



The Carbon Reserve Governance framework

Introduction to the mandate of the Carbon Reserve and proposed design of a governance and organisational structure.





A: Introduction

Mandate of the Carbon Reserve

The mandate of the Carbon Reserve, as is included in its Articles of Association, is as follows:

“The purpose of the Foundation is to enable and support the reduction of atmospheric carbon and other climate related externalities.”

1. Issuing and supporting a global digital currency called toco, which is based on verified atmospheric carbon reductions. Each toco represents one tonne of carbon removed from the atmosphere.
2. Holding a portfolio of carbon mitigation assets (CMAs), which are any instruments generated as part of a scheme, project, or program that reduces or offsets atmospheric carbon.
3. Facilitating toco transactions on a permissioned blockchain that processes and records toco transactions and maintains a permanent registry of assets held by the Carbon Reserve.
4. Expanding the money supply responsibly to contribute to achieving the CO₂e concentration pathway recommended by the Intergovernmental Panel on Climate Change (IPCC).
5. Embracing the principles of a representative monetary system, similar in character and functioning to the gold standard, with the goal of increasing the demand for and value of CMAs.
6. Maintaining the convertibility of tocos by actively managing the quality and quantity of the CMAs on its balance sheet
7. Working to increase the demand for carbon mitigation assets, which helps combat climate change and leads to the growth of a carbon economy.



Choice of legal structure

The founding members opted to establish the Carbon Reserve as a Foundation in Switzerland. It was incorporated as a Foundation and entered into the Swiss commercial register on 22 November 2022.

A Foundation is a unique type of legal entity founded with the sole intention of achieving a specific purpose. The founders articulate its purpose in its Articles of Association, a legally binding document that governs the Foundation's actions.

This choice of a Foundation reflects the primary need for:

- 1. Independence** - The Foundation can function independently from its founding members and can select a Board of Directors that is independent and free from conflicts of interest.
- 2. Public benefit** – The Foundation is set up for the benefit of the public. It operates as a non-profit in pursuit of its mandate. Its assets do not belong to any one person or persons and is managed for the benefit of the teco economy.
- 3. Permanence of mandate** – An amendment to the mandate or provisions of the Articles of Association is subject to approval by the Supervisory authority.
- 4. Oversight** – The Foundation is subject to supervision by the Supervisory Authority for Foundations in Switzerland and is subject to mandatory reporting, including an annual audit.

Articles of Association

Its Articles of Association contain key information which aim to guide the operation and management of the Foundation. Key elements from its Articles of Association are:

- 1.** The Foundation may fund its operation from third party sources and income generated from its own assets and operations.
- 2.** The Foundation has a Board of Directors, comprised of no less than 4 natural persons.
- 3.** The Foundation has an auditor and is subject to an annual audit.
- 4.** The Board of Directors may create advisory Committees of sub-Committees and determine the powers of such Committees.



5. The Board of Directors may delegate operational activities to an executive (management) body) but remain responsible for decision-making.
6. The board meets as often as required but at least quarterly.
7. Amendments to the Articles of Association is subject to approval by the Supervisory Authority in Switzerland

The purpose of the Articles of Association is to provide the guiding principles for design of organisational and governance arrangements and should be always adhered to.

