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## Technical synthesis on the framework for various approaches

### Technical paper

#### *Summary*

This technical synthesis draws on the information contained in relevant materials related to the framework for various approaches, including submissions from Parties and admitted observer organizations received from 1 January 2012 to 20 September 2013. Parties may wish to use the information contained in this technical synthesis to assist them in their consideration of the elaboration of the framework for various approaches, with a view to recommending a decision for consideration and adoption by the Conference of the Parties at its nineteenth session. The information contained in this technical synthesis was presented to participants of the workshop on the framework for various approaches, which was held on 9 October 2013 in Bonn, Germany, to facilitate their discussions.

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## I. Introduction

### A. Mandate

1. The Conference of the Parties (COP), at its eighteenth session, requested<sup>1</sup> the Subsidiary Body for Scientific and Technological Advice (SBSTA) to conduct a work programme to elaborate a framework for various approaches (FVA). Following that request, the SBSTA, at its thirty-eighth session, requested the secretariat to prepare a technical synthesis of relevant materials, including the submissions of views of Parties and admitted observer organizations submitted by 2 September 2013, and to make it available for the workshop on the FVA to be held prior to SBSTA 39.<sup>2</sup>

### B. Background

2. COP 13<sup>3</sup> identified “various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries” as an element for consideration in the context of achieving enhanced climate change mitigation actions within the process for long-term cooperative action.

3. COP 16<sup>4</sup> decided to consider the establishment of one or more market-based mechanisms to enhance the cost-effectiveness of, and to promote, mitigation actions at COP 17 and agreed on principles to guide their implementation.

4. COP 17<sup>5</sup> emphasized that such various approaches must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort, and achieve a net decrease and/or avoidance of greenhouse gas (GHG) emissions. In addition, COP 17 requested the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA) to conduct a work programme to consider a framework for such approaches, with a view to recommending a decision to COP 18.

5. COP 18 closed the AWG-LCA and requested the SBSTA to conduct a work programme to elaborate the FVA with a view to recommending a decision for adoption at COP 19. Furthermore, COP 18 agreed to consider five elements as part of that work programme.

6. At the same time, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), at its eighth session, adopted amendments to the Kyoto Protocol<sup>6</sup> that allow for the use of units from mechanisms established under the Convention by Parties with commitments in the second commitment period of the Kyoto Protocol to assist them in achieving compliance. The amendments also prescribe that such units would be subject to a share of proceeds to cover the administrative costs and to assist developing country Parties particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

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<sup>1</sup> Decision 1/CP.18, paragraph 44.

<sup>2</sup> FCCC/SBSTA/2013/3, paragraph 158(b).

<sup>3</sup> Decision 1/CP.13 (Bali Action Plan), paragraph 1(b)(v).

<sup>4</sup> Decision 1/CP.16, paragraph 80.

<sup>5</sup> Decision 2/CP.17, paragraph 79.

<sup>6</sup> Decision 1/CMP.8, annex I, chapter J.

7. SBSTA 38<sup>7</sup> proposed a number of questions to clarify the role and technical design of the FVA, with the aim of facilitating further consideration and identifying further steps towards fulfilling the mandate referred to in paragraph 1 above, including the preparation of this technical synthesis.

8. The secretariat launched a web portal containing all documents and relevant information on the FVA, non-market based approaches and the new market-based mechanism (NMM) to facilitate discussions during SBSTA 38 and beyond, in accordance with the request made by COP 18.<sup>8</sup> The web portal has the potential to be upgraded to a platform for information exchange and interaction on the new mechanisms.

## C. Approach

9. This paper presents a technical synthesis of the relevant views submitted by Parties and admitted observer organizations, clustered according to possible areas of convergence and options for further discussion in relation to each of the elements of the FVA referred to in paragraph 5 above, while addressing the relevant questions raised by SBSTA 38 referred to in paragraph 7 above.

10. The technical synthesis draws on the following materials:<sup>9</sup>

(a) Decisions of the COP and the CMP relevant to the FVA and the conclusions of SBSTA 38;

(b) The reports on the relevant workshops held in May 2012<sup>10</sup> and August 2012<sup>11</sup> and the technical synthesis prepared in August 2012;<sup>12</sup>

(c) Views submitted by Parties and admitted observer organizations on the FVA in the period from 1 January 2012 to 20 September 2013.

11. The submissions of views made prior to 1 January 2012 are assumed to either have been formalized in previous decisions or be sufficiently covered by the more recently submitted views.

12. It should be noted that this technical synthesis does not necessarily reflect all of the views of all Parties, as not all Parties made relevant submissions and not all views were reflected in the materials considered in this analysis.

13. Since the views expressed in the submissions range from proposals for generic guidance to draft decision texts, the analysis of the possible areas of convergence and options for further discussion for each element has been clustered around the following aspects: (a) references to relevant decisions; (b) options for general guidance; (c) options for technical elaboration; (d) options for the way forward; (e) linkages to other mechanisms and processes; (f) examples of relevant activities; (g) lessons learned from existing mechanisms; (h) gaps in knowledge and data on elements and options; and (i) needs for further information collection and analysis.

14. The questions agreed at SBSTA 38 regarding the role and technical elaboration of the FVA are addressed in the sections on the FVA to which they are most relevant, with some questions that are relevant to multiple elements being included more than once.

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<sup>7</sup> FCCC/SBSTA/2013/3, paragraph 158(a).

<sup>8</sup> Decision 1/CP.18, paragraph 53.

<sup>9</sup> All materials used for this technical synthesis are available on the UNFCCC website at <[http://unfccc.int/cooperation\\_support/market\\_and\\_non-market\\_mechanisms/items/7551.php](http://unfccc.int/cooperation_support/market_and_non-market_mechanisms/items/7551.php)>.

<sup>10</sup> FCCC/AWGLCA/2012/INF.4.

<sup>11</sup> FCCC/AWGLCA/2012/INF.9.

<sup>12</sup> FCCC/TP/2012/4.

