

Draft decision -/CMP.7

Materiality standard under the clean development mechanism

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,

Recalling the provisions of Articles 3 and 12 of the Kyoto Protocol,

Recalling also decision 3/CMP.6,

Recognizing that applying the concept of materiality could simplify processes under the clean development mechanism but should not adversely affect environmental integrity,

Noting that the concept of materiality is already applied to some extent in approved baseline and monitoring methodologies and in the assessment of project activities,

1. *Decides* that the concept of materiality should be applied in a consistent manner under the clean development mechanism;
2. *Defines* material information as a piece of information the omission, misstatement or erroneous reporting of which could change a decision by the Executive Board of the clean development mechanism;
3. *Decides* that the scope of materiality initially covers:
 - (a) The stage of verification by designated operational entities;
 - (b) The assessment of requests for issuance by the Executive Board of the clean development mechanism and its support structure;
 - (c) Non-prescriptive and prescriptive requirements;
 - (d) Quantitative information;
4. *Also decides* that information related to a clean development mechanism project activity shall be considered material if its omission, misstatement or the non-compliance with a requirement might lead, at an aggregated level, to an overestimation of the total emission reductions or removals achieved by a clean development mechanism project activity equal to or higher than:
 - (a) 0.5 per cent of the emission reductions or removals for project activities achieving a total emission reduction or removal of equal to or more than 500,000 tonnes of carbon dioxide equivalent per year;
 - (b) 1 per cent of the emission reductions or removals for project activities achieving a total emission reduction or removal between 300,000 and 500,000 tonnes of carbon dioxide equivalent per year;
 - (c) 2 per cent of the emission reductions or removals for large-scale project activities achieving a total emission reduction or removal of 300,000 tonnes of carbon dioxide equivalent per year or less;
 - (d) 5 per cent of the emission reductions or removals for small-scale project activities other than project activities covered under paragraph 4(e) below;
 - (e) 10 per cent of the emission reductions or removals for the type of project activities that are referred to in decision 3/CMP.6, paragraph 38;

5. *Further decides* that the scope of the concept of materiality, as referred to in paragraph 3 above, and the materiality thresholds shall be reviewed, based on data reported, by the Executive Board of the clean development mechanism no later than one year after their implementation;
 6. *Decides* that the designated operational entity conducting the verification shall use a reasonable level of assurance in considering whether or not the information is material;
 7. *Requests* the Executive Board of the clean development mechanism:
 - (a) To implement the concept of materiality, adhering to the principles established in paragraphs 1–5 above, and to report to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its eighth session, on the experience with the implementation of the concept of materiality;
 - (b) To increase its interaction with designated operational entities in order to facilitate a uniform interpretation and application of the concept of materiality by developing guidance, inter alia, on how to calculate the thresholds and on what should be done if the materiality thresholds are surpassed, with the overall view of increasing transparency and efficiency and reducing costs;
 - (c) To address the issue of uncertainties of measurements in baseline and monitoring methodologies, so that these types of uncertainties do not need to be considered in addressing materiality.
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