

**Submission by Japan**  
**on materiality standard under the clean development mechanism (SBSTA)**

Japan welcomes the opportunity to submit its views on materiality standard under the clean development mechanism (CDM).

Japan recognizes applying the concept of materiality including threshold for determining materiality will increase efficiency of the CDM process and hence, promote additional emission reductions. In this regard, Japan supports adoption of the decision on materiality at 7<sup>th</sup> session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP7).

At the same time, however, there is no common and clear understanding on how to apply the concept of materiality, such as how to calculate thresholds for determining materiality, treatment of uncertainty in measurements, etc. Therefore, it is needed to apply the concept of materiality to the CDM process by step-by-step, and build common and clear understanding by learning-by-doing.

In this respect, although the concept of materiality can be applied to both the validation and verification stages, Japan proposes to apply it only to the verification stage initially, in which monitored data are available to determine whether data errors or omissions exceed materiality thresholds or not. After enough knowledge and experience are accumulated at the verification stage, then it should be expanded to apply the concept of materiality to the validation stage in which only planned data are available.

As for applicable project type, it should be applied to emission reduction project activities first, and then applied to afforestation and reforestation project activities, after enough knowledge and experience are accumulated in emission reduction projects.

Applying the concept of materiality should not be mandatory, rather be optional. The materiality thresholds should be reviewed periodically based upon accumulated knowledge and experience.

The fundamental difference between the CDM and financial accounting is the uncertainty in measurements. When calculating thresholds for determining materiality in the CDM, there exists uncertainty in measurements, whereas it does not exist in financial accounting. Therefore, it is necessary to remove uncertainties in measurements

in determining whether data errors or omissions exceed materiality thresholds, by clearly defining quality assurance necessary on measuring equipments in monitoring methodologies.

Finally, subject to acquisition of enough knowledge and confidence of proper application of the concept of materiality, non-compliance to methodologies should be tolerated as long as the non-compliance does not lead to any material impact (which means it does not exceed materiality thresholds and does not affect the decision of the CDM-EB) on verified amount of emission reductions or removals.