## **II. Synthesis of information in relation to the elements of the framework for various approaches**

### **A. Purposes of the framework**

15. The following questions were raised by SBSTA 38:

- (a) What is the purpose and scope of the FVA, including its role in ensuring environmental integrity?
- (b) What are the possible links between the FVA and other relevant matters under the Convention and its instruments?
- (c) Should the elements of the FVA operate under the principles, provisions and commitments of the Convention, and if so how?

#### **1. Relevant decisions**

16. Relevant decisions adopted by the COP that provide guidance on the purpose of the FVA include the following.

17. Decision 1/CP.18, which acknowledges in paragraph 41 that Parties may, individually or jointly, develop and implement various approaches, including opportunities for using markets and non-markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind the different circumstances of developed and developing countries; affirms in paragraph 43 that the use of such approaches facilitates an increase in mitigation ambition, particularly that of developed countries, and re-affirms in paragraph 42 that all such approaches must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of greenhouse gas emissions, taking into account decision 1/CP.16, paragraph 80.

18. Decision 1/CP.16, which contains in paragraph 80 the following guiding principles for the mechanisms under the Convention:

- (a) Ensuring the voluntary participation of Parties, supported by the promotion of fair and equitable access for all Parties;
- (b) Complementing other means of support for nationally appropriate mitigation actions (NAMAs) undertaken by developing country Parties;
- (c) Stimulating mitigation across broad segments of the economy;
- (d) Safeguarding environmental integrity;
- (e) Ensuring a net decrease and/or avoidance of global GHG emissions;
- (f) Assisting developed country Parties to meet part of their mitigation targets, while ensuring that the use of such a mechanism or mechanisms is supplemental to domestic mitigation efforts;
- (g) Ensuring good governance and robust market functioning and regulation.

19. In addition, decision 1/CP.16, in paragraph 83, undertakes to maintain and build upon existing mechanisms, including those established under the Kyoto Protocol.

## **2. Options for general guidance**

20. There seems to be a high degree of convergence that the purpose of the FVA is to provide a framework to oversee international transfers and aspects of mitigation/avoidance units and/or outcomes being used for meeting commitments under the Convention. Any mitigation measures implemented by Parties that are purely of a domestic nature and do not result in international transfers of units or outcomes should not fall under the FVA. However, some Parties do not exclude the option that the Convention provides guidance in relation to domestic approaches on a voluntary basis.

21. Parties expressed a range of views on what role the FVA could play in overseeing the international aspects of approaches, varying from a high degree of oversight and regulation of various approaches to a facilitative role for the FVA. From the views expressed, the following three broad options emerge for the purpose of the FVA:

(a) Option 1: a set of common rules. The FVA provides a set of uniform principles, standards and accounting rules for approaches that are adopted under the Convention and administered directly by Convention bodies;

(b) Option 2: a set of minimum criteria and review. The FVA provides a minimum set of common criteria for various approaches and some form of a review function to assess conformity with those common criteria;

(c) Option 3: a platform for the sharing of information, reporting and assessment. The FVA provides a platform for reporting and the sharing of information in a structured way, combined with some form of assessment to extract commonalities that can form the basis for common rules, standards, criteria and guidance.

## **3. Options for technical elaboration**

22. The options for the purpose of the FVA identified in paragraph 21 above could be considered in terms of the role of the Convention in determining criteria for how approaches should be designed and implemented and in setting out procedures for reporting on, and reviewing the design and implementation of, approaches.

23. Under option 1: a set of common rules (para. 21(a) above):

(a) The design and implementation of various approaches could be facilitated by developing a common set of principles, standards, criteria and accounting rules developed by a body or a process under the Convention, which in part could build upon the standards and accounting rules developed for the clean development mechanism (CDM), joint implementation (JI) and international emissions trading (IET), and relevant infrastructure, in particular for tracking and registration;

(b) Procedures could be under the direct supervision of a body or a process under the Convention, which could have the mandate to alter rules and provide guidance where required, including in relation to the quality of the units, while projects and initiatives could be directly assessed at the international level.

24. Under option 2: a set of minimum criteria and review (para. 21(b) above):

(a) A minimum set of common criteria on the design and implementation of approaches could be provided, covering aspects such as eligibility, accounting and governance arrangements. Such common criteria for approaches could ensure that the units generated from the approaches are environmentally sound. There is a range of views on how far the minimum set of criteria could reach and the form that they could take, for example whether they should be in the form of principles, minimum technical specifications or harmonized standards. The common criteria could guide either the design of approaches or the outcome;

(b) Procedures under this option could involve the implementation of a review process undertaken by a body established under the Convention that assesses the design of approaches for conformity with the minimum set of common criteria *ex ante* and potentially also the results of approaches *ex post*. Some Parties also suggested that this review could be complemented by an independent process to assess the net decrease and/or avoidance of emissions.

25. Under option 3: a platform for the sharing of information, reporting and assessment (para. 21(c) above):

(a) The decision on the design and modalities of approaches could be left to individual Parties. Non-binding good practice guidance based on the common experiences of Parties could be developed to inform and facilitate the various approaches;

(b) Procedures could be focused on reporting by Parties on the design and implementation of various approaches and on promoting transparency and facilitating knowledge-sharing. Common reporting guidelines or requirements could be adopted, potentially including the use of common reporting formats. The secretariat could manage and facilitate access to information and potentially provide certain support services, such as the use of common registries. A variant of this approach suggested by some Parties involves a reporting and review process complementary to the processes for international assessment and review (IAR) and international consultation and analysis (ICA). This could involve integrating the consideration of various approaches into the existing processes for IAR and ICA, and could also include an expert review process, which would feed its findings into the IAR and ICA review process.

#### **4. Options for the way forward**

26. Some Parties are of view that the definition of the purpose of the FVA is among the fundamental elements of its elaboration and that the technical elaboration depends on the choices made for its scope and purpose. One of the suggestions therefore is to define the purpose and scope of the FVA at COP 19 and to defer the decision on its technical design to later stages or other processes in 2014 and beyond. Other Parties suggested that progress should also be made on the technical elements of the FVA at COP 19.

27. A decision of the COP on the definition of the FVA could contain the following:

- (a) An outline of its purpose;
- (b) A description of its scope;
- (c) Guiding principles;
- (d) Guidance on the governance of the FVA;
- (e) A mandate for governance to deploy the FVA.

