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To cdm-info@unfccc.int
From werner.betzenbichler@becce-experts.com
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Page 1/2
Subject **Call for public inputs on the issue of materiality in the CDM (FCCC/KP/CMP/2011/L.1)**

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Werner Betzenbichler
General Manager DIA
Chair of the DOE/AIEForum

Dear Sirs,

This input has been prepared by the Designated Operational Entities and Independent Entities Association (D.I.A.)¹. It represents the contributions from members of this association.

We appreciate the initiative of SBSTA to consider the view of stakeholders on issue of materiality before recommending a draft decision on this matter for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its seventh session.

We would like to direct your attention to the submissions made by us on the same topic previously. With regard to the specific questions raised by the underlying document FCCC/KP/CMP/2011/L.1 we want to provide the following information:

Whether the concept of materiality could be applied in the context of the CDM

Designated Operational Entities support the introduction of the concept in the CDM. This is related to the fact that no absolute level of assurance can be given, when assessing data, while the concept of materiality and materiality thresholds provide guidance to auditors in designing their audit work and reaching their audit conclusions.

How materiality should be defined in the context of the CDM

As stated with paragraph 2 of the annex to FCCC/KP/CMP/2011/L.1, material information is a piece of information whose omission or misstatement, or erroneous reporting, could change a decision by the Executive Board of the clean development mechanism on the registration of a project activity or the issuance of certified emission reductions. We agree on this formulation. In considering the practical implementation of the concept of materiality, we request that the definition is amended in a manner that allows for the inclusion of quantified materiality thresholds within Executive Board guidance.

¹The D.I.A. is an independent, not-for-profit organization dedicated to the development and establishment of effective processes and criteria for and related to the determination and validation and verification of emission reduction and sequestration projects and to represent the members at relevant bodies of the United Nations Framework Convention on Climate Change (UNFCCC) and other Greenhouse Gas ("GHG") programmes that accept UNFCCC accredited bodies to carry out determination and validation or verification.

The appropriate thresholds used to define the conditions under which a piece of information should be regarded as material

DOEs would appreciate to work with the same thresholds in CDM and JI taking also into account recent activities spent to align the accreditation processes and the fact that SBSTA is committed to both market-based mechanisms, CDM and JI. The concept of materiality allows auditors to focus more time on potentially material elements of monitoring and to use the concept in designing audit activities and reaching the audit conclusions. It does not mean that non-material sources or error are overlooked.

The areas to which the concept of materiality should be applied

The concept of materiality allows for a reasonable level of assurance to be given, rather than an absolute level of assurance. This is equivalent to audits of financial reports and the verification of GHG emissions in other GHG programs that are fungible with CERs. In reasonable assurance the audit work undertaken leads the auditor to conclude that the final data set and supporting qualitative information does not contain material omission or error.

Materiality concepts can be applied to specific elements of the work, and, in addition to verification, could be applied in the validation of information such as provided in an investment analysis.

The relation, as well as the differences between, uncertainty and materiality

Materiality is not the same as uncertainty. Uncertainty is an inherent quality of piece of information, the limits of which are accepted within the reporting criteria (e.g. manufacturers typically warrant the measurement uncertainty specification of a meter for up to 1 year after last calibration). Where defined uncertainty limits are breached, then the impact of this on the audit conclusion would be considered within the concept of materiality.

A special treatment of allowing higher uncertainties for defined de minimis sources can be applied as a measure to reduce transaction costs. Both these concepts – materiality and de minimis – relate back to the principle of cost-effectiveness whilst not impacting on the credibility of the CDM or JI mechanisms.

The D.I.A. trusts that the acceptance of the concept of materiality will be helpful to further expand a credible and effective CDM. We are looking forward to further contributing on this matter.

Kind regards,



Werner Betzenbichler
General Manager