

DRAFT TEXT
on
SBI 40 agenda item 6 (a)

Matters relating to the mechanisms under the Kyoto Protocol
Review of the modalities and procedures for the clean development mechanism

Version 1 of 13 June 2014 at 13:00 hrs

[Place holder for the Draft conclusions proposed by the Chair]

Work of the SBI informal consultations

Agenda item 6(a)

Elements for further consideration for the review of the modalities and procedures for the clean development mechanism

Version 1 of 13 June 2014 @ 13:00 hrs

1. This document is a revised version of possible changes to the modalities and procedures for the clean development mechanism prepared at the thirty-ninth session of the Subsidiary Body for Implementation (SBI). The revision draws on Party submissions in 2014 and Party interventions during SBI 40. It provides a list of possible changes for further consideration at SBI 41 as well as those that have been agreed at SBI 40.
2. For ease of reference, elements of the list have been inserted into the current version of the CDM modalities and procedures, as contained in the annex to decision 3/CMP.1, alongside what appear to be the relevant sections and paragraphs. This approach has been followed to help in seeing the context of the possible changes. It should be noted that the current modalities and procedures have been reproduced without making any amendments to the decision as adopted by the Conference of the Parties serving as the meeting of the Kyoto Protocol (CMP) in 2005.
 3. Each possible change is indicated as:
 - a. “From SBI 40”: Those changes coming from an intervention from Parties during SBI 40 or written submission by Parties received in 2014 prior to SBI, or modifications to the original text;
 - b. “Agreed” and highlighted in green: Convergence of views for inclusion in the revised modalities and procedures for the CDM;
 - c. Strikethroughs: Convergence of views for exclusion from further consideration in the context of the review of the modalities and procedures for the CDM;
 - d. No indication: Original text with agreement for further consideration.
4. Sub-headings have been added to groups of possible changes for ease of reference.

ANNEX 1

Current CDM modalities and procedures contained in decision 3/CMP.1 (without any changes) with possible changes noted in boxes

Document structure

Consolidate the following four sets of modalities and procedures for the different project types, and, to the extent possible, all decisions of the Conference of the Parties serving as the meeting of the Kyoto Protocol (CMP) relating to the clean development mechanism (CDM) that have created rules, into one document:

- (a) Decision 3/CMP.1, annex;
- (b) Decision 4/CMP.1, annex II;
- (c) Decision 5/CMP.1, annex;
- (d) Decision 6/CMP.1, annex.

Reflection of current practice

Reflect current practice in the modalities and procedures, including: processes relating to the development, revision and clarification of methodologies; the process for post-registration changes; the public availability of information from the CDM registry; and the languages in which the decisions of the CDM Executive Board (hereinafter referred to as the Board) are made available.

A. Definitions

1. For the purposes of the present annex the definitions contained in Article 1¹ and the provisions of Article 14 shall apply. Furthermore:
 - (a) An “emission reduction unit” or “ERU” is a unit issued pursuant to the relevant provisions in the annex to decision 13/CMP.1 and is equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;
 - (b) A “certified emission reduction” or “CER” is a unit issued pursuant to Article 12 and requirements thereunder, as well as the relevant provisions in these modalities and procedures, and is equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;
 - (c) An “assigned amount unit” or “AAU” is a unit issued pursuant to the relevant provisions in the annex to decision 13/CMP.1 and is equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;
 - (d) A “removal unit” or “RMU” is a unit issued pursuant to the relevant provisions in the annex to decision 13/CMP.1 and is equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;
 - (e) “Stakeholders” means the public, including individuals, groups or communities affected, or likely to be affected, by the proposed clean development mechanism project activity.

¹ In the context of this annex, “Article” refers to an Article of the Kyoto Protocol, unless otherwise specified.

B. Role of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

2. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) shall have authority over and provide guidance to the clean development mechanism (CDM).

CDM in the broader context of the post-2020 agreement

The CDM should evolve with the strategic developments of the broader context, in particular with the elaboration of the post-2020 agreement and in ensuring the consistency with other market mechanisms under the Kyoto Protocol and the Convention, and avoiding double counting across market mechanisms.

Process of future revisions

- Introduce regular (not spontaneous and frequent) reviews to ensure legal stability.
- No regular review is necessary. The revision should only through annual guidance on the CDM.

3. The COP/MOP shall provide guidance to the Executive Board by taking decisions on:

- (a) The recommendations made by the Executive Board on its rules of procedure;
- (b) The recommendations made by the Executive Board, in accordance with provisions of decision 17/CP.7, the present annex and relevant decisions of the COP/MOP;
- (c) The designation of operational entities accredited by the Executive Board in accordance with Article 12, paragraph 5, and accreditation standards contained in appendix A below.

4. The COP/MOP shall further:

- a) Review annual reports of the Executive Board;
- b) Review the regional and subregional distribution of designated operational entities and take appropriate decisions to promote accreditation of such entities from developing country Parties;²

~~Remove the reference in the CDM modalities and procedures to the regional distribution of DOEs.~~

- c) Review the regional and subregional distribution of CDM project activities with a view to identifying systematic or systemic barriers to their equitable distribution and take appropriate decisions, based, inter alia, on a report by the Executive Board;
- d) Assist in arranging funding of CDM project activities, as necessary.

C. Executive Board

5. The Executive Board shall supervise the CDM, under the authority and guidance of the COP/MOP, and be fully accountable to the COP/MOP. In this context, the Executive Board shall:

Roles of the Board and delegation to the secretariat and panels

Further clarify the supervisory, strategic and policy-setting nature of the Board, delegating appropriate roles to secretariat and panels.

² In the context of this annex, “Party” refers to a Party to the Kyoto Protocol, unless otherwise specified.

Principles for decision-making by the Board

Include principles for decision-making by the Board, including predictability, fairness, transparency and impartiality.

Harmonization or unification of the Board and Joint Implementation Supervisory Committee (JISC)

Harmonize and unify governing bodies for the CDM and Joint Implementation (JI), for reasons of efficiency and consistency.

- (a) Make recommendations to the COP/MOP on further modalities and procedures for the CDM, as appropriate;
- (b) Make recommendations to the COP/MOP on any amendments or additions to rules of procedure for the Executive Board contained in the present annex, as appropriate;
- (c) Report on its activities to each session of the COP/MOP;
- (d) Approve new methodologies relating to, inter alia, baselines, monitoring plans and project boundaries in accordance with the provisions of appendix C below;
- (e) Review provisions with regard to simplified modalities, procedures and the definitions of small-scale project activities and make recommendations to the COP/MOP;
- (f) Be responsible for the accreditation of operational entities, in accordance with accreditation standards contained in appendix A below, and make recommendations to the COP/MOP for the designation of operational entities, in accordance with Article 12, paragraph 5. This responsibility includes:
 - (i) Decisions on re-accreditation, suspension and withdrawal of accreditation;
 - (ii) Operationalization of accreditation procedures and standards;
- (g) Review the accreditation standards in appendix A below and make recommendations to the COP/MOP for consideration, as appropriate;
- (h) Report to the COP/MOP on the regional and subregional distribution of CDM project activities with a view to identifying systematic or systemic barriers to their equitable distribution;
- (i) Make publicly available relevant information, submitted to it for this purpose, on proposed CDM project activities in need of funding and on investors seeking opportunities, in order to assist in arranging funding of CDM project activities, as necessary;
- (j) Make any technical reports commissioned available to the public and provide a period of at least eight weeks for public comments on draft methodologies and guidance before documents are finalized and any recommendations are submitted to the COP/MOP for their consideration;
- (k) Develop, maintain and make publicly available a repository of approved rules, procedures, methodologies and standards;
- (l) Develop and maintain the CDM registry as defined in appendix D below;
- (m) Develop and maintain a publicly available database of CDM project activities containing information on registered project design documents, comments received, verification reports, its decisions as well as information on all CERs issued;
- (n) Address issues relating to observance of modalities and procedures for the CDM by project participants and/or operational entities, and report on them to the COP/MOP;

- (o) Elaborate and recommend to the COP/MOP for adoption at its next session procedures for conducting the reviews referred to in paragraphs 41 and 65 below including, inter alia, procedures to facilitate consideration of information from Parties, stakeholders and UNFCCC accredited observers. Until their adoption by the COP/MOP, the procedures shall be applied provisionally;
- (p) Carry out any other functions ascribed to it in decision 17/CP.7, the present annex and relevant decisions of the COP/MOP.

6. Information obtained from CDM project participants marked as proprietary or confidential shall not be disclosed without the written consent of the provider of the information, except as required by national law. Information used to determine additionality as defined in paragraph 43 below, to describe the baseline methodology and its application, and to support an environmental impact assessment referred to in paragraph 37 (c) below, shall not be considered as proprietary or confidential.

7. The Executive Board shall comprise 10 members from Parties to the Kyoto Protocol, as follows: one member from each of the five United Nations regional groups, two other members from the Parties included in Annex I, two other members from the Parties not included in Annex I, and one representative of the small island developing States, taking into account the current practice in the Bureau of the Conference of the Parties.