#### **5. Possible linkages to other issues**

28. Some Parties expressed the view that the discussions on the FVA have a strong connection to the design of the 2015 agreement being negotiated under the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP), in particular in relation to the role of the FVA in the 2015 agreement and in relation to ambition for mitigation and support before and after 2020. Progress in relation to the FVA could inform the discussions on common standards and accounting rules, the level of commitments and support, measurement, reporting and verification, and recording and tracking of units and outcomes under the ADP.

29. It has been suggested that, in addition to the guiding principles in decision 1/CP.16, paragraph 80, the FVA could be guided by the principles and commitments of the Convention, including the principle of “common but differentiated responsibilities and respective capabilities”.

30. Some Parties identified linkages with technology transfer, financing, adaptation, reporting and capacity-building.

## **6. Examples of relevant initiatives**

31. Suggested initiatives and mechanisms relevant to the elaboration of the FVA include the following, which are reflected in figure 1 in relation to the possible scope of the FVA:

(a) The flexible mechanisms adopted under the Kyoto Protocol, namely the CDM, JI and IET;

(b) The NMM defined in Durban;<sup>13</sup>

(c) Regional and domestic or subnational trading schemes, such as the European Union Emissions Trading System, the Australian emissions trading scheme and emerging Chinese municipal and provincial pilot trading schemes;

(d) Bilateral offset schemes, such as the Joint Crediting Mechanism (JCM) operated by Japan;

(e) NAMAs proposed by developing countries;

(f) The Joint Mitigation and Adaptation Mechanism (JAM) for integral and sustainable management of forests developed by the Plurinational State of Bolivia;

(g) A mechanism for avoidance of emissions, such as the Yasuni initiative developed by Ecuador.

32. These initiatives are reflected in figure 1 in relation to the possible scope of the FVA.

## **7. Lessons learned from existing mechanisms and approaches**

33. The FVA can build upon the lessons learned from the operation of the CDM, JI and IET and seek to benefit from relevant existing accounting methodologies, regulatory bodies, accreditation procedures and tracking infrastructure. A lesson learned from carbon markets is the relevance of ambitious reduction targets to ensuring sufficient demand for credits and a robust price signal that drives investments, as well as the need to ensure the equitable geographical distribution of CDM project activities.

34. Should non-market-based approaches be included in the FVA, they could draw upon lessons learned from technology transfer, climate finance and capacity-building when addressing issues such as regional distribution, capacity-building, contribution to sustainable development, technology transfer and targets and commitments under the Convention and its instruments.

## **8. Gaps in knowledge and data on elements and options, and needs for further information collection and analysis**

35. The materials examined for the purposes of this technical synthesis indicate a need to elaborate how to reconcile the discussions on the FVA under the SBSTA with the discussions on the use of other means to achieve mitigation under the Convention, in order to avoid overlap.

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<sup>13</sup> Decision 2/CP.17, paragraph 83.



## **B. Scope of the framework**

36. The following question was raised by SBSTA 38: what is the purpose and scope of the FVA, including its role in ensuring environmental integrity?

### **1. Relevant decisions**

37. Relevant decisions in the context of the scope of the FVA are the following:

(a) Decision 1/CP.18, paragraph 41, which acknowledges that Parties may, individually or jointly, develop and implement various approaches, including opportunities for using markets and non-markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind the different circumstances of developed and developing countries;

(b) Decision 1/CP.16, paragraph 83, which undertakes to maintain and build upon existing mechanisms, including those established under the Kyoto Protocol.

### **2. Options for general guidance**

38. The options for the scope of the FVA could be clustered around the following issues:

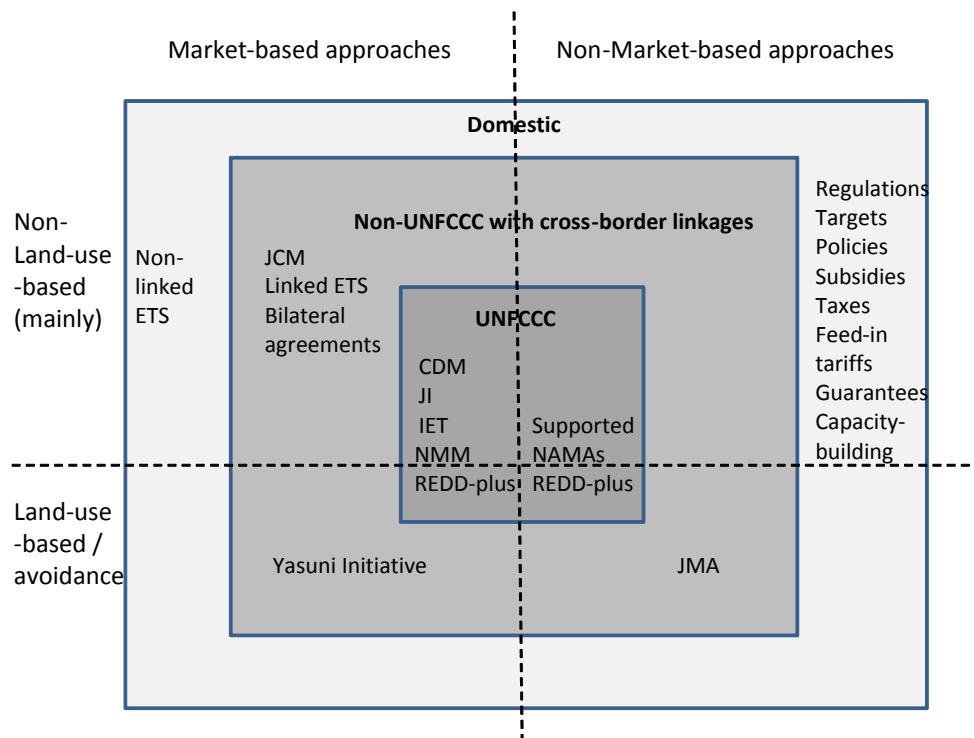
(a) Whether to address only units or also outcomes under the FVA, whereby units are associated with the carbon market and outcomes are associated with other mitigation actions, including non-market-based approaches;

(b) Whether to include only approaches defined under the Convention and its instruments or also approaches developed by Parties, including subnational, national, regional and bilateral approaches that involve units or mitigation outcomes crossing borders and are used to meet targets and commitments under the Convention and its instruments;

(c) Whether to include only approaches that result in mitigation and/or avoidance of emission reductions or also approaches that benefit adaptation.

