



Framework Convention on Climate Change

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Subsidiary Body for Scientific and Technological Advice

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Agenda item 10(b)

Methodological issues under the Kyoto Protocol

Materiality standard under the clean development mechanism

Materiality standard under the clean development mechanism

Draft conclusions proposed by the Chair

1. The Subsidiary Body for Scientific and Technological Advice (SBSTA) took note of the views submitted by Parties and relevant organizations,¹ the technical paper prepared by the secretariat² and the views expressed by Parties during the session on a materiality standard under the clean development mechanism (CDM).
2. The SBSTA agreed to continue to consider the draft text contained in the annex at its thirty-fifth session, with a view to recommending draft decision elements to be incorporated into a draft decision on further guidance relating to the CDM, for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its seventh session.
3. The SBSTA invited Parties, intergovernmental organizations, admitted observer organizations and designