NICIF appreciates the opportunity to comment on the revised approach to HFLD Crediting Level in TREES v2.0. We are very pleased to see the engagement of the ART in this topic, and strongly support this work. NICFI has been piloting several approaches to provide an incentive structure for and rewards to HFLD countries, and we welcome further thinking to advance this issue. Providing the right incentive structure and rewards for this group of countries remains a priority for NICFI. We are also eager to draw relevant lessons for possible future approaches to accounting for emissions and removals from standing forests.

1. **The adjustment of the crediting baseline and its effect**

Generally, we belive that the approach suggested by ART is easy to understand, and simple to use. We appreciate the incorporation of the HFLD score in the estimation of the HFLD crediting level and believe this generally rewards countries for achieving high scores on key HFLD characteristica. We support that the new approach does not use a trend line as reference level, as this, in our view, gave the wrong signals and incentives. That the new approach is based on a 5-year historical average crediting level, giving it the same starting point as the approach used for regular crediting levels for TREES ERs, adds simplicity and coherence to the TREES standard as a whole. We appreciate this.

The suggested approach seems to provide generous rewards to HFLD countries maintaining their high forest cover and low deforestation rates, and keeping their forest stocks, compared to some other HFLD approaches, including previous approaches suggested by ART. For example, we note that the GCF framework allows for upwards adjustment that does not exceed 0.1 % of the carbon stock over the eligibility period in the relevant national or subnational area, and does not exceed 10% of the FREL/FRL. This has been interpreted as setting the threshold level at 0.02 % of the carbon stock per year, which is significantly less than the threshold proposed by ART. The FCPF Methodological Framework applies an adjustment cap of maximum 0.1 % / year of carbon stocks, which is somewhat higher than the threshold proposed by ART, due to the incorporation of the HFLD score in the estimate in the ART approach. Both these approaches use a definition of HFLD that differs from the approach suggested for TREES.

We would advise the ART Board and Secretariat to carefully assess the potential increase of the crediting baseline with the suggested approach, relative to the historical average, noting that this is addressed differently in the existing HFLD approaches. Providing an explanation of the rationale for the chosen approach could be helpful. Should the ART Board move forward with the suggested approach, there might be merit in publishing some language reflecting the deliberations as to why 0.1 % of the standing forest carbon stock was considered appropriate (and not 0.05 % or 0.2 %, or 0,1% over the crediting period, for example).

The set-up with deductions by a certain factor if total annual emissions exceed the historical average seems reasonable, introduction a 75% cap increase for ER results. We note that higher deductions (e,g, 50% if annual emissions exceed historical average by more than 50%) would help to stimulate higher ambition and reduce the adjustment potential to be more conservative. This has to be weighed against natural variance both in estimates and trends.

2. The relative importance of the various HFLD characteristics

The suggested approach attaches particular weight to carbon stocks, as this influences the crediting baseline both through the carbon stock, and the HFLD score (through forest cover). We note that for countries applying the regular TREES approach, there is no reward for carbon stocks, even if participants might have substantial carbon stocks despite not meeting the HFLD criteria. Adding more weight to the carbon stock than the other HFLD characteristics might come across as unbalanced seen in this light. It might be argued that the important difference between the HFLD countries and other countries, indicating sustainable land use policies being consistently implemented, is the consistently low deforestation rate of the HFLD countries. We would therefore recommend thinking carefully about the rationale behind giving existing carbon stocks particular weight compared to other characteristics, such as deforestation rate.

3. The definition of HFLD and environmental integrity

The definition of what is an HFLD country becomes an important gatepost to ensure the integrity of the approach. We strongly encourage the ART Board and Secretariat to maintain a high threshold for the definition of HFLD. Our understanding is that the approach outlined in the TREES v2.0 on public consultation will be the basis for the definition of which TREES participants are eligible for HFLD status. We would like to refer to our comments on this matter in the previous round of consultations, including regarding the criteria that the HFLD score threshold must be met for all years in the reference as well as the accounting period, which we support. The individual thresholds for forest cover and deforestation rate might, as indicated, be reconsidered in light of the new, suggested approach.

Referring to our previous comments, we strongly caution against the eligibility of the sub-national level for the HFLD approach, and would like to encourage the ART Secretariat and Board to carefully consider the pros and cons of this option. As indicated, we worry that accepting HFLD at the subnational level allows for cherry-picking, or reducing the incentives for sustainable forest and land use policies across the entire country. Should the HFLD approach be open to sub-national participants, we encourage additional reflections on the mechanisms to monitor and account for leakage in such situations.

We note that emissions from forest degradation are not a part of the basis for the HFLD definition. Whilst we recognize the technical rationale behind this, we would also encourage the ART Secretariat and Board to consider whether there should be explicit requirements to include emissions from forest degradation from HFLD countries beyond existing thresholds as required by the TREES. However, we recognize and value the importance of keeping the standard simple and streamlined. Remaining technical challenges of measuring emissions from forest degradation, as well as the significance of having the same expectations for all participants, are also arguments against adjusting this threshold for HFLDs in particular.

4. Technical comments

The HFLD approach seems to lack some methodological details:

- The text in para 2 mentions "intact carbon stocks". Does this indicate that only carbon stocks in intact forest landscapes are to be included in the estimation of carbon stocks, not stocks of secondary forest, or degraded forest, or forests that are not intact? If yes, we encourage the inclusion of a definition of "intact forest".
- In particular, we encourage guidance on which carbon pools are included in the "Standing Forest Carbon Stock" as mentioned in Equation 2. This includes details on maximum depth of soil measurements (including peat soils), and relevant guidance of the other carbon pools such as dead wood to ensure sufficient quality of the estimates for the purpose, etc.
- Regarding the Standing Forest Carbon Stock, it would be helpful to specify whether the stock applied is C or CO2, or when the conversion from C to CO2 is to be applied in the calculations.
- Regarding the mechanism to reduce available credits should the annual emissions exceed historical average, there might be merit in clarifying on which basis the "percent" is estimated, just to avoid any chance of misunderstandings.