39. An area of convergence appears to be that the FVA should at least cover the existing mechanisms adopted under the Kyoto Protocol and the Convention, meaning that the FVA could cover both project-based approaches, such as the CDM and JI, and sectoral or economy-wide approaches, such as IET.

Figure 1  
Options for the scope of the framework for various approaches



*Abbreviations:* CDM = clean development mechanism, JI = joint implementation, IET = international emissions trading, NMM = new market-based mechanism, NAMA = nationally appropriate mitigation actions, JMA = joint mitigation and adaptation, ETS = emission trading schemes.

### 3. Options for technical elaboration

40. The definition of the scope of the FVA could be generic to allow for flexibility and the inclusion of a broad range of new approaches ex post. Alternatively, the FVA could specify eligible approaches ex ante.

### 4. Options for the way forward

41. Some Parties are of view that the definition of the scope of the FVA is among the fundamental elements of its elaboration and suggested defining the scope of the FVA at COP 19 and deferring the decision on its technical design to later stages or other processes in 2014 and beyond.

### 5. Possible linkages to other issues

42. Depending on the choices made for the scope of the FVA, the discussions on the FVA could be directly relevant to other negotiation streams and agenda items, such as the

work programmes on the NMM and non-market based approaches, the CDM, JI, IET, NAMAs and REDD-plus.<sup>14</sup>

## **6. Examples of relevant initiatives**

43. Examples of relevant initiatives are highlighted in paragraph 31 above and are captured in figure 1.

## **7. Lessons learned from existing mechanisms and approaches**

44. The discussions on the FVA were triggered by the emergence of various mechanisms, which highlighted the need for coordination and common standards for ensuring environmental integrity and avoiding double counting when such approaches are used for meeting commitments under the Convention. The linking of various emissions trading schemes is also a recent development that may require facilitation under the Convention, in particular if this becomes a trend in the evolution of schemes developed by Parties.

## **8. Gaps in knowledge and data on elements and options, and needs for further information collection and analysis**

45. Some Parties identified the need to better understand which aspects of non-market-based approaches should be included under the FVA. The definition of the scope and purpose of non-market-based approaches under the relevant SBSTA agenda item could help to clarify which aspects of such approaches could be included under the FVA.

# **C. A set of criteria and procedures to ensure the environmental integrity of approaches in the framework for various approaches**

46. The following questions were raised by SBSTA 38:

(a) How may the elements listed in decision 1/CP.18, paragraph 46, be elaborated given the options for the purpose and scope of the FVA expressed by Parties?

(b) Which experiences from the Kyoto Protocol flexible mechanisms, domestic and regional schemes, existing institutional arrangements and infrastructure are relevant to the elaboration of the FVA and how can they be applied to the FVA?

(c) What common accounting rules, standards, criteria and/or procedures, if any, could be established under the Convention, taking into account internationally agreed common accounting rules, to ensure the environmental integrity of the approaches under the FVA, and avoiding all types of double counting, including mitigation outcomes and support?

## **1. Relevant decisions**

47. In decisions 2/CP.17, paragraph 79, and 1/CP.18, paragraph 42, the COP agreed that various approaches must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort, and achieve a net decrease and/or avoidance of GHG emissions.

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<sup>14</sup> Policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.

## 2. Options for general guidance

48. While there is broad convergence that the FVA must ensure environmental integrity, the views on how this can best be ensured require further discussion. Of central importance seem to be the choices to be made on the purpose and scope of the FVA, as these choices will guide what type of common rules, standards, criteria and procedures for the accounting of emission reductions and removals should be defined under the FVA.

49. For example, if the purpose of the FVA would be to set minimum common standards or criteria for various approaches, minimum accounting standards could be a means to safeguard environmental integrity. However, if the FVA is defined as a platform for the sharing of information and coordination, environmental integrity could be addressed via general guidance and the sharing of best practices.

50. Three main options for setting an accounting framework, criteria and procedures for the approaches under the FVA could be identified. These options relate to the three general options for the purpose of the FVA:

(a) If the purpose of the FVA is to provide a set of common rules (option 1 as described in para. 21(a) above), then uniform accounting rules could be agreed under the Convention. All activities or scaled-up initiatives and emission reductions or removals could be assessed directly at the international level for compliance with accounting criteria. The accounting framework could apply existing and emerging rules and infrastructure for ensuring environmental integrity under the flexible mechanisms of the UNFCCC, such as in relation to baseline and monitoring methodologies, validation and verification standards, approval and eligibility requirements, as well as the use of the international transaction log (ITL) and centralized registries;

(b) If the purpose of the FVA is to provide a minimum set of common criteria for various approaches and a review (option 2, as described in para. 21(b) above), then a combination of minimum standards and some common rules for accounting frameworks, with some flexibility to accommodate national circumstances, could be applied. The accounting rules set by approaches seeking recognition could be assessed at the international level for conformity with international criteria. An accounting framework could comprise, inter alia: the establishment of baselines and monitoring methodologies; the design and implementation of measurement, reporting and verification systems; reducing leakage and ensuring permanence; governance; criteria for the effective operation of emissions trading systems; ensuring projects are additional; restrictions on the use and carry-over of units; the use of common global warming potentials; and the definition of broad segments of the economy or the scope of activities;

(c) If the purpose of the FVA is to provide a platform for the sharing of information, reporting and assessment (option 3, as described in para. 21(c) above), then general principles and guidelines for accounting frameworks could be developed under the Convention, while the technical elaboration of accounting rules could be left to Parties' discretion. Some Parties suggested a variant of this approach, whereby no principles or guidelines are defined at the outset, but non-binding good practice guidelines are developed over time on the basis of Parties' experience, which could be, in particular, suitable to accommodating an early start for the FVA. In this option, Parties would report on the accounting rules and procedures of their approaches based on common reporting formats or guidelines, and such reports could be subject to discussion by Parties and possible technical review, such as IAR or ICA, but would not be assessed for conformity with international criteria. An accounting framework could comprise common reporting templates or guidelines specifying a minimum level of information to be provided on certain topics. Such topics could include, inter alia, the following: approaches or standards for approving baselines; coverage and eligibility criteria; methods to ensure additionality for projects;

means to ensure permanence and minimize leakage; arrangements for measurement, reporting and verification; governance arrangements (including monitoring and enforcement arrangements); rules on the eligibility of international units within the mechanism; public awareness; and external due diligence assessments.

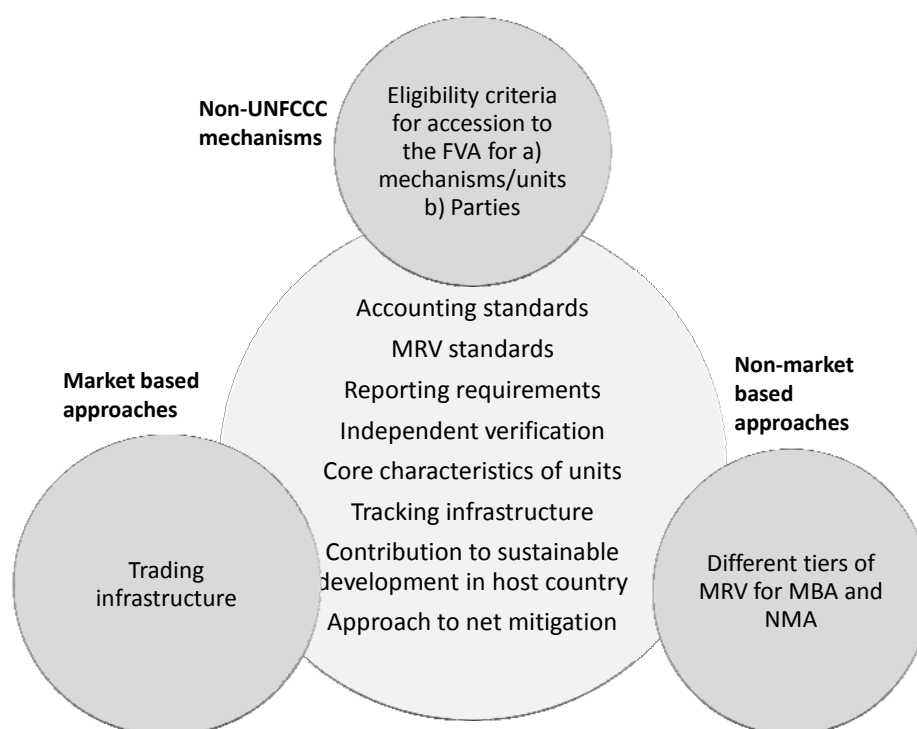
51. The importance of transparency and the promotion of sustainable development in the host countries as a means for ensuring environmental integrity appears to be an area of convergence. If approaches developed outside of the Convention are permitted under the FVA, information on how these approaches contribute to sustainable development should be reported and made publicly available by Parties under the UNFCCC.

### 3. Options for technical elaboration

52. Parties suggested a variety of components for the FVA and proposed a number of areas in which common rules for the approaches under the FVA could be developed. While there are some standards or components that would apply for all, depicted in the large circle of figure 2, others are relevant only to specific scopes of the FVA, as depicted by the smaller circles.

Figure 2

#### Possible components for ensuring environmental integrity



*Abbreviations:* FVA = framework for various approaches, MRV = measurable, reportable and verifiable, MBA = market-based approaches, NMA = non-market-based approaches.

53. A non-exclusive and potentially overlapping list of areas that could be covered by criteria, standards or guidelines under the FVA, as suggested in the submissions, includes the following:

(a) Accounting standards (addressing, inter alia, coverage of GHGs, global warming potentials, baseline and monitoring methodologies, additionality, ensuring conservativeness, permanence and leakage);

- (b) Measurement, reporting and verification standards;
- (c) Reporting requirements related to the technical design of the approaches and issuance, international transfer and use of units from the approaches under the FVA;
- (d) Independent verification;
- (e) Core characteristics of units;
- (f) Tracking infrastructure;
- (g) Contribution to sustainable development in the host country;
- (h) Approach to net mitigation;
- (i) Transparency;
- (j) Promotion of sustainable development in the host countries;
- (k) Requirements for environmental integrity similar to those defined for the Kyoto Protocol mechanisms, such as baseline definitions and additionality criteria;
- (l) Socioeconomic considerations and avoidance of perverse incentives for unsustainable consumption patterns or other negative impacts;
- (m) Share of proceeds for the approaches included in the FVA;
- (n) Eligibility criteria for participation, including the link with ambition for mitigation and support. One of the criteria could be the provision of information on targets, commitments and/or actions and a regular update on the structure of the various national approaches, including participation in any specific bilateral or international scheme;
- (o) A procedure for approval of approaches proposed by Parties to be used for meeting targets and commitments under UNFCCC;
- (p) A procedure for reporting to the COP on approaches implemented by Parties against agreed information parameters to demonstrate environmental integrity, informed by an independent expert review.

54. It was noted that some requirements for environmental integrity could be country- or approach-specific. A way to address this aspect could be to allow flexibility for host countries to incorporate their domestic safeguards for environmental integrity into the design of their approaches. Alternatively, for each category of approach, a different set of criteria and procedures to incorporate approach-specific safeguards for environmental integrity could be agreed, either at the international level or at the national level.

55. If the FVA would facilitate approaches developed by Parties outside of the Convention, common standards may include eligibility criteria and protocols for inclusion in the FVA for either:

- (a) Option 1: units and/or mitigation outcomes;
- (b) Option 2: approaches;
- (c) Option 3: Parties.

56. For market-based approaches, a trading architecture that includes registries and the ITL is an important component for ensuring environmental integrity and hedging against double counting. This is further described in chapter II.D below.

57. To ensure net emission reductions or avoidance, as agreed in decision 1/CP.18, paragraph 42, approaches included in the FVA could use one or more of the following means:

- (a) A uniform discount factor to be applied to the emission reduction or mitigation outcome achieved by various approaches;
- (b) The use of baselines below 'business as usual';
- (c) The use of conservative default values or parameters for emissions accounting;
- (d) Reserving a share of the mitigation units or outcomes as a contribution by the host country.

#### **4. Options for the way forward**

58. A decision for consideration and adoption at COP 19 on criteria and procedures to ensure the environmental integrity of approaches in the FVA is to a significant extent dependent upon the progress made in determining the purpose and scope of the FVA. Depending on the options chosen for the purpose and scope of the FVA, such a decision could include:

- (a) Option 1: a full set of criteria and procedures to ensure environmental integrity;
- (b) Option 2: general principles on environmental integrity and on a process to develop specific criteria and procedures based on those general principles;
- (c) Option 3: a process to develop specific criteria and procedures to ensure environmental integrity.

#### **5. Possible linkages to other issues and processes**

59. Issues that could be relevant to participation in the FVA include targets or commitments under the Convention and its instruments and NAMAs.

#### **6. Lessons learned from existing mechanisms and approaches**

60. Lessons learned from the Kyoto Protocol flexible mechanisms which could be useful when elaborating criteria and procedures to ensure the environmental integrity of approaches in the FVA include the eligibility criteria for participation in the CDM, JI and IET and the importance of a robust market infrastructure, including the use of registries and the ITL created under the Kyoto Protocol, as well as independent third-party validation and verification of CDM and JI projects by designated operational entities (DOEs).<sup>15</sup>

61. On the basis of experience with the mechanisms under the Kyoto Protocol, when developing standards, criteria and procedures for the approaches under the FVA, consideration should be given to the issue of avoiding conflict of interest. For example, if the validation or verification of an activity were conducted by an entity which is paid directly by the project participants, as in the case of the CDM, the entity would be under pressure to provide a positive validation or verification.

#### **7. Gaps in knowledge and data on elements and options; and needs for further information, collection and analysis**

62. There has been limited discussion on how the FVA can promote the contribution of approaches included in the FVA to sustainable development in the host countries and how this can be reported and/or verified.

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<sup>15</sup> Note from the secretariat: for example, CDM projects and programmes of activities may only be registered on the basis of their validation by a DOE.

**D. Technical specifications to avoid double counting through the accurate and consistent recording and tracking of mitigation outcomes**

63. The following questions were raised by SBSTA 38:

(a) How may the elements listed in decision 1/CP.18, paragraph 46, be elaborated given the options for the purpose and scope of the FVA expressed by Parties?

(b) Which experiences from the Kyoto Protocol flexible mechanisms, domestic and regional schemes, existing institutional arrangements and infrastructure are relevant to the elaboration of the FVA and how can they be applied to the FVA?

(c) What common accounting rules, standards, criteria and/or procedures, if any, could be established under the Convention, taking into account internationally agreed common accounting rules, to ensure the environmental integrity of the approaches under the FVA, and avoiding all types of double counting, including mitigation outcomes and support?

**1. Relevant decisions**

64. In decisions 2/CP.17, paragraph 79, and 1/CP.18, paragraph 42, the COP emphasized that various approaches must, inter alia, avoid double counting of effort.

**2. General guidance**

65. There are several forms of double counting that could be addressed by the FVA:

(a) ‘Double issuance or crediting’, which refers to more than one unit of credit being issued, or an outcome being reflected in the inventory for one and the same emission reduction; for example, if a single mitigation outcome resulting in the creation of units under a market-based approach is also being counted as a mitigation outcome under a non-market-based approach or another market-based approach;

(b) ‘Double claiming’, which refers to a given unit or outcome being claimed by more than one Party towards their mitigation pledges or commitments under the Convention;

(c) ‘Double registration’, which means, for example, the registration of a single project or activity under more than one mechanism;

(d) ‘Double counting of finance’, which means, for example, a Party being credited with emission units or outcomes and claiming finance towards climate finance commitments from the same contribution.

66. There appears to be general convergence on the idea that approaches to avoid double counting could build on existing systems where possible, as well as that the FVA could facilitate the recording and tracking of units or outcomes across borders.

**3. Options for technical elaboration**

67. An area of convergence with respect to the functions of tracking systems is that they could serve to maintain records of the attributes, quantities and ownership of units or outcomes that fall under the scope of the FVA, as well as of issuances, transfers and cancellations of units. They could also maintain records to enable all offset units to be traced back to the activities from which they originated. Specific conformity checks on international transfers could be developed, if participation requirements are agreed.

68. Tracking systems have been discussed primarily in the context of double issuance or crediting, and double claiming. However, some Parties do not exclude the possibility that



tracking systems could also perform some functions with respect to ensuring against double registration and double counting of finance.

69. In the case of double registration, information could be held at the international level on the details of projects or activities in order to allow for mechanism administrators to check if a project or activity has already been registered under another mechanism before registering it. This could be supplemented by requiring project developers to make a formal statement that the project has not already been registered elsewhere.

70. If it is decided that the FVA should hedge against double counting of finance, measurement, reporting and verification principles for both donors and beneficiaries of climate finance, as well as guidance for reporting on finance, could be developed.

#### **4. Options for the way forward**

71. A decision to be considered and adopted at COP 19 on avoiding double counting of effort depends on the progress made in determining the purpose and scope of the FVA. Such a decision could include: guidance on which forms of double counting should be addressed in the context of the FVA; principles for avoiding double counting; and a process to develop technical specifications to prevent double counting.

#### **5. Possible linkages to other issues and processes**

72. Potential linkages of technical specifications to avoid double counting under the FVA with existing specifications and instruments to avoid double counting under the Convention and its instruments include, inter alia:

(a) Adapting the ITL and the registries administered by the secretariat for use with respect to the FVA;

(b) Adapting specifications to avoid double counting under the Kyoto Protocol's flexible mechanisms for use under the FVA.