8. Members, including alternate members, of the Executive Board shall:

- (a) Be nominated by the relevant constituencies referred to in paragraph 7 above and be elected by the COP/MOP. Vacancies shall be filled in the same way;
- (b) Be elected for a period of two years and be eligible to serve a maximum of two consecutive terms. Terms as alternate members do not count. Five members and five alternate members shall be elected initially for a term of three years and five members and five alternate members for a term of two years. Thereafter, the COP/MOP shall elect, every year, five new members, and five new alternate members, for a term of two years. Appointment pursuant to paragraph 11 below shall count as one term. The members, and alternate members, shall remain in office until their successors are elected;

Term length

Establish [time limits] [maximum number of terms] on the total length of service of individuals on the Board, rather than on the number and type of terms served on the Board.

→ [Technical paper: \(e\) Limiting total length of service and terms, para 25–27](#)

- (c) Possess appropriate technical and/or policy expertise and shall act in their personal capacity. The cost of participation of members, and of alternate members, from developing country Parties and other Parties eligible under UNFCCC practice shall be covered by the budget for the Executive Board;

Competence requirements

Further elaborate the requirements concerning technical expertise, skills and/or qualification required by members/alternates, in line with the Terms of Reference for the membership of the CDM Executive Board (decision 3/CMP.6, Annex I).

→ [Technical paper: \(g\) Ensuring competence, para 32–35](#)

- (d) Be bound by the rules of procedure of the Executive Board;
- (e) Take a written oath of service witnessed by the Executive Secretary of the UNFCCC or his/her authorized representative before assuming his or her duties;

- (f) Have no pecuniary or financial interest in any aspect of a CDM project activity or any designated operational entity;

Avoiding conflict of interest and safeguarding confidentiality

Include a reference to compliance by members and alternate members of the Board with its code of conduct. (From SBI 40 - agreed)

→ Technical paper: (h) Protecting against conflict of interest, para 36-39

~~Conflict of interest and confidentiality rules to be expanded to include the adopted Board Code of Conduct.~~

~~Inclusion of penalties and processes for breach of the Code of Conduct and of the disclosure of conflict of interest provisions.~~

~~Paragraphs 4, 5 and 6 of Rule 4 of the Rules and Procedures of the Compliance Committee of the Kyoto Protocol (Annex to decision 4/CMP.2) to be adapted for Board and included in the M&P.~~

- (g) Subject to their responsibilities to the Executive Board, not disclose any confidential or proprietary information coming to their knowledge by reason of their duties for the Executive Board. The duty of the member, including alternate member, not to disclose confidential information constitutes an obligation in respect of that member, and alternate member, and shall remain an obligation after the expiration or termination of that member's function for the Executive Board.

9. The COP/MOP shall elect an alternate for each member of the Executive Board based on the criteria in paragraphs 7 and 8 above. The nomination by a constituency of a candidate member shall be accompanied by a nomination for a candidate alternate member from the same constituency.

Process of nomination

- ~~— Introduce a structured process and time plan.~~
- ~~— Ensure transparency, including publication of qualifications/CVs of the candidates prior to election.~~
- ~~— Ensure a blend of skills and expertise in the Board and select new nominees to complement existing membership.~~

Nominations from Parties

Not allow nominations from Parties that are not Parties to the Kyoto Protocol. (Agreed)

Board members

- ~~— Not be involved in the UNFCCC negotiation process;~~
- ~~— Not be members/representatives of a DNA during their term.~~
- ~~— Not be involved in public or private institutions that develop CDM project activities or purchase or trade CERs.~~

Composition of Board

- ~~— Improve the gender balance.~~
- ~~— Eliminate distinction between full and alternate members.~~

Seats for private-sector and other organizations

Add one non-voting seat for the private sector and one non-voting seat for accredited non-governmental organizations.
(From SBI 40)

→ Technical paper: (b) Providing seats to private-sector and other organizations, para 16–19

~~— Include [members] [observers] from the private sector and of accredited NGOs, both from developed and developing countries without exceeding the current size of the Board~~

Seat for the least developed countries

Add a seat for the least developed country Parties. (From SBI 40)

→ Technical paper: (c) Allocating a seat for least developed countries, para 20–21

Overall membership issues

~~— Chair and Vice Chair of the Board, Panels and Working Groups should be elected on a full time basis, other members of the Board at least on a half time basis to allow professionalization and dedication of the work of Board members.~~

10. The Executive Board may suspend and recommend to the COP/MOP the termination of the membership of a particular member, including an alternate member, for cause including, inter alia, breach of the conflict of interest provisions, breach of the confidentiality provisions, or failure to attend two consecutive meetings of the Executive Board without proper justification.

11. If a member, or an alternate member, of the Executive Board resigns or is otherwise unable to complete the assigned term of office or to perform the functions of that office, the Executive Board may decide, bearing in mind the proximity of the next session of the COP/MOP, to appoint another member, or an alternate member, from the same constituency to replace the said member for the remainder of that member's mandate.

12. The Executive Board shall elect its own Chair and Vice-Chair, with one being a member from a Party included in Annex I and the other being from a Party not included in Annex I. The positions of Chair and Vice-Chair shall alternate annually between a member from a Party included in Annex I and a member from a Party not included in Annex I.

13. The Executive Board shall meet as necessary but no less than three times a year, bearing in mind the provisions of paragraph 41 below. All documentation for Executive Board meetings shall be made available to alternate members.

14. At least two thirds of the members of the Executive Board, representing a majority of members from Parties included in Annex I and a majority of members from Parties not included in Annex I, must be present to constitute a quorum.

15. Decisions by the Executive Board shall be taken by consensus, whenever possible. If all efforts at reaching a consensus have been exhausted and no agreement has been reached, decisions shall be taken by a three-fourths majority of the members present and voting at the meeting. Members abstaining from voting shall be considered as not voting.

16. Meetings of the Executive Board shall be open to attendance, as observers, by all Parties and by all UNFCCC accredited observers and stakeholders, except where otherwise decided by the Executive Board.

Transparency:

~~— Include guidelines for the conduct of closed sessions.~~

17. The full text of all decisions of the Executive Board shall be made publicly available. The working language of the Executive Board shall be English. Decisions shall be made available in all six official languages of the United Nations.

18. The Executive Board may establish committees, panels or working groups to assist it in the performance of its functions. The Executive Board shall draw on the expertise necessary to perform its functions, including from the UNFCCC roster of experts. In this context, it shall take fully into account the consideration of regional balance.

19. The secretariat shall service the Executive Board.

Relationship between the Board and its support structure

Include principles on the role of the support structure of the Executive Board that are based on current practice. (From SBI 40 - agreed)

~~Further elaborate the relationship between the Board and its support structure (panels, working groups and secretariat).~~

D. Accreditation and designation of operational entities

20. The Executive Board shall:

- (a) Accredite operational entities which meet the accreditation standards contained in appendix A below;
- (b) Recommend the designation of operational entities to the COP/MOP;
- (c) Maintain a publicly available list of all designated operational entities;
- (d) Review whether each designated operational entity continues to comply with the accreditation standards contained in appendix A below and on this basis confirm whether to reaccredit each operational entity every three years;
- (e) Conduct spot-checking at any time and, on the basis of the results, decide to conduct the above-mentioned review, if warranted.

Provisions for accreditation in the modalities and procedures

Not incorporate appendix A to the current modalities and procedures, but include principles on accreditation in the body of the modalities and procedures. (From SBI 40 - agreed)

~~Simplify the rules for accrediting operational entities by setting out principles (including consistency; impartiality; transparency and confidentiality; rigour; competence; and openness and accessibility) in the main body of the CDM modalities and procedures, and consequently deleting appendix A, allowing the Board to develop and revise the accreditation rules in a more flexible and timely manner.~~

Alignment or coordination of the CDM accreditation system with the JI accreditation system

Align or coordinate the CDM accreditation system with the rules on accreditation in joint implementation (JI), including conducting certain accreditation activities in conjunction with JI. This possible change will be considered once the SBI concludes its consideration on this issue.

21. The Executive Board may recommend to the COP/MOP to suspend or withdraw the designation of a designated operational entity if it has carried out a review and found that the entity no longer meets the accreditation standards or applicable provisions in decisions of the COP/MOP. The Executive Board may recommend the suspension or withdrawal of designation only after the designated operational entity has had the possibility of a hearing. The suspension or withdrawal is with immediate effect, on a provisional basis, once the Executive Board has made a recommendation, and remains in effect pending a final decision by the COP/MOP. The affected entity shall be notified, immediately and in writing, once the Executive Board has recommended its suspension or withdrawal. The recommendation by the Executive Board and the decision by the COP/MOP on such a case shall be made public.