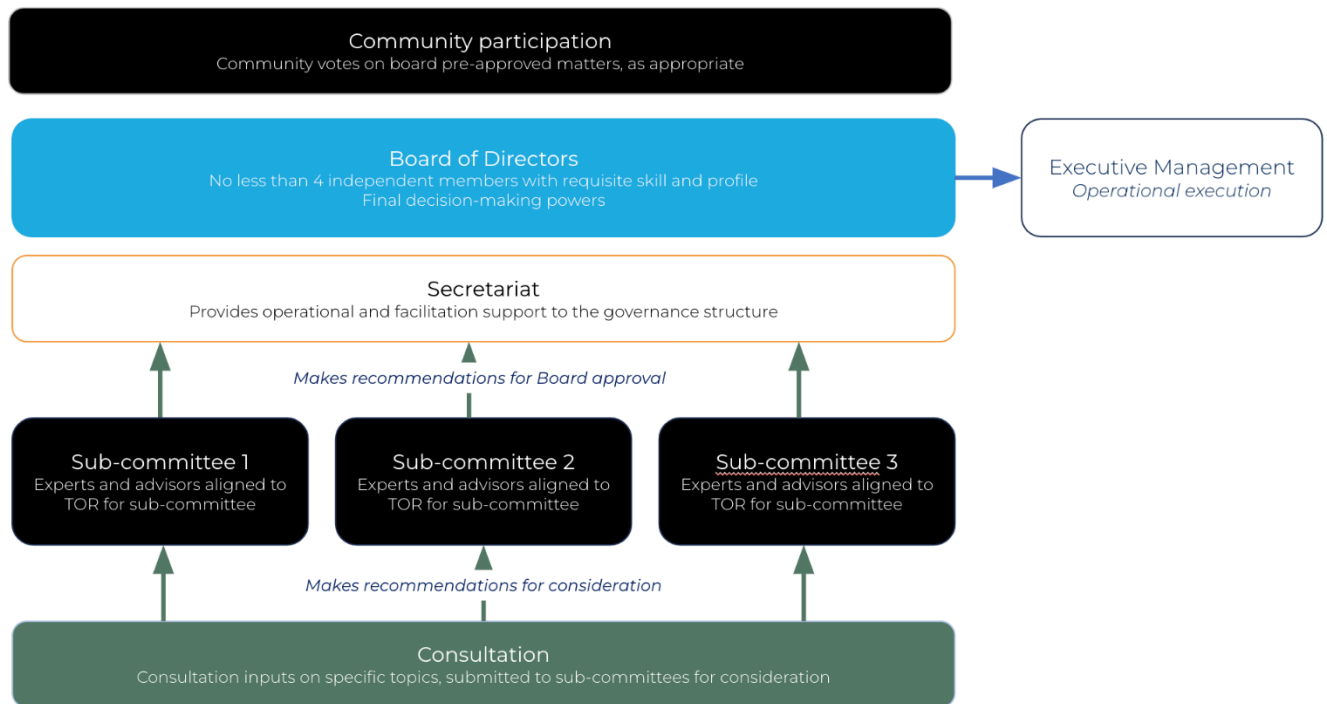
B: Design of organisational and governance arrangements

Overview

This section aims to propose the design of governance arrangements in a manner that is consistent with the overarching requirements of the Articles of Association and considers that key activities that the Carbon Reserve will undertake in pursuit of achieving its purpose.

The key components of the governance and organisational structure include:

1. The Board of Directors – No less than 4 natural independent persons with ultimate decision-making powers.
2. Secretariate – Person or organisation that facilitates the operation aspects of the governance structure.
3. Sub-Committees – Groupings of experts that provide guidance to the board and in with defined terms of reference.
4. Executive Management – Management team responsible for operational execution of board decisions.
5. Consultation – Persons or organisation may be invited to consult on specific topics.



Board of Directors

- It is important to note that the Foundation was incorporated with an initial Board of Directors. This board is currently comprised of the founding members and a Swiss resident director, as mandated by the laws applicable to Foundations in Switzerland. This board is the custodial board, and its members' tenure is restricted to ensure the required transition to an independent Board of Directors .
- Once the custodial Board of Directors step down, the board may only comprise board members that are independent from conflict and poses the required skills and experience.
- Emphasis is placed on the definition of "independence" and considers real and perceived threats to independence. Considering the key activities of the Foundation, independence from carbon market participants and governments is considered (but not limited to. In this regard, all board members are required to



sign a conflict-of-interest declaration at the time of first appointment and annually thereafter.