73. Information related to tracking systems, including information on units and transactions could be integrated into existing Party-level reporting arrangements under the Convention.

74. If double counting of finance is addressed under the FVA, it could be linked to the various discussions on finance under other Convention bodies and work programmes. In particular, it could link to discussions on ensuring the transparency and/or measurement, reporting and verification of finance, which could include those under the Standing Committee on Finance.

#### **6. Examples of relevant initiatives**

75. Australia highlighted that its emissions trading scheme has comprehensive legislative requirements regarding the reporting of emissions and emission reductions, as well as strong civil and criminal penalties to ensure compliance with the scheme and disclosure of information.

#### **7. Lessons learned from existing mechanisms and approaches**

76. Guidance on how to establish and maintain domestic registries could draw from experience with specifications and mechanisms to avoid double counting designed for the Kyoto Protocol flexible mechanisms.

**8. Gaps in knowledge and data on elements and options and needs for further information, collection and analysis**

77. The materials examined for this technical synthesis did not contain specific information on how Parties employing various approaches could account for the receipt of other sources of support and finance, for example funding received from the Green Climate Fund (GCF) or the Global Environment Facility (GEF) or for low emission development strategies (LEDS) to avoid the double counting of support.

**E. The institutional arrangements for the framework**

78. The following question was raised by SBSTA 38: should the FVA assess the institutional arrangements of various approaches and, if so, how.

**1. Relevant decisions**

79. In decision 1/CP.18, paragraph 45, the COP considered that the FVA would be developed under the authority and guidance of the COP.

**2. Options for general guidance**

80. The level of assessment of institutional arrangements for various approaches depends on what level of international oversight is preferred. Some Parties identified the need for institutional arrangements to be put in place at the international level to provide oversight of approaches under the FVA and elaborate the technical aspects of the FVA.

81. The choice of the form of oversight is closely related to the choice of purpose and scope of the FVA, as well as to the choice of criteria and procedures to ensure environmental integrity and technical specifications to avoid double counting. An area of convergence is that the institutional arrangements for the FVA should, at a minimum, perform a facilitative function. An area for further discussion concerns whether such institutional arrangements should also perform additional functions. The following options for the functions of the institutional arrangements could be considered:

(a) Option 1: performing primarily a standard-setting and oversight function with respect to mechanisms defined under the UNFCCC, although also including some facilitative functions. This option would fit with option 1 for the purpose of the FVA, whereby the FVA would provide a common set of rules (see para. 21(a) above). The institutional arrangements could be focused on setting and monitoring compliance with uniform principles, standards and accounting rules for approaches that are adopted under the UNFCCC. This would be likely to involve a high degree of oversight of approaches;

(b) Option 2: performing primarily a standard-setting and oversight function with respect to mechanisms defined under the UNFCCC and mechanisms developed by Parties that are included under the FVA, although also including some facilitative functions (see para. 21(b) above). The institutional arrangements could be focused on defining a minimum set of common criteria for various approaches and for performing compliance checks to confirm that such criteria are met, and on facilitative functions, such as providing capacity-building support to Parties establishing various approaches, and acting as an information hub;

(c) Option 3: performing primarily a facilitative function. This option would fit with option 3 for the purpose of the FVA (see para. 21(c) above), whereby the FVA would provide a platform for the sharing of information, reporting and assessment. The institutional arrangements could act as an information hub, including performing expert review of information submitted to enable Parties to assess the accuracy of information and

the integrity of approaches. The provision of capacity-building and information exchange functions could also be facilitated.

82. An area for further discussion concerns the type of institutions that would carry out such functions at the international level. This question is related to the choice of functions of the institutional arrangements, since some institutions may be better suited to certain functions than others. The principal suggestions for the type of institutions and processes that would carry out such functions at the international level are the following:

(a) Option 1: an executive or regulatory body similar to the CDM Executive Board, potentially supported by the Convention infrastructure;

(b) Option 2: utilizing existing structures and processes under the UNFCCC, such as the COP, the SBSTA or an existing body, such as a (reformed) CDM Executive Board or the Joint Implementation Supervisory Committee, potentially supported by technical or expert committees, as well as the UNFCCC infrastructure;

(c) Option 3: adopting a polycentric approach at various levels with active oversight by local, regional and national stakeholders together with oversight by the UNFCCC;

(d) Option 4: forming an interim body, such as a transitional committee or a technical expert panel, to elaborate the technical aspects of the FVA, drawing from experiences shared by Parties on the basis of a template.

83. Institutional arrangements under the Convention could be complemented by requiring the validation of projects or activities and the verification or review of the reduction or avoidance of emissions to be conducted by independent entities accredited either at the UNFCCC level or by host countries in accordance with an internationally agreed set of criteria and requirements.

84. In addition to the international governance, national institutional arrangements similar to existing designated national authorities (DNAs) could facilitate coordination with the international governance structure. Further consideration could be given to determining whether, and to what extent, national institutional arrangements should be subject to international assessment.

85. An area of convergence is that institutional arrangements should include tracking and registration systems for the purpose of registering and tracking the issuance, transfer and cancellation of units or outcomes. The general preference is for a combination of international and national tracking systems, with national tracking and registration systems conforming to a minimum set of common criteria in order to ensure safety, compatibility and facilitation at the UNFCCC level to countries that do not have the capacity to design and maintain their own systems.

### **3. Options for general guidance**

86. In the event of agreeing upon the requirement for validation and/or verification by independent entities of the units and outcomes of various approaches included under the FVA, the determination of which independent entities would be eligible to perform that function could be considered:

(a) Option 1: only entities accredited under the UNFCCC, including DOEs;

(b) Option 2: in addition to UNFCCC-accredited entities, International Standardization Organization 14065 certification bodies and/or nationally accredited entities could perform verification of emissions within emissions trading schemes, possibly in accordance with a set of common criteria.

87. If national arrangements similar to DNAs were adopted, their roles could include coordinating with international institutions with respect to the FVA, approving activities under the FVA and issuing units.