22. Registered project activities shall not be affected by the suspension or withdrawal of designation of a designated operational entity unless significant deficiencies are identified in the relevant validation, verification or certification report for which the entity was responsible. In this case, the Executive Board shall decide whether a different designated operational entity shall be appointed to review, and where appropriate correct, such deficiencies. If such a review reveals that excess CERs were issued, the designated operational entity whose accreditation has been withdrawn or suspended shall acquire and transfer, within 30 days of the end of review, an amount of reduced tonnes of carbon dioxide equivalent equal to the excess CERs issued, as determined by the Executive Board, to a cancellation account maintained in the CDM registry by the Executive Board.

DOE liability

Elaborate alternative principles of liability of designated operational entities (DOEs) to compensate the issuance of CERs resulting from significant deficiencies in validation, verification and certification reports, including by:

- Using the principles from the draft procedure presented by the Board at CMP.8 (FCCC/KP/CMP/2012/11) (*From SBI 40*)
- Ensuring that environmental integrity is preserved, that no additional costs are passed on to project developers, and that the level of liability is reduced to a level which allows DOEs to perform. (*From SBI40*)
- Limiting the scope of liability or DOEs to a quantifiable level;
→ [Technical paper: \(a\) Limiting the scope of liability, para 49–50](#)
- Differentiating liability depending on the cause of the excess issuance (e.g. fraud, professional negligence); and
→ [Technical paper: \(b\) Changing the threshold of designated operational entity behaviour that triggers liability, para 51–52](#)
- Including alternative solutions for managing the risk of issuance of excess CERs through reserve pools, deductions of CERs from later issuances from the relevant project activity or levying an amount at issuance akin to a share of proceeds.
→ [Technical paper: \(c\) Creating a reserve of certified emission reductions, para 53–54](#)
→ [Technical paper: \(d\) Deducting certified emission reductions from later issuance, para 55–56](#)
- Retain paragraphs 22–24 of the modalities and procedures (*From SBI 40*)
→ [Technical paper: \(e\) Deleting paragraphs 22–24 of the modalities and procedures for the clean development mechanism, para 57–58](#)

23. Any suspension or withdrawal of a designated operational entity that adversely affects registered project activities shall be recommended by the Executive Board only after the affected project participants have had the possibility of a hearing.

24. Any costs relating to the review referred to in paragraph 22 above shall be borne by the designated operational entity whose designation has been withdrawn or suspended.

25. The Executive Board may seek assistance in performing the functions in paragraph 20 above, in accordance with the provisions of paragraph 18 above.

E. Designated operational entities

26. Designated operational entities shall be accountable to the COP/MOP through the Executive Board and shall comply with the modalities and procedures in decision 17/CP.7, the present annex and relevant decisions of the COP/MOP and the Executive Board.

27. A designated operational entity shall:

- (a) Validate proposed CDM project activities;
- (b) Verify and certify reductions in anthropogenic emissions by sources of greenhouse gases;
- (c) Comply with applicable laws of the Parties hosting CDM project activities when carrying out its functions referred to in subparagraph (e) below;
- (d) Demonstrate that it, and its subcontractors, have no real or potential conflict of interest with the participants in the CDM project activities for which it has been selected to carry out validation or verification and certification functions;
- (e) Perform one of the following functions relating to a given CDM project activity: validation or verification and certification. Upon request, the Executive Board may, however, allow a single designated operational entity to perform all these functions within a single CDM project activity;
- (f) Maintain a publicly available list of all CDM project activities for which it has carried out validation, verification and certification;
- (g) Submit an annual activity report to the Executive Board;
- (h) Make information obtained from CDM project participants publicly available, as required by the Executive Board. Information marked as proprietary or confidential shall not be disclosed without the written consent of the provider of the information, except as required by national law. Information used to determine additionality as defined in paragraph 43 below, to describe the baseline methodology and its application, and to support an environmental impact assessment referred to in paragraph 37 (c) below, shall not be considered as proprietary or confidential.

F. Participation requirements

- 28. Participation in a CDM project activity is voluntary.
- 29. Parties participating in the CDM shall designate a national authority for the CDM.
- 30. A Party not included in Annex I may participate in a CDM project activity if it is a Party to the Kyoto Protocol.

Reflection of decision 1/CMP.8

Reflect decision 1/CMP.8 (the Doha Amendment) (Agreed) to allow Annex I Parties without a quantified emission limitation and reduction commitment (QELRC) for the second commitment period of the Kyoto Protocol to participate in the CDM, but only those with QELRC for the second commitment period are eligible to transfer and acquire CERs.

Access to the CDM

Expand access to the CDM by:

~~— Making the CDM fully available to use against commitments for all Parties in a future climate regime, including acquiring and transferring CERs; and/or;~~

- Allowing full access to the CDM to all Parties including developing country Parties, for meeting their nationally appropriate mitigation actions (NAMAs) pledged under the Convention or for meeting commitments under other instruments if they wish to do so; and

- 31. - Establishing adequate accounting rules and extend the procedures for cancelling CERs used for meeting commitments and for avoiding double counting. Subject to the provisions of paragraph 32 below, a Party included in Annex I with a commitment inscribed in Annex B is eligible to use CERs, issued in accordance with the relevant provisions, to

contribute to compliance with part of its commitment under Article 3, paragraph 1, if it is in compliance with the following eligibility requirements:

- (a) It is a Party to the Kyoto Protocol;
- (b) Its assigned amount pursuant to Article 3, paragraphs 7 and 8, has been calculated and recorded in accordance with decision 13/CMP.1;
- (c) It has in place a national system for the estimation of anthropogenic emissions by sources and anthropogenic removals by sinks of all greenhouse gases not controlled by the Montreal Protocol, in accordance with Article 5, paragraph 1, and the requirements in the guidelines decided thereunder;
- (d) It has in place a national registry in accordance with Article 7, paragraph 4, and the requirements in the guidelines decided thereunder;
- (e) It has submitted annually the most recent required inventory, in accordance with Article 5, paragraph 2, and Article 7, paragraph 1, and the requirements in the guidelines decided thereunder, including the national inventory report and the common reporting format. For the first commitment period, the quality assessment needed for the purpose of determining eligibility to use the mechanisms shall be limited to the parts of the inventory pertaining to emissions of greenhouse gases from sources/sector categories from Annex A to the Kyoto Protocol and the submission of the annual inventory on sinks;
- (f) It submits the supplementary information on assigned amount in accordance with Article 7, paragraph 1, and the requirements in the guidelines decided thereunder and makes any additions to, and subtractions from, assigned amount pursuant to Article 3, paragraphs 7 and 8, including for the activities under Article 3, paragraphs 3 and 4, in accordance with Article 7, paragraph 4, and the requirements in the guidelines decided thereunder.

32. A Party included in Annex I with a commitment inscribed in Annex B shall be considered:

- (a) To meet the eligibility requirements referred to in paragraph 31 above after 16 months have elapsed since the submission of its report to facilitate the calculation of its assigned amount pursuant to Article 3, paragraphs 7 and 8, and to demonstrate its capacity to account for its emissions and assigned amount, in accordance with the modalities adopted for the accounting of assigned amount under Article 7, paragraph 4, unless the enforcement branch of the compliance committee finds in accordance with decision 24/CP.7 that the Party does not meet these requirements, or, at an earlier date, if the enforcement branch of the Compliance Committee has decided that it is not proceeding with any questions of implementation relating to these requirements indicated in reports of the expert review teams under Article 8 of the Kyoto Protocol, and has transmitted this information to the secretariat;
- (b) To continue to meet the eligibility requirements referred to in paragraph 31 above unless and until the enforcement branch of the Compliance Committee decides that the Party does not meet one or more of the eligibility requirements, has suspended the Party's eligibility, and has transmitted this information to the secretariat.

33. A Party that authorizes private and/or public entities to participate in Article 12 project activities shall remain responsible for the fulfilment of its obligations under the Kyoto Protocol and shall ensure that such participation is consistent with the present annex. Private and/or public entities may only transfer and acquire CERs if the authorizing Party is eligible to do so at that time.

34. The secretariat shall maintain publicly accessible lists of:

- (a) Parties not included in Annex I which are Parties to the Kyoto Protocol;

- (b) Parties included in Annex I that do not meet the requirements in paragraph 31 above or have been suspended.

New section F bis: Role of the Host Party

New section on DNAs

Include a section on designated national authorities, based on the regulations that have been developed by the Executive Board. (From SBI 40 - agreed)

→ Technical paper: (a) Clarifying the roles of designated national authorities, para 107–110

Roles and responsibilities of DNAs

- Further elaborate the role of DNAs prior to project registration and during project implementation, bearing in mind the distinction between the roles of a host Party government and the DNA to strengthen the engagement of DNAs in the CDM, e.g. in guiding the implementation of the mechanism in their country.

→ Technical paper: (a) Clarifying the roles of designated national authorities, para 107–110

- Allow DNAs to conduct validation based on a check list for DNAs to be adopted by the Board.

→ Technical paper: (c) Allowing designated national authorities to validate clean development mechanism, para 114–116

- DNAs to make publicly available information relevant to project activities:
 - National regulations that project activities must comply with and relevant national policies (E+/E-) that are in place in that country.
 - The sustainable development criteria they use in their Letter of Approval process.
 - Process and criteria for approval/authorization of project activities and PoAs and for participation of public/private entities. (From SBI 40)
 - The relevant laws, regulations and guidelines that apply to the national approval processes, including elements such as the applicable rules relating to environmental impact assessment and local stakeholder consultation. (From SBI 40)
 - Criteria used by the DNA to assess the contribution of a project activity or PoA to sustainable development. (From SBI 40)
 - Information that project participants and coordinating/managing entities may require in order to establish baselines and demonstrate additionality, such as relevant national policies, sectoral plans, development and conservation strategies. (From SBI 40)
 - How the use of the CDM in the country contributes to the development of low emission development strategies or similar policies. (From SBI 40)
 - How the CDM activity benefits are shared between investor and host country. (From SBI 40)
- Clarify that a DNA is not responsible for national approval processes, neither for publishing information but can opt to provide information on procedures, policies, etc. (From SBI 40)

→ Technical paper: (b) Increasing transparency at the designated national authority level, para 111–113

- Strengthen the capacity of DNAs with regard to the development of Standardized Baselines

→ Technical paper: (a) Clarifying the roles of designated national authorities, para 107–110

Requirements for Letters of Approval (LoA)

Further elaborate the content of LoAs:

- Define host Party approval;
- Outline the required minimum content and form of the LoA (including the definition of “LoA”, that a LoA shall contain start date and end dates for validity, as applicable, and clear conditions for issuance and withdrawal, if any). (*From SBI 40*)

→ Technical paper: (e) Further elaborating the requirements for the content and form of letters of approval, para 123–125

- Elaborate the requirements and process for a Party’s withdrawal of a letter of approval. Include a requirement of prior notification to project participants of the criteria and conditions of any withdrawal. Conditions for withdrawal could include violation of national regulations, of international treaties, in particular human rights. The rules for withdrawing letters of approval need to guarantee certainty for investment by the private sector.

→ Technical paper: (f) Elaborating the key principles for designated national authorities withdrawing or suspending letters of approval, para 126–130

- Define a clear and transparent process regarding the conditions for a DNA to withdraw or suspend a LoA, the process for mitigating the negative situation within a specific deadline and the related consequences in case of absence of resolution of the situation.
- DNAs should transparently inform on the conditions for withdrawing or suspending LoAs.

→ Technical paper: (f) Elaborating the key principles for designated national authorities withdrawing or suspending letters of approval, para 126–130

- International process to complain against projects: A process should also be established at the international level to receive complaints regarding specific projects and project impacts, which can then be directed to the host country DNA for investigation and assessment and, if substantiated, result in corrective measures which may include withdrawal of approval.

→ Technical paper: (d) Handling of complaints or stakeholder comments on registered clean development mechanism project activities and programmes of activities, para 117–122

G. Validation and registration

Net mitigation

Include further provisions for voluntary net emission reductions in a transparent and quantifiable manner which is clearly attributable and not double counted. Not applicable to CDM projects or programmes in LDCs. (*From SBI 40*)

Exclusion/limitation of certain project types

Exclude/limit certain types of project categories/technologies/locations from the CDM by:

- Not allowing the registration of new ~~projects involving gases with comparatively low marginal costs of abatement (e.g. projects that reduce HFC-23 and projects that reduce N2O from adipic acid plants;~~ (*From SBI 40*)
- Not allowing the registration of NF3 projects;
- Not allowing the registration of coal-based power generation without CCS technology.

→ Technical paper: (b)(vii) Principles for demonstration of additionality that could be included, para 100–102

Requirements for projects with high co-benefits

Simplify the requirements for projects with high co-benefits, especially regarding additionality and monitoring issues, whenever it does not endanger environmental integrity and conservativeness.

Scope of materiality

Expand the scope of materiality to all steps in the CDM (both validation and verification). This possible change will be considered once the Executive Board concludes its consideration on this issue. *(From SBI 40)*

~~Expand the CDM to include sectoral approaches.~~

Principles of direct communication

Include principles of direct communication between stakeholders and the Board and its support structure. *(Agreed)*

Simplified project cycle for automatically additional projects

Include the current practice of the Board of establishing a list of project activity types/scale deemed automatically additional, specifying that these projects may be subject to simplified validation.

CDM project activities [and PoAs] that qualify as automatically additional (e.g. through positive lists, microscale additionality or standardized baselines) and use pre-approved emission factors (e.g. default values in the methodology or standardized baselines) can opt (i.e. not mandatory) for simplified validation and registration so that registration is approved on the basis of a standardized pre-approved registration template using objective criteria without prior validation through a DOE, and that ex-post confirmation of the compliance to the registered template of the implemented project activity is undertaken by the DOE during first verification. *(From SBI40)*

→ [Technical paper: \(a\) Streamlining the validation process, para 134–138](#)

35. Validation is the process of independent evaluation of a project activity by a designated operational entity against the requirements of the CDM as set out in decision 17/CP.7, the present annex and relevant decisions of the COP/MOP, on the basis of the project design document, as outlined in appendix B below.

36. Registration is the formal acceptance by the Executive Board of a validated project as a CDM project activity. Registration is the prerequisite for the verification, certification and issuance of CERs relating to that project activity.

37. The designated operational entity selected by project participants to validate a project activity, being under a contractual arrangement with them, shall review the project design document and any supporting documentation to confirm that the following requirements have been met:

- (a) The participation requirements as set out in paragraphs 28–30 above are satisfied
- (b) Comments by local stakeholders have been invited, a summary of the comments received has been provided, and a report to the designated operational entity on how due account was taken of any comments has been received

Requirements for local stakeholder consultation *(This suggestion is related to the suggestion on para 40(c) below.)*

Include requirements for local consultation procedures, including minimum criteria for scope, timing and form. *(From SBI 40)*

~~Strengthen the requirement for DOE to validate that the local stakeholder consultation was carried out in accordance with host Party laws and regulations, and to evaluate how the content of the comments was duly taken into account.~~

- (c) Project participants have submitted to the designated operational entity documentation on the analysis of the environmental impacts of the project activity, including transboundary impacts and, if those impacts are considered significant by the project participants or the host Party, have undertaken an environmental impact assessment in accordance with procedures as required by the host Party

Multi-country project activity

Allow single project activities to be hosted in more than one Party, taking into account issues such as the allocation of responsibility for project participants, the allocation of emission reductions between host Parties, and the implications for the international transaction log and the CDM registry.

- (d) The project activity is expected to result in a reduction in anthropogenic emissions by sources of greenhouse gases that are additional to any that would occur in the absence of the proposed project activity, in accordance with paragraphs 43–52 below
- (e) The baseline and monitoring methodologies comply with requirements pertaining to:
- (i) Methodologies previously approved by the Executive Board; or
 - (ii) Modalities and procedures for establishing a new methodology, as set out in paragraph 38 below
- (f) Provisions for monitoring, verification and reporting are in accordance with decision 17/CP.7, the present annex and relevant decisions of the COP/MOP
- (g) The project activity conforms to all other requirements for CDM project activities in decision 17/CP.7, the present annex and relevant decisions by the COP/MOP and the Executive Board.

38. If the designated operational entity determines that the project activity intends to use a new baseline or monitoring methodology, as referred to in paragraph 37 (e) (ii) above, it shall, prior to a submission for registration of this project activity, forward the proposed methodology, together with the draft project design document, including a description of the project and identification of the project participants, to the Executive Board for review. The Executive Board shall expeditiously, if possible at its next meeting but not later than four months, review the proposed new methodology in accordance with the modalities and procedures of the present annex. Once approved by the Executive Board it shall make the approved methodology publicly available along with any relevant guidance and the designated operational entity may proceed with the validation of the project activity and submit the project design document for registration. In the event that the COP/MOP requests the revision of an approved methodology, no CDM project activity may use this methodology. The project participants shall revise the methodology, as appropriate, taking into consideration any guidance received.

Methodology development/revision processes

Remove the requirement to submit a description of a proposed project activity or PoA and to identify project participants at time of submission of proposed new methodology.

Reflect the current practice of the Board developing and revising methodologies; and allowing the direct submission of new methodologies and revisions to approved methodologies by any stakeholder. *(Agreed)*

Standardized baselines

- Make the use of standardized baselines mandatory once they are established for the relevant sectors for new project activities, unless existing project-specific baselines are more ambitious.