- In line with independence requirements, funding providers may not have board representation.
- Board members of a certain stature is required to ensure that their participation elevates the status of the Foundation in the global community.
- It is required that board members possess the required experience and skills to ensure that they can make a meaningful contribution to the functioning of the Board of Directors.
- The Board of Directors decides on the appropriate profile and skill set of new board seats in advance of an appointment and this serves as a guideline for the nominations Committee (if formed) to source the most appropriate candidates.
- Once the custodial board is phased out, the board should comprise of no less than 5 independent directors (uneven number) with diverse skills in the following areas (not limited to):
 - Carbon markets
 - Climate change
 - Financial markets and treasury
 - International development
 - Governance
- The outgoing board specify (by majority vote) the length of term for the new board (whether re-elected or new appointments). In this regard, the board may decide on a period between one and four years.
- In deciding on the appropriate term as per article 12 above, the board is required to consider the needs of the Foundation, specifically with regards to where it finds itself in its lifecycle. It is proposed that, during the early stage of the Foundations' activities, shorter terms are preferred to ensure that board member qualifications / profiles remain relevant to the needs of the Foundation. Once the Foundation is well established, longer terms are preferred for continuity and stability.



- If an elected member of the Board of Directors resigns, the board decides at its sole discretion whether to elect a replacement, provided the number of members does not fall below the minimum of four (4). A replacement, if any, is elected for the remainder of the current term.
- All board members are required to attend an induction program, to be completed before their first Board of Directors meeting. If directed by the chairperson, new members may be required to attend specific task-related training.
- Board members may opt to act on a voluntary basis or to be remunerated for their service. Remunerated service is expected, given the expectation that board members dedicate a minimum amount of time per month to the fulfilment of its duties, especially in the initial stages of establishment of the Foundation.
- Board members that opt to act on a voluntary basis are compensated for expenses (travel, other) incurred in performing their duties. Such members may be paid reasonable compensation for tasks which extend beyond the normal duties of a board member.
- Until such time as a remunerations Committee is established, the board may decide on levels of remuneration for board members that opt to be remunerated, however, such remuneration may not exceed the levels paid to non-executive directors of private companies in Switzerland. In this regard, the board is required to benchmark remuneration levels.

Secretariate

- The secretariate fulfils an administrative support role. It ensures the well-functioning of the governance body.