88. The institutional arrangements for international tracking and registration systems could include a combination of international and national tracking systems, with national tracking systems conforming to a minimum set of common criteria. Units could be issued either at the national or international level and be held in registries at the national or international level, depending on the capacity of the country. If units were to be held in registries at the national level, such registries could be required to comply with international rules and be subject to international oversight. National registries could provide regular information to the UNFCCC on, inter alia, the issuance, transfer and cancellation of units. An expanded ITL could perform checks on all international transfers.

#### **4. Options for the way forward**

89. The mandate provided at COP 18 in relation to adopting a decision on the FVA at COP 19 includes institutional arrangements for the FVA among the elements that could be adopted in such a decision. As such, it could be possible to adopt a decision on that element at COP 19. However, the options for, and a decision on, institutional arrangements for the FVA are closely connected to the options for the purpose and scope of the FVA, as well as the options related to environmental integrity and double counting. Such a decision could include:

(a) Option 1: the elaboration of all aspects of the institutional arrangements for the FVA, including functions, form and arrangements for avoiding double counting, possibly including the establishment or appointment of permanent governance for the FVA;

(b) Option 2: the elaboration of some aspects of the institutional arrangements for the FVA and the initiation of a process to consider the development of the remaining aspects, possibly including the establishment of interim governance for the FVA;

(c) Option 3: the continuation of the process to address institutional arrangements under the work programme on the FVA.

#### **5. Possible linkages to other issues and processes**

90. The possible use of existing institutional infrastructure for the purposes of the FVA could include, inter alia, the use of independent entities accredited under the CDM for validation and verification by DOEs and the use of DNAs.

91. The role of institutions in reviewing Parties' reports could be linked to the existing IAR and ICA processes under the Convention.

#### **6. Lessons learned from existing mechanisms and approaches**

92. It was suggested that existing experience with independent validation and verification by DOEs could inform the design of institutional arrangements for the FVA.

### **F. Other matters – share of proceeds**

93. The following question was raised by SBSTA 38: what should be the role of a share of proceeds for the approaches under the FVA?

## **1. Relevant decisions**

94. Decision 1/CMP.8, annex I, chapter J, contains amendments to the Kyoto Protocol which allow for the use of units from mechanisms established under the Convention by Parties with commitments in the second commitment period of the Kyoto Protocol to assist them in achieving compliance. The amendments also prescribe that such units would be subject to a share of proceeds to cover the administrative costs and to assist developing country Parties particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation. If the FVA is defined under the Convention, said decision would be relevant to the use of units from approaches included under the FVA to meet commitments under the Kyoto Protocol.

## **2. Options for general guidance**

95. A share of proceeds could be levied to cover the administrative costs of the FVA and contribute to adaptation and capacity-building. It could be levied either in the form of a financial contribution or as a percentage on units traded internationally, and either be levied when domestic units are crossing borders for the first time or be associated with the issuance of units from the new mechanisms under the Convention and its instruments or by the host countries.

# **III. Options for decision-making at the nineteenth session of the Conference of the Parties**

96. This chapter contains information on different types of decision that could be adopted at COP 19 with the aim of fulfilling the mandate referred to in paragraph 1 above. The recommendations are based on the synthesis of the views expressed in submissions and the experiences of the secretariat with existing approaches.

## **A. Full elaboration of the framework for various approaches**

97. COP 19 could fully define the FVA and agree on both the general guidance and technical specification of all of its elements, which is the most advanced option. In that case, it could be useful to agree also on the form for the further elaboration of the FVA, namely whether it will constitute a work programme, rules, terms of reference or modalities and procedures.

98. An alternative is the adoption of a decision on general guiding principles for each element of the FVA and a process for the further elaboration of the technical aspects of the FVA by the agreed institutional arrangements or processes.

## **B. Partial elaboration of the framework for various approaches**

99. Parties may consider the elaboration of some of the elements that should be part of the FVA, with a view to elaborating the full set of elements later, following further discussions within the agreed process for the way forward. The elements that appear most urgent to be decided upon at COP 19 are the purpose and scope of the FVA, as the directions chosen for the elaboration of its other elements seem to be highly dependent upon the choices made in terms of its scope and purpose.

## C. Process-related decision

100. A process-related decision could aim at the continuation of the elaboration of the technical aspects of the FVA, while providing more specific guidance on what is expected to be delivered, within what time frame and by whom.

101. The process could be conducted through or by one or more of the following:

- (a) A work programme under the SBSTA;
- (b) A(n) (interim) body under the UNFCCC, such as a transitional committee or a technical expert panel, which may draw commonalities from information shared by Parties on experiences with existing approaches. Such information could be shared on the basis of a common format or a template;
- (c) Technical workshops and consultations.

102. Depending on progress in 2013, the following issues may be further addressed in the course of 2014:

- (a) Elaboration of the technical aspects of the FVA;
- (b) Clarification of the relationship between the approaches under the FVA and NAMAs, as well as in relation to activities under the Technology Mechanism and the financial mechanism of the Convention;
- (c) Clarification of what services related to tracking and registration the secretariat could provide and what arrangements Parties would need to make domestically;
- (d) Provision of capacity-building and financial support by Parties and the financial mechanism of the Convention to facilitate the development of various approaches;
- (e) Information exchange on existing approaches among Parties to allow for the identification of common elements and to inform the further elaboration of the FVA;
- (f) Preparation of a technical synthesis by the secretariat on the services that could be provided by the secretariat in relation to registration and tracking of units;
- (g) Submission by Parties of views on ways to account for the receipt of other sources of support and finance, for example funding received from the GCF or the GEF or for LEDS, to avoid the double counting of support.

103. To avoid duplication of efforts, the SBSTA work programme on the FVA should inform, and be informed by, other relevant UNFCCC processes. This includes the NMM and non-market-based approaches, as well as the discussions under the ADP concerning the role of market-based and non-market-based mechanisms in the 2015 agreement and in relation to ambition for mitigation and support before and after 2020.

104. The clarification of the relationship of the FVA to NAMAs could facilitate the streamlining and coordination of means to achieve mitigation. The elaboration of the FVA could result in complementary processes and guidance related to reporting processes under the UNFCCC and could contribute to the design of a future accounting system in the context of the 2015 agreement.

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