- Incorporate decision 3/CMP.6, paragraphs 44 to 52, on standardized baselines into the CDM modalities and procedures in order to address the special features of projects using standardized baselines in accordance with decision 2/CMP.5, paragraph 25, and decision 3/CMP.6, paragraphs 44 to 52. *(Agreed)*

~~Ensure that provisions of standardized baselines do not constrain the evolution of standardized baselines in the future, such as eliminating the validation step for standardized baselines;~~

- Establish more transparent and standardized approaches to set crediting thresholds tailored to national circumstances through standardized baselines. *(From SBI 40)*

- Replace validation step with a “checklist” approach or validation at the first verification for certain types of [project activities and] [PoAs] using standardized baselines. *(From SBI 40)*

→ [Technical paper: \(a\) Streamlining the validation process, para 134–138](#)

39. A revision of a methodology shall be carried out in accordance with the modalities and procedures for establishing new methodologies as set out in paragraph 38 above. Any revision to an approved methodology shall only be applicable to project activities registered subsequent to the date of revision and shall not affect existing registered project activities during their crediting periods.

~~Reflect the current practice by including the concept of clarifications of approved methodologies.~~

40. The designated operational entity shall:

- (a) Prior to the submission of the validation report to the Executive Board, have received from the project participants written approval of voluntary participation from the designated national authority of each Party involved, including confirmation by the host Party that the project activity assists it in achieving sustainable development;

~~Include a requirement for DOEs to check that implementation of project activities under the CDM shall respect international human rights.~~

Reporting on sustainable development contributions

~~— Make the use of the CDM sustainable development tool mandatory.~~

- Include reporting on how projects meet the sustainable development criteria established by the DNA. *(Possible change to require DNAs to make sustainable development criteria publicly available is already covered in section Fbis) (From SBI 40)*

- Provide guiding tool on monitoring of sustainable development co-benefits to be used by DNAs on a voluntary basis. *(From SBI 40)*

- (b) In accordance with provisions on confidentiality contained in paragraph 27 (h) above, make publicly available the project design document;
- (c) Receive, within 30 days, comments on the validation requirements from Parties, stakeholders and UNFCCC accredited non-governmental organizations and make them publicly available;

Requirements for global stakeholder consultation *(This suggestion is related to the suggestion on para 37(b) above.)*

- Further elaborate rules and procedures global consultation processes, including minimum criteria for scope, timing and form, taking into account national sovereignty. *(From SBI40)*
- Provide guiding tool on local stakeholders' consultation to be used by DNAs on a voluntary basis. *(From SBI 40)*

- (d) After the deadline for receipt of comments, make a determination as to whether, on the basis of the information provided and taking into account the comments received, the project activity should be validated;
- (e) Inform project participants of its determination on the validation of the project activity. Notification to the project participants will include:
 - (i) Confirmation of validation and date of submission of the validation report to the Executive Board; or
 - (ii) An explanation of reasons for non-acceptance if the project activity, as documented, is judged not to fulfil the requirements for validation;
- (f) Submit to the Executive Board, if it determines the proposed project activity to be valid, a request for registration in the form of a validation report including the project design document, the written approval of the host Party as referred to in subparagraph (a) above, and an explanation of how it has taken due account of comments received;
- (g) Make this validation report publicly available upon transmission to the Executive Board.

41. The registration by the Executive Board shall be deemed final eight weeks after the date of receipt by the Executive Board of the request for registration, unless a Party involved in the project activity or at least three members of the Executive Board request a review of the proposed CDM project activity. The review by the Executive Board shall be made in accordance with the following provisions:

- (a) It shall be related to issues associated with the validation requirements
- (b) It shall be finalized no later than at the second meeting following the request for review, with the decision and the reasons for it being communicated to the project participants and the public.

Review of requests for registration

Reflect the current practice on the reviews of requests for registration. *(From SBI 40 - agreed)*

~~Delegate reviews of requests for registration to a panel of experts reporting to the Board with clearly defined relevant procedures.~~

42. A proposed project activity that is not accepted may be reconsidered for validation and subsequent registration, after appropriate revisions, provided that it follows the procedures and meets the requirements for validation and registration, including those relating to public comments.

43. A CDM project activity is additional if anthropogenic emissions of greenhouse gases by sources are reduced below those that would have occurred in the absence of the registered CDM project activity.

Additionality

Inclusion of [requirements] [principles] [means] for the demonstration of additionality

- Include the [requirements] [principles] [means] for the demonstration of additionality. *(From SBI40)*

Possible [requirements] [principles] [means]

- Possible [requirements] [principles] [means] for the demonstration of additionality: *(From SBI40)*
 - Investment analysis; *(From SBI 40)*
 - Common practice analysis; *(From SBI 40)*
 - Barrier analysis; *(From SBI 40)*
 - **Positive lists**; *(From SBI 40 - Agreed)*
 - 'First -of -its -kind'; *(From SBI 40)*
 - Dynamic baselines; *(From SBI 40)*
 - Standardized approaches. *(From SBI 40)*

Elaboration of the [requirements] [principles] [means]

- Elaborate the requirements for demonstration of additionality by:
 - Including CDM project activity in establishment of common practice (e.g CDM projects of similar size and type, registered 5 years before or earlier);
 - Including revenues from CERs in the investment analysis for the demonstration of additionality;
 - Listing the types of project activities that are deemed automatically additional;
 - Not allowing the use of first-of-its-kind barriers;
 - Using standardized approaches such as development of benchmarks, performance benchmarks etc with periodic review and update.

→ [Technical paper: \(E\) Requirements for demonstration of additionality, para 75–105](#)

44. The baseline for a CDM project activity is the scenario that reasonably represents the anthropogenic emissions by sources of greenhouse gases that would occur in the absence of the proposed project activity. A baseline shall cover emissions from all gases, sectors and source categories listed in Annex A within the project boundary. A baseline shall be deemed to reasonably represent the anthropogenic emissions by sources that would occur in the absence of the proposed project activity if it is derived using a baseline methodology referred to in paragraphs 37 and 38 above.

Dynamic baselines

Allow the baseline setting to be dynamic taking into account the technological development and improvement in industry standards and government policies, through, e.g. pre-established automatic baseline adjustments, autonomous improvement factors.

→ [Technical paper: b\(iv\) Principles for demonstration of additionality that could be included, para 91–93](#)

45. A baseline shall be established:

- (a) By project participants in accordance with provisions for the use of approved and new methodologies, contained in decision 17/CP.7, the present annex and relevant decisions of the COP/MOP;
- (b) In a transparent and conservative manner regarding the choice of approaches, assumptions, methodologies, parameters, data sources, key factors and additionality, and taking into account uncertainty;
- (c) On a project-specific basis;
- (d) In the case of small-scale CDM project activities which meet the criteria specified in decision 17/CP.7 and relevant decisions by the COP/MOP, in accordance with simplified procedures developed for such activities;

- (e) Taking into account relevant national and/or sectoral policies and circumstances, such as sectoral reform initiatives, local fuel availability, power sector expansion plans, and the economic situation in the project sector.

E+/E- policies

Further clarify the treatment of national policies (E+/E-) in the CDM by requiring to take into account all applicable national policies and specific national circumstances in baseline calculations. This possible change will be considered once the Board concludes its consideration on this issue.

→ Technical paper: (b)(iii) Principles for demonstration of additionality that could be included, para 88–90

- 46. The baseline may include a scenario where future anthropogenic emissions by sources are projected to rise above current levels, due to the specific circumstances of the host Party.
- 47. The baseline shall be defined in a way that CERs cannot be earned for decreases in activity levels outside the project activity or due to force majeure.
- 48. In choosing a baseline methodology for a project activity, project participants shall select from among the following approaches the one deemed most appropriate for the project activity, taking into account any guidance by the Executive Board, and justify the appropriateness of their choice:
 - (a) Existing actual or historical emissions, as applicable, or
 - (b) Emissions from a technology that represents an economically attractive course of action, taking into account barriers to investment, or
 - (c) The average emissions of similar project activities undertaken in the previous five years, in similar social, economic, environmental and technological circumstances, and whose performance is among the top 20 per cent of their category.

Approaches to baseline methodologies

Make the list of approaches to baseline methodologies (paragraph 48 (a)–(c)) into a non-exhaustive one. (Agreed)

- 49. Project participants shall select a crediting period for a proposed project activity from one of the following alternative approaches:
 - (a) A maximum of seven years which may be renewed at most two times, provided that, for each renewal, a designated operational entity determines and informs the Executive Board that the original project baseline is still valid or has been updated taking account of new data where applicable; or
 - (b) A maximum of 10 years with no option of renewal.

Shortening the length of crediting periods

Shorten the length of crediting periods.

→ Technical paper: (a) Shortening the length of each crediting period and/or reducing the possibility of renewal, para 71–72

Flexible approach to determining the length of crediting periods

- Introduce a flexible approach to determining crediting periods based on factors such as technology, project type, barriers, project scale, lifetime of the equipment, country context, market penetration and others. (*From SBI40*)
- Allow flexibility to the Board to reduce crediting periods below maximums for certain project types, technologies or in certain country contexts, if this could be useful to ensure that the requirement of additionality is met.
- Require that the length of the crediting period be determined in the respective methodology and may in general be either 7 or 10 years. Any deviations from these general rules (longer or shorter periods) should be defined in the methodology.