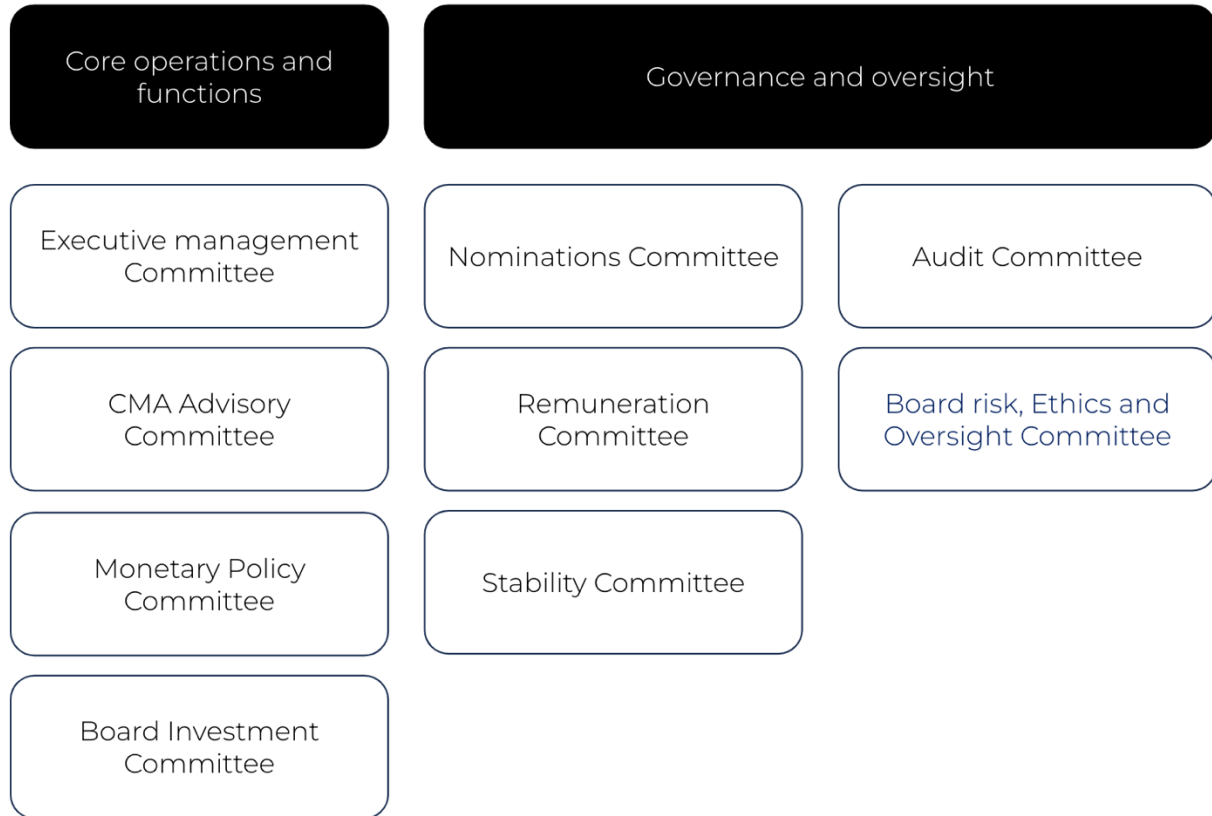
Sub-Committees

- In line with Article 9.c of the Article of Association, the Board of Directors may form sub-Committees, comprising of one or more of its members and/or external experts which serve to add to the skills profile of the relevant Committee.
- The purpose of sub-Committees is to provide expert inputs to the Board.



- At the time of establishment of a sub-Committee:
 - The Board of Directors defines the required skills and experience for each seat of the concerned sub-Committee and appoints members that meet the requirements.
 - The Board of Directors specifies the total number of members of the sub-Committee.
 - The Board of Directors decides how many (if any) of its members will have a seat on the sub-Committee (except for the remunerations Committee which will comprise solely of independent experts, see below).
 - The Board of Directors determine the duration for which members are appointed to sub-Committees and specify details pertaining to re-election (if applicable) at the time of an appointment.
- Sub-Committees may have decision-making powers, if so, delegated by the Board of Directors. In this regard the Board of Directors define the decisions which are taken by a simple majority and decisions that require a specified majority.
- Sub-Committee members are compensated for their time. Compensation is based on delivery or milestone achievement that may require substantial upfront time investment.
- Sub-Committees are proposed based on:
 - Expert guidance on operational/core activities of the Foundation
 - Functioning of the governance structure
 - Enhancement of oversight and responsibility

The following sub-Committees are proposed based on the below:



Executive management Committee

- The Executive Management Committee comprises of the Foundation chairperson and senior members of subordinate executive body (management) and has powers as delegated to it by the Board of Directors from time to time.
- The Executive Management Committee develops a comprehensive Delegation Matrix, for approval by the Board of Directors. The first Delegation Matrix must be presented to the Board of Directors for approval within the first 6 months of the Foundation operations. Such approval may serve the purpose of delegating decision-making powers to the Executive Management Committee.
- The Board of Directors delegates day-to-day operational activities of the Foundation to the subordinate executive body. The Executive Management body



comprise of the Managing Director (MD) and other executives as named by the MD.

- Other key executive members report to the MD who in turn reports to the Board of Directors via the Executive Management Committee.
- The Executive Management team makes decisions in accordance with the Foundation's Article of Association, the internal regulations, and the instructions of the Board of Directors.

