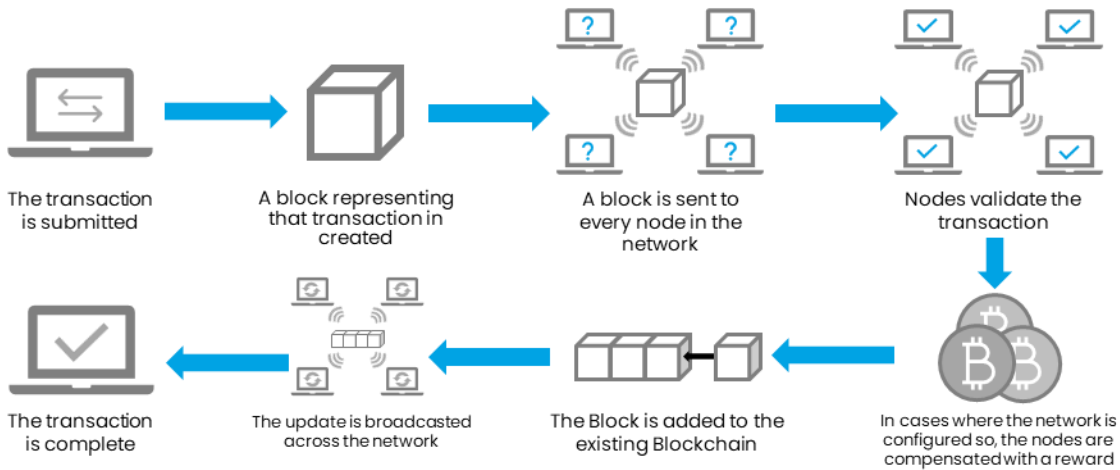
Blockchain, unlike traditional accounting systems, has its transaction history audited by a network of computers called "nodes", that each independently verify information recorded on the Blockchain and reach consensus on what is correct. In doing so, each node stores a copy of the Blockchain's transaction history, resulting in decentralised data storage and greater network security and resilience.

A blockchain differs from a database in the way that data is structured, storing information in blocks, each of which contains a unique cryptographic hash that links it to the previous block and a unique timestamp. This creates a chain of blocks, hence the name "blockchain."

When a transaction is initiated, it is broadcasted to all nodes in the network. Each node then validates the transaction using consensus mechanisms, which establish the rules for auditing transactions.

Once the transaction is validated, it is added to a block, which is then added to the chain of previous blocks, forming a permanent and unalterable record of the transaction.

The blockchain network relies on cryptography to ensure the integrity and security of the data. Each block contains a unique cryptographic hash that links it to the previous block, making it impossible for anyone to tamper with the data without being detected.



Tokenisation

In the blockchain ecosystem, tokens are assets that allow information and value to be transferred, stored, and verified in an efficient and secure manner. These cryptographic tokens can take many forms and can be programmed with unique characteristics that expand their use cases. In the case of the carbon markets, this process is related to the creation of tokens that represent issued carbon credits.

Requirements

The following requirements are mandatory and must all be met for third parties to tokenise SCUs and utilise DLT.

Know Your Customer (KYC)

- When an SCU is not sold for retirement and the token gives them rights to a specific SCU, the third party must conduct KYC on both the buyer and seller. This due diligence must align with industry best practice for KYC / KYB checks.

- If evidence emerges indicating that a third party tokenising SCUs has facilitated money laundering or terrorist financing, whether on purpose or through negligence, their SOCIALCARBON Registry account will be suspended.

Tokenisation of SCUs

- Only issued, non-retired SCUs can be tokenised.
- Only SCUs held on your own SOCIALCARBON Registry account can be tokenised.
- Where SCUs are pooled to create an aggregated Token, the pool of SCUs behind the Token must be transparent, auditable and held¹ by the entity tokenising them.
- SCUs shall be retired in integers (whole numbers) and not fractionalized.

Transaction and retirement of SCUs

- If tokens are sold as offsets, they must be burnt, and the underlying SCUs must be retired on the SOCIALCARBON Registry within 5 days of transaction completion.
- The SOCIALCARBON Registry is the final source of truth.

If you have any questions or would like to talk to a member of our team, please email us on info@socialcarbon.org.

¹ This applies to either the owner of the SCUs or organisations that have contractual agreements with the owner of the SCUs.