→ Technical paper: (b) Introducing a flexible approach to determining the length of crediting periods, para 73–74

Renewal of crediting period

Make mandatory to reassess the baseline scenario and additionality of registered CDM project activities at the renewal of crediting period.

→ Technical paper: (b)(i) Principles for demonstration of additionality that could be included, para 103–105

50. Reductions in anthropogenic emissions by sources shall be adjusted for leakage in accordance with the monitoring and verification provisions in paragraphs 59 and 62 (f) below, respectively.

51. Leakage is defined as the net change of anthropogenic emissions by sources of greenhouse gases which occurs outside the project boundary, and which is measurable and attributable to the CDM project activity.

52. The project boundary shall encompass all anthropogenic emissions by sources of greenhouse gases under the control of the project participants that are significant and reasonably attributable to the CDM project activity.

H. Monitoring

Timing of submission of monitoring plan

Allow the monitoring plan to be submitted at the time of the first verification. This possible change will be considered once the Board concludes its consideration on this issue.

53. Project participants shall include, as part of the project design document, a monitoring plan that provides for:

Reporting on sustainable development benefits

Introduce a requirement for reporting on sustainable development benefits of project activities. (*This suggestion is related to the suggestion on para 40(a) above.*)

- (a) The collection and archiving of all relevant data necessary for estimating or measuring anthropogenic emissions by sources of greenhouse gases occurring within the project boundary during the crediting period;
- (b) The collection and archiving of all relevant data necessary for determining the baseline of anthropogenic emissions by sources of greenhouse gases within the project boundary during the crediting period;
- (c) The identification of all potential sources of, and the collection and archiving of data on, increased anthropogenic emissions by sources of greenhouse gases outside the project boundary that are significant and reasonably attributable to the project activity during the crediting period;
- (d) The collection and archiving of information relevant to the provisions in paragraph 37 (c) above;

- (e) Quality assurance and control procedures for the monitoring process;
- (f) Procedures for the periodic calculation of the reductions of anthropogenic emissions by sources by the proposed CDM project activity, and for leakage effects;
- (g) Documentation of all steps involved in the calculations referred to in paragraph 53 (c) and (f) above.

Requirements for monitoring

~~Allow the use of simplified requirements for monitoring if the monitoring methodology has been revised for registered project activities without requiring further validation.~~

54. A monitoring plan for a proposed project activity shall be based on a previously approved monitoring methodology or a new methodology, in accordance with paragraphs 37 and 38 above, that:

- (a) Is determined by the designated operational entity as appropriate to the circumstances of the proposed project activity and has been successfully applied elsewhere;
- (b) Reflects good monitoring practice appropriate to the type of project activity.

55. For small-scale CDM project activities meeting the criteria specified in decision 17/CP.7 and relevant decisions by the COP/MOP, project participants may use simplified modalities and procedures for small-scale projects.

Scale distinction and thresholds

Review the thresholds for the scale of project activities (small-scale and microscale).

→ [Technical paper: \(b\) Review the classification of scales under the various modalities and procedures, para 139–141](#)

~~Remove the distinction between small and large scale project activities.~~

Apply the small-scale rules for large-scale project activities, if individual units are small.

→ [Technical paper: \(b\) Review the classification of scales under the various modalities and procedures, para 142–144](#)

56. Project participants shall implement the monitoring plan contained in the registered project design document.

57. Revisions, if any, to the monitoring plan to improve its accuracy and/or completeness of information shall be justified by project participants and shall be submitted for validation to a designated operational entity.

58. The implementation of the registered monitoring plan and its revisions, as applicable, shall be a condition for verification, certification and the issuance of CERs.

59. Subsequent to the monitoring and reporting of reductions in anthropogenic emissions, CERs resulting from a CDM project activity during a specified time period shall be calculated, applying the registered methodology, by subtracting the actual anthropogenic emissions by sources from baseline emissions and adjusting for leakage.

60. The project participants shall provide to the designated operational entity, contracted by the project participants to perform the verification, a monitoring report in accordance with the registered monitoring plan set out in paragraph 53 above for the purpose of verification and certification.

I. Verification and certification

61. Verification is the periodic independent review and ex post determination by the designated operational entity of the monitored reductions in anthropogenic emissions by sources of greenhouse gases that have occurred as a result of a registered CDM project activity during the verification period. Certification is the written assurance by the designated

operational entity that, during a specified time period, a project activity achieved the reductions in anthropogenic emissions by sources of greenhouse gases as verified.

62. In accordance with the provisions on confidentiality in paragraph 27 (h) above, the designated operational entity contracted by the project participants to perform the verification shall make the monitoring report publicly available, and shall:

Contractual relationship with DOE

~~Remove the requirement for DOEs to have a direct contractual relationship with the project participants.~~

- (a) Determine whether the project documentation provided is in accordance with the requirements of the registered project design document and relevant provisions of decision 17/CP.7, the present annex and relevant decisions of the COP/MOP;
- (b) Conduct on-site inspections, as appropriate, that may comprise, inter alia, a review of performance records, interviews with project participants and local stakeholders, collection of measurements, observation of established practices and testing of the accuracy of monitoring equipment;

Global stakeholder consultation on verification

~~Provide stakeholders with the right to comment on the published verification report before the submission to the Board.~~

Include a process that allows local stakeholders to comment on the verification report before it is finalized and submitted to the Executive Board for request for issuance. (From SBI40 – agreed)

- (c) If appropriate, use additional data from other sources;
- (d) Review monitoring results and verify that the monitoring methodologies for the estimation of reductions in anthropogenic emissions by sources have been applied correctly and their documentation is complete and transparent;
- (e) Recommend to the project participants appropriate changes to the monitoring methodology for any future crediting period, if necessary;
- (f) Determine the reductions in anthropogenic emissions by sources of greenhouse gases that would not have occurred in the absence of the CDM project activity, based on the data and information derived under subparagraph (a) above and obtained under subparagraph (b) and/or (c) above, as appropriate, using calculation procedures consistent with those contained in the registered project design document and in the monitoring plan;
- (g) Identify and inform the project participants of any concerns relating to the conformity of the actual project activity and its operation with the registered project design document. Project participants shall address the concerns and supply relevant additional information;
- (h) Provide a verification report to the project participants, the Parties involved and the Executive Board. The report shall be made publicly available.

63. The designated operational entity shall, based on its verification report, certify in writing that, during the specified time period, the project activity achieved the verified amount of reductions in anthropogenic emissions by sources of greenhouse gases that would not have occurred in the absence of the CDM project activity. It shall inform the project participants, Parties involved and the Executive Board of its certification decision in writing immediately upon completion of the certification process and make the certification report publicly available.

J. Issuance of certified emission reductions

Measures to avoid double counting

Introduce provisions to avoid double counting of emission reductions under the CDM project activities/PoAs and other mechanisms.

Cancellation of a share of CERs

- Include provisions for transparent cancellation of a share of CERs at the point of issuance. (Consider where this fits best.) (From SBI 40 – agreed)

- Simplify provisions for voluntary cancellation of CERs. (From SBI 40)

64. The certification report shall constitute a request for issuance to the Executive Board of CERs equal to the verified amount of reductions of anthropogenic emissions by sources of greenhouse gases.

65. The issuance shall be considered final 15 days after the date of receipt of the request for issuance, unless a Party involved in the project activity or at least three members of the Executive Board request a review of the proposed issuance of CERs. Such a review shall be limited to issues of fraud, malfeasance or incompetence of the designated operational entities and be conducted as follows:

- (a) Upon receipt of a request for such a review, the Executive Board, at its next meeting, shall decide on its course of action. If it decides that the request has merit it shall perform a review and decide whether the proposed issuance of CERs should be approved;
- (b) The Executive Board shall complete its review within 30 days following its decision to perform the review;
- (c) The Executive Board shall inform the project participants of the outcome of the review, and make public its decision regarding the approval of the proposed issuance of CERs and the reasons for it.

66. Upon being instructed by the Executive Board to issue CERs for a CDM project activity, the CDM registry administrator, working under the authority of the Executive Board, shall, promptly, issue the specified quantity of CERs into the pending account of the Executive Board in the CDM registry, in accordance with appendix D below. Upon such issuance, the CDM registry administrator shall promptly:

- (a) Forward the quantity of CERs corresponding to the share of proceeds to cover administrative expenses and to assist in meeting costs of adaptation, respectively, in accordance with Article 12, paragraph 8, to the appropriate accounts in the CDM registry for the management of the share of proceeds;
- (b) Forward the remaining CERs to the registry accounts of Parties and project participants involved, in accordance with their request.