CMA Advisory Committee

- The Board of Directors is responsible for the identification of new panel members unless a nominations sub-Committee is formed at a future date.
- Propose a Framework for Mitigation Value Assessment.
- Review and propose changes to assigned mitigation values of the CMA portfolio.
- Support with the identification of events that impact the mitigation value of the CMA portfolio and recommend corrective action to ensure that the CMA portfolio value is reflective of its mitigation value.
- NB: members of this panel should be independent experts without direct carbon market interests.

Monetary Policy Committee

- The Board of Directors is responsible for the identification of new Committee members unless a nominations sub-Committee is formed at a future date.
- Propose key monetary policy inputs.
- Make monetary policy related implementation proposals, including change to the toco exchange rate and reduction or increase in the toco money supply.

Board Investment Committee

- The Board of Directors is responsible for the identification of new Committee members unless a nominations sub-Committee is formed at a future date.



- Propose investment policy / mandate – investment of all reserves, strategic asset allocation plan.
- This Committee may have a specific group focussed on expansion of the CMA portfolio.

Nominations Committee

- The Board of Directors is responsible for the identification of new board members unless a nominations sub-Committee is formed at a future date.
- This Committee is responsible for identifying suitable board candidates, including the seat of the chairperson, and makes proposals to the board. In this regard, the nominations Committee may use third party experts to assist with the identification process.
- In performing its duties, the nominations Committee must consider the Board member profiles, as specified by the Board, and ensure a steady pipeline of proposals to the board, such that at least four board members are appointed at any given time and that other minimum requirements are met.

Remuneration Committee

- The Board of Directors is responsible for the identification of new Committee members unless a nominations sub-Committee is formed at a future date.
- The remunerations Committee is responsible for setting board member remuneration, specifically considering the profile / skills / experience, and expected duties of board members.

Stability Committee

- The Board of Directors is responsible for the identification of new Committee members unless a nominations sub-Committee is formed at a future date.



- Identify risks to the stability of the Toco Economy, including the functioning of the payment system infrastructure. Propose risk mitigation strategies for board approval.

Audit Committee

- The Board of Directors is responsible for the identification of new Committee members unless a nominations sub-Committee is formed at a future date.
- Review the annual financial statements and recommend for board approval, review performance of the external auditor, approve the annual internal audit work plan, appoint the external auditor.

Board risk, Ethics and Oversight Committee

- The Board of Directors is responsible for the identification of new Committee members unless a nominations sub-Committee is formed at a future date.
- Review and propose risk policies and procedures. Review annual risk and compliance review work performed by the risk and compliance teams. Oversight over partners such as the payment system and exchanges/dealers. Oversight over token holder interest and affairs.

Consultation groups

- Consultation forms part of the governance structure in a non-permanent manner. The Foundation elects to consult from time to time and may request expert inputs to specific policies and frameworks. Consultation is managed in a transparent manner and all related information is available on the website.
- Consulting parties are not remunerated for their input.



