

The World Bank

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**UNFCCC Secretariat
P.O. Box 260124
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Subject: Materiality standard under the clean development mechanism.

Ref: Report of the Subsidiary Body for Scientific and Technological Advice on its thirty-fourth session, held in Bonn from 6 to 16 June 2011.

Dear Members of the SBSTA,

We welcome the opportunity to contribute to the discussion on the inclusion of the concepts of materiality under the clean development mechanism. This submission presents inputs requested with regard to the relevance of materiality to CDM, its definition, thresholds, areas of application, and differentiation of uncertainty and materiality, for consideration of the SBSTA at the thirty-fifth session.

Relevance

Inclusion of materiality under the CDM will benefit project developers and DOEs, helps to focus scarce resources of the regulatory process on the issues that have a material or significant impact on emissions reductions of projects and programs, promotes consistency in the procedures followed, and helps to strengthen the environmental integrity of the CDM.

Definition

Materiality refers to the aggregation of contexts or situations in which data/information/procedure whose omission/misstatement/erroneous use/improper reporting modifies/distorts the application of a methodology or a decision of the CDM Executive Board with implications to validation, verification, registration of a project or program or the issuance of certified emission reductions.

It is recommended that the definition explicitly states that materiality refers to the aggregation of error rather than any requirements to replace missing data with an estimate since it will not be known if an estimate is above or below the true value.

The materiality definition should be included in relevant sections of the VVM and the CDM Project Standard (to be considered at EB63)¹. The EB is requested to approve the procedures on application of the concepts of materiality in relation to the other rules and procedures of CDM.

Thresholds

The following thresholds outlined in the draft text on materiality are appropriate.

¹ Note that in the current draft of the project standard materiality is not included. Instead CERs that cannot be accounted for are presumed to be zero.

- (a) 0.5 per cent of the emission reductions or removals for project activities achieving a total emission reduction or removal of more than 500,000 tonnes of carbon dioxide equivalent per year;
- (b) 2 per cent of the emission reductions or removals for large-scale project activities achieving a total emission reduction or removal of 500,000 tonnes of carbon dioxide equivalent per year or less;
- (c) 5 per cent of the emission reductions or removals for small-scale project activities other than projects covered under paragraph 4(d) below;
- (d) 10 per cent of the emission reductions or removals for the type of project activities that are referred to in decision 3/CMP.6, paragraph 38.
- (e) In cases of PoAs, the above rules should apply mutatis mutandis based on the overall annual emissions reductions the PoA achieves.

Scope of application:

We recommend the application of the concepts of materiality to all stages of the regulatory process, such as validation, registration, verification, and issuance of CERs, including CDM EB review of projects and programs, to assure consistency in procedures applied by the DOE, and the CDM Executive Board and its support structure.

Uncertainty and materiality

Uncertainty highlights the limitation of confidence in the values of parameters or calculations due to errors in the methods, measurements or models used in the implementation of a project or program. The uncertainty is addressed using statistical procedures of precision and confidence level of the monitoring data. The CDM EB has approved a precision of 10% and a confidence interval of 90% for accounting uncertainty in the parameters and calculations of emission reductions of a project or a program.

In contrast, materiality reflects the omission/misstatement/erroneous use/improper reporting of data/information/procedure that distorts the application of a methodology or a decision of the CDM Executive Board with implications to validation, verification, registration of a project or a program or the issuance of certified emission reductions, e.g. in the event of faulty installation, or the failure to apply required QA/QC measures to ensure meters run correctly.

To ensure further clarity on the differences between uncertainty and materiality and the factors contributing to them, the CDM EB should approve guidance on de minimis (i.e., inconsequential or insignificant) sources of emissions that do not require monitoring and verification and therefore could be ignored.

With kind regards,



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