K. Programme of activities

Separate section and principles

- Include a section on programmes of activities, containing principles drawing from the regulations that have been developed by the Executive Board, as appropriate. (From SBI 40 – agreed)

Include a separate section on PoAs, with principles drawing from the current practice of the EB elaborating its unique features and setting out principles, such as the role of the coordinating and managing entities, how to treat monitoring requirements and monitoring periods, and processes for the inclusion of component project activities (CPAs); while allowing sufficient flexibility and recognising the differences between project activities and PoAs

- Consider CPAs equal to individual project activities (*From SBI40*)
- Clarify the difference between CDM project activities and those activities implemented under the PoA framework (*From SBI40*)
- Differentiate PoAs by the technology involved and/or country group.
- Remove the size thresholds for CPAs for micro-scale activities.
- Technical paper: 2(a) Add provisions on programme of activities into the M&P for CDM, para 62–64
- Technical paper: 2(b) Possible substantive changes to take into account programmes of activities, para 65–67
- Technical paper: 2(b) Streamlining the validation process, para 142–144

Multi-country PoAs

- **Include specific provisions for multi-country PoAs.** (*Agreed*)
- Include requirement for letters of approval for multi-country PoAs. (*From SBI 40*)
- Remove the requirement of case-specific CPAs for all host Parties. (*From SBI 40*)
- Technical paper: 2(b) Possible substantive changes to take into account programme of activities CDM, para 66(d) & 67(c)

Validation and verification requirements

- Allow inclusion of CPAs using standardized baselines and microscale CPAs deemed automatically additional based on a pre-approved inclusion template without assessment by a DOE.
- Validation of PoAs without the submission of a specific CDM programme activity (CPA). (*From SBI 40*)
- Consider allowing the possibility for different CPAs, or groups of CPAs under one PoA, to have different monitoring periods and undergo verification at different times.
- Include requirements for post-registration changes at the PoA level, similar to current regulations at project activity level. (*From SBI 40*)
- Technical paper: 2(b) Possible substantive changes to take into account programme of activities para 66(e) & 67(d)

OTHER ISSUES

Afforestation/Reforestation

The possible changes below will be considered once the SBSTA concludes its consideration on these issues.

Land eligibility

- Set more flexible criteria for land eligibility ~~for certain regions with insufficient historical data.~~
- Technical paper: (c) Possible changes in relation to afforestation and reforestation project activities, para 146–148

Permanence

- Allow for issuance of permanent CERs for afforestation and reforestation project activities, without compromising environmental integrity.

→ Technical paper: (c) Possible changes in relation to afforestation and reforestation project activities, para 154(b)

Verification

- Allow more cost-effective and flexible monitoring approaches, including the timing of the verification of projects over the crediting period.

→ Technical paper: (c) Possible changes in relation to afforestation and reforestation project activities, para 149–153

Additional activities

- Allow LULUCF activities beyond afforestation/reforestation to be included under CDM

→ Technical paper: (c) Possible changes in relation to afforestation and reforestation project activities, para 154(c)

APPENDIX A

~~Simplify the rules for accrediting operational entities by setting out principles in the main body of the CDM modalities and procedures, and consequently deleting appendix A.~~

Standards for the accreditation of operational entities

1. An operational entity shall:
 - (a) Be a legal entity (either a domestic legal entity or an international organization) and provide documentation of this status;
 - (b) Employ a sufficient number of persons having the necessary competence to perform validation, verification and certification functions relating to the type, range and volume of work performed, under a responsible senior executive;
 - (c) Have the financial stability, insurance coverage and resources required for its activities;
 - (d) Have sufficient arrangements to cover legal and financial liabilities arising from its activities;
 - (e) Have documented internal procedures for carrying out its functions including, among others, procedures for the allocation of responsibility within the organization and for handling complaints. These procedures shall be made publicly available;
 - (f) Have, or have access to, the necessary expertise to carry out the functions specified in modalities and procedures of the CDM and relevant decisions by the COP/MOP, in particular knowledge and understanding of:
 - (i) The modalities and procedures and guidelines for the operation of the CDM, and relevant decisions of the COP/MOP and of the Executive Board;
 - (ii) Issues, in particular environmental, relevant to validation, verification and certification of CDM project activities, as appropriate;
 - (iii) The technical aspects of CDM project activities relevant to environmental issues, including expertise in the setting of baselines and monitoring of emissions;
 - (iv) Relevant environmental auditing requirements and methodologies;
 - (v) Methodologies for accounting of anthropogenic emissions by sources;
 - (vi) Regional and sectoral aspects;
 - (g) Have a management structure that has overall responsibility for performance and implementation of the entity's functions, including quality assurance procedures, and all relevant decisions relating to validation, verification and certification. The applicant operational entity shall make available:
 - (i) The names, qualifications, experience and terms of reference of senior management personnel such as the senior executive, board members, senior officers and other relevant personnel;
 - (ii) An organization chart showing lines of authority, responsibility and allocation of functions stemming from senior management;
 - (iii) Its quality assurance policy and procedures;
 - (iv) Administrative procedures, including document control;

- (v) Its policy and procedures for the recruitment and training of operational entity personnel, for ensuring their competence for all necessary functions for validation, verification and certification functions, and for monitoring their performance;
 - (vi) Its procedures for handling complaints, appeals and disputes;
 - (h) Not have pending any judicial process for malpractice, fraud and/or other activity incompatible with its functions as a designated operational entity.
2. An applicant operational entity shall meet the following operational requirements:
- (a) Work in a credible, independent, non-discriminatory and transparent manner, complying with applicable national law and meeting, in particular, the following requirements:
 - (i) An applicant operational entity shall have a documented structure, which safeguards impartiality, including provisions to ensure impartiality of its operations
 - (ii) If it is part of a larger organization, and where parts of that organization are, or may become, involved in the identification, development or financing of any CDM project activity, the applicant operational entity shall:
 - Make a declaration of all the organization’s actual and planned involvement in CDM project activities, if any, indicating which part of the organization is involved and in which particular CDM project activities;
 - Clearly define the links with other parts of the organization, demonstrating that no conflicts of interest exist;
 - Demonstrate that no conflict of interest exists between its functions as an operational entity and any other functions that it may have, and demonstrate how business is managed to minimize any identified risk to impartiality. The demonstration shall cover all sources of conflict of interest, whether they arise from within the applicant operational entity or from the activities of related bodies;
 - Demonstrate that it, together with its senior management and staff, is not involved in any commercial, financial or other processes which might influence its judgement or endanger trust in its independence of judgement and integrity in relation to its activities, and that it complies with any rules applicable in this respect;
 - (b) Have adequate arrangements to safeguard confidentiality of the information obtained from CDM project participants in accordance with provisions contained in the present annex.

APPENDIX B

Project design document

Not incorporate appendix B to the current modalities and procedures, but include principles for the development of project design documents in the main body of the text, where appropriate. (From SBI 40 – agreed)

Reflect current practice by keeping the PDD under the prerogative of the Board, and consequently deleting appendix B.

1. The provisions of this appendix shall be interpreted in accordance with the annex above on modalities and procedures for a CDM.
2. The purpose of this appendix is to outline the information required in the project design document. A project activity shall be described in detail taking into account the provisions of the annex on modalities and procedures for a CDM, in particular, section G on validation and registration and section H on monitoring, in a project design document which shall include the following:
 - (a) A description of the project comprising the project purpose, a technical description of the project, including how technology will be transferred, if any, and a description and justification of the project boundary
 - (b) A proposed baseline methodology in accordance with the annex on modalities and procedures for a CDM including, in the case of the:
 - (i) Application of an approved methodology:
 - Statement of which approved methodology has been selected
 - Description of how the approved methodology will be applied in the context of the project
 - (ii) Application of a new methodology:
 - Description of the baseline methodology and justification of choice, including an assessment of strengths and weaknesses of the methodology
 - Description of key parameters, data sources and assumptions used in the baseline estimate, and assessment of uncertainties
 - Projections of baseline emissions
 - Description of how the baseline methodology addresses potential leakage
 - (iii) Other considerations, such as a description of how national and/or sectoral policies and circumstances have been taken into account and an explanation of how the baseline was established in a transparent and conservative manner
 - (c) Statement of the estimated operational lifetime of the project and which crediting period was selected
 - (d) Description of how the anthropogenic emissions of greenhouse gases by sources are reduced below those that would have occurred in the absence of the registered CDM project activity
 - (e) Environmental impacts:
 - (i) Documentation on the analysis of the environmental impacts, including transboundary impacts

- (ii) If impacts are considered significant by the project participants or the host Party: conclusions and all references to support documentation of an environmental impact assessment that has been undertaken in accordance with the procedures as required by the host Party
- (f) Information on sources of public funding for the project activity from Parties included in Annex I which shall provide an affirmation that such funding does not result in a diversion of official development assistance and is separate from and is not counted towards the financial obligations of those Parties
- (g) Stakeholder comments, including a brief description of the process, a summary of the comments received, and a report on how due account was taken of any comments received
- (h) Monitoring plan:
 - (i) Identification of data needs and data quality with regard to accuracy, comparability, completeness and validity
 - (ii) Methodologies to be used for data collection and monitoring including quality assurance and quality control provisions for monitoring, collecting and reporting
 - (iii) In the case of a new monitoring methodology, provide a description of the methodology, including an assessment of strengths and weaknesses of the methodology and whether or not it has been applied successfully elsewhere
- (i) Calculations:
 - (i) Description of formulae used to calculate and estimate anthropogenic emissions by sources of greenhouse gases of the CDM project activity within the project boundary
 - (ii) Description of formulae used to calculate and to project leakage, defined as: the net change of anthropogenic emissions by sources of greenhouse gases which occurs outside the CDM project activity boundary, and that is measurable and attributable to the CDM project activity
 - (iii) The sum of (i) and (ii) above representing the CDM project activity emissions
 - (iv) Description of formulae used to calculate and to project the anthropogenic emissions by sources of greenhouse gases of the baseline
 - (v) Description of formulae used to calculate and to project leakage
 - (vi) The sum of (iv) and (v) above representing the baseline emissions
 - (vii) Difference between (vi) and (iii) above representing the emission reductions of the CDM project activity
- (j) References to support the above, if any.