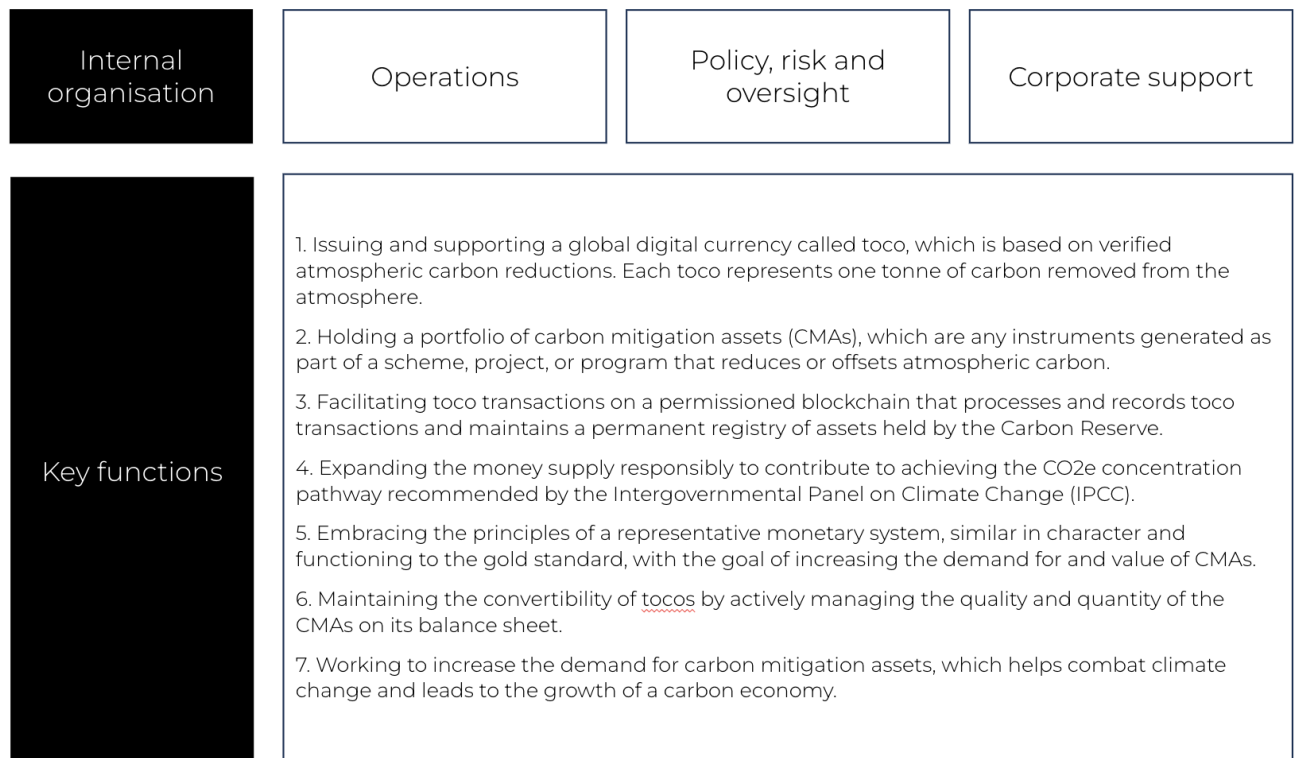
- Inputs via consultation processes are considered by sub-Committees and their assessments are made publicly available.

Community participation

- Community engagement is encouraged in a manner that does not compromise the effectiveness and/or authority of the governance structure.
- Community engagement ensure broader participation and allows the ultimate benefactors of the Foundation to have a say in key matters.

Executive management and organisation

The executive team is responsible for execution and implementation of Board decisions. Based on the key activities of the Carbon Reserve, a proposed organisational structure to support execution is outlined below:





Operations

The Operations Department is responsible for the core functions of the Carbon Reserve, namely implementing monetary policy and management of the assets held by the Carbon Reserve. Within the Operations Department, it is proposed to have two business units as outlined below. The Operations Department head reports to the CEO, who in turn reports to the Board.

- **A1. Market operations** – The Market Operations business unit is structured with 3 separate teams (over time as the toco community grows) who work together to implement the monetary policy as approved by the Foundation Board, as illustrated below. The unit is organised as:
- **A2. Currency management** – This team has key responsibility for toco issuance, based on the use of the monetary policy levers.
- **A3. CMA trading desk** – Based on use of monetary policy levers, takes instruction on when/how much CMAs to buy / sell / retire.
- **A4. CMA projects** – A resolute team with a long-term view on how to build CMA pipeline for the Carbon Reserve. Their tasks include project development, based on research into innovative technologies. In addition to building pipeline, their work should, over the long run, aim to stimulate growth in the supply side, both in terms of assets and participants.
- **A5. Asset management** – Market operations will lead to an accumulation of assets by the Carbon Reserve. Such assets may include fiat and CMAs. It is the responsibility of the Asset management unit to manage the assets, as directed by the strategic asset allocation decision taken by the Board.