APPENDIX C

Not incorporate appendix C to the current modalities and procedures, but include principles for the development of baseline and monitoring methodologies in the main body of the text, where appropriate. *(From SBI 40 – agreed)*

Elaborate key principles in the main body of the CDM modalities and procedures for establishing guidelines on methodologies, and deleting Appendix C.

**Terms of reference for establishing guidelines
on baselines and monitoring methodologies**

The Executive Board, drawing on experts in accordance with the modalities and procedures for a CDM, shall develop and recommend to the COP/MOP, inter alia:

- (a) General guidance on methodologies relating to baselines and monitoring consistent with the principles set out in those modalities and procedures in order to:
 - (i) Elaborate the provisions relating to baseline and monitoring methodologies contained in decision 17/CP.7, the annex above and relevant decisions of the COP/MOP;
 - (ii) Promote consistency, transparency and predictability;
 - (iii) Provide rigour to ensure that net reductions in anthropogenic emissions are real and measurable, and an accurate reflection of what has occurred within the project boundary;
 - (iv) Ensure applicability in different geographical regions and to those project categories which are eligible in accordance with decision 17/CP.7 and relevant decisions of the COP/MOP;
 - (v) Address the additionality requirement of Article 12, paragraph 5 (c), and paragraph 43 of the above annex;
- (b) Specific guidance in the following areas:
 - (i) Definition of project categories (e.g. based on sector, subsector, project type, technology, geographic area) that show common methodological characteristics for baseline setting, and/or monitoring, including guidance on the level of geographic aggregation, taking into account data availability
 - (ii) Baseline methodologies deemed to reasonably represent what would have occurred in the absence of a project activity
 - (iii) Monitoring methodologies that provide an accurate measure of actual reductions in anthropogenic emissions as a result of the project activity, taking into account the need for consistency and cost-effectiveness
 - (iv) Decision trees and other methodological tools, where appropriate, to guide choices in order to ensure that the most appropriate methodologies are selected, taking into account relevant circumstances
 - (v) The appropriate level of standardization of methodologies to allow a reasonable estimation of what would have occurred in the absence of a project activity wherever possible and appropriate. Standardization should be conservative in order to prevent any overestimation of reductions in anthropogenic emissions
 - (vi) Determination of project boundaries including accounting for all greenhouse gases that should be included as a part of the baseline, and monitoring. Relevance of leakage and recommendations

- for establishing appropriate project boundaries and methods for the ex post evaluation of the level of leakage
- (vii) Accounting for applicable national policies and specific national or regional circumstances, such as sectoral reform initiatives, local fuel availability, power sector expansion plans, and the economic situation in the sector relevant to the project activity
- (viii) The breadth of the baseline, e.g. how the baseline makes comparisons between the technology/fuel used and other technologies/fuels in the sector
- (c) In developing the guidance in (a) and (b) above, the Executive Board shall take into account:
 - (i) Current practices in the host country or an appropriate region, and observed trends;
 - (ii) Least cost technology for the activity or project category.

APPENDIX D

Clean development mechanism registry requirements

Allow the voluntary cancellation of CERs through widening transfers within and to the CDM registry including all permanent holding accounts.

~~Clarify holding of CERs for the first commitment period in CDM registry after the end of the true up period.~~

1. The Executive Board shall establish and maintain a CDM registry to ensure the accurate accounting of the issuance, holding, transfer and acquisition of CERs by Parties not included in Annex I. The Executive Board shall identify a registry administrator to maintain the registry under its authority.
2. The CDM registry shall be in the form of a standardized electronic database which contains, inter alia, common data elements relevant to the issuance, holding, transfer and acquisition of CERs. The structure and data formats of the CDM registry shall conform to technical standards to be adopted by the COP/MOP for the purpose of ensuring the accurate, transparent and efficient exchange of data between national registries, the CDM registry and the international transaction log.
3. The CDM registry shall have the following accounts:
 - (a) One pending account for the Executive Board, into which CERs are issued before being transferred to other accounts
 - (b) At least one holding account for each Party not included in Annex I hosting a CDM project activity or requesting an account
 - (c) At least one account for the purpose of cancelling ERUs, CERs, AAUs and RMUs equal to excess CERs issued, as determined by the Executive Board, where the accreditation of a designated operational entity has been withdrawn or suspended
 - (d) At least one account for the purpose of holding and transferring CERs corresponding to the share of proceeds to cover administrative expenses and to assist in meeting costs of adaptation in accordance with Article 12, paragraph 8. Such an account may not otherwise acquire CERs.
4. Each CER shall be held in only one account in one registry at a given time.
5. Each account within the CDM registry shall have a unique account number comprising the following elements:
 - (a) Party/organization identifier: the Party for which the account is maintained, using the two-letter country code defined by the International Organization for Standardization (ISO 3166), or, in the cases of the pending account and an account for managing the CERs corresponding to the share of proceeds, the Executive Board or another appropriate organization
 - (b) A unique number: a number unique to that account for the Party or organization for which the account is maintained.
6. Upon being instructed by the Executive Board to issue CERs for a CDM project activity, the registry administrator shall, in accordance with the transaction procedures set out in decision 13/CMP.1:
 - (a) Issue the specified quantity of CERs into a pending account of the Executive Board;
 - (b) Forward the quantity of CERs corresponding to the share of proceeds to cover administrative expenses and to assist in meeting costs of adaptation, in accordance with Article 12, paragraph 8, to the appropriate accounts in the CDM registry for holding and transferring such CERs;

- (c) Forward the remaining CERs to the registry accounts of project participants and Parties involved, in accordance with their request.
7. Each CER shall have a unique serial number comprising the following elements:
- (a) Commitment period: the commitment period for which the CER is issued
 - (b) Party of origin: the Party which hosted the CDM project activity, using the two-letter country code defined by ISO 3166
 - (c) Type: this shall identify the unit as a CER
 - (d) Unit: a number unique to the CER for the identified commitment period and Party of origin
 - (e) Project identifier: a number unique to the CDM project activity for the Party of origin.
8. Where the accreditation of a designated operational entity has been withdrawn or suspended, ERUs, CERs, AAUs and/or RMUs equal to the excess CERs issued, as determined by the Executive Board, shall be transferred to a cancellation account in the CDM registry. Such ERUs, CERs, AAUs and RMUs may not be further transferred or used for the purpose of demonstrating the compliance of a Party with its commitment under Article 3, paragraph 1.
9. The CDM registry shall make non-confidential information publicly available and provide a publicly accessible user interface through the Internet that allows interested persons to query and view it.
10. The information referred to in paragraph 9 above shall include up-to-date information, for each account number in the registry, on the following:
- (a) Account name: the holder of the account
 - (b) Representative identifier: the representative of the account holder, using the Party/organization identifier (the two-letter country code defined by ISO 3166) and a number unique to that representative for that Party or organization
 - (c) Representative name and contact information: the full name, mailing address, telephone number, facsimile number and e-mail address of the representative of the account holder.
11. The information referred to in paragraph 9 above shall include the following CDM project activity information, for each project identifier against which the CERs have been issued:
- (a) Project name: a unique name for the CDM project activity
 - (b) Project location: the Party and town or region in which the CDM project activity is located
 - (c) Years of CER issuance: the years in which CERs have been issued as a result of the CDM project activity
 - (d) Operational entities: the operational entities involved in the validation, verification and certification of the CDM project activity
 - (e) Reports: downloadable electronic versions of documentation to be made publicly available in accordance with the provisions of the present annex.
12. The information referred to in paragraph 9 above shall include the following holding and transaction information relevant to the CDM registry, by serial number, for each calendar year (defined according to Greenwich Mean Time):
- (a) The total quantity of CERs in each account at the beginning of the year

- (b) The total quantity of CERs issued
- (c) The total quantity of CERs transferred and the identity of the acquiring accounts and registries
- (d) The total quantity of ERUs, CERs, AAUs and RMUs cancelled in accordance with paragraph 8 above
- (e) Current holdings of CERs in each account.