Policy, Oversight and Risk

The Policy, Oversight and Risk Department plays a significant role in oversight. It formulates policies to dictate operations, in line with the purposes of the Carbon Reserve and is responsible for general risk identification and management. Within the Department, it is proposed to have five business units as outlined below (implemented over time as the toco community grows). The Department head reports to the CEO, how in turn reports to the Board.



B1. Policy and research – The Policy and Research unit is responsible for performing the analysis / research which underpins the monetary policy approved by the Monetary Policy Committee (D4), as outlined below.

B2. Risk management - The Risk Management unit is organised in a manner to allow it to deal with three distinct areas of risk, namely:

- Operational risk – risks related to the operations of the Carbon Reserve (internal focus).
- Macro prudential risk – risks related to the broader Toco Economy and overall stability related issues.
- CMA risk management – specialised focus on CMA risk assessment, feeding into the CMA risk rating / mitigation value assignment.

B3. Legal and compliance – The Legal and Compliance Unit is responsible for compliance of the Carbon Reserve with regulation in Switzerland (as country of domicile) and regulations in countries where Tokens are issued (wallet holder domicile).

B4. Authorisation and oversight – The Authorisation and Oversight Unit plays an oversight role in relation to parties external to the Carbon Reserve, but which proper functioning and compliance is the ultimate responsibility of the Carbon Reserve. These include dealer market makers and Toco AG as owner and operator of the payment system infrastructure on which tokens are initially issued by the Carbon Reserve.

B5. Internal audit – The Internal Audit Unit reports directly to the Audit Committee of the Board (D5) and is responsible for the design of internal audit workplans and reporting the findings thereof to the Board.

Corporate Support Department

The Corporate Support Department plays a support role. Within the Department, it is proposed to have five business units as outlined below. The Department head reports to the CEO, how in turn reports to the Board.

C1. Communications and stakeholder engagement – Provides general communication and stakeholder engagement support. Involved in all manner of Token holder engagement activities, including the possibility of allowing Token holders to vote on board members.



C2. Secretarial Services – Provides support to the Board and ensures that governance related activities are well executed.

C3. IT – Provides internal IT supports. (IT matters pertaining to integration with Toco AG, if applicable, is primarily dealt with B4.2 Authorisation and oversight – payment infrastructure.

C4. HR – Manages HR matters.

C5. Finance – Key unit responsible for financial management and custodian of the Finance Manual.

Transparency

The Board of Directors will be responsible for ensuring transparency related to the following:

- Inclusion/exclusion of assets in the CMA portfolio, including buy and sell activity.
- Assigned mitigation value ratings to assets in the CMA portfolio.
- Size of the monetary base – currency units issued and in circulation.
- Retirements of currency units and retirement of related CMA portfolio assets.
- Regulatory compliance and developments.



C: Timelines and transitional arrangements

The Carbon Reserve will evolve over time, as it moves from its initial inception to a steady state of operations. The Board of Directors is responsible for the continuous assessment of the Carbon Reserve and where it finds itself in the lifecycle and to ensure that the governance and organisational structures expand in a structured, phased approach. A phased approach will align organisational and governance structure complexity with the size of operations and to allow for a prudent ramp-up of overhead costs in line with the Foundation's ability to fund such costs.

Proposed phases:

Timing	Phase 1 2024	Phase 2 2025	Phase 3 2026	Phase 3 2026 onwards
Board of directors	Phase out custodial board members and replace with independent board members	Appointment up to 5 additional independent board members	Expansion of board to between 9 and 11 members	First board member rotation, as applicable
Sub-Committees	Establish CMA Advisory Committee and Executive Management Committee	Expand Sub-Committees in line with needs and funding availability	First review of CMA Advisory Committee performance	Expand Sub-Committee base
Funding	Funding support from founding members and founding capital	Secure additional funding to fund operations	Ramp up of internally generated sources of income to fund operations	Fund operations from internally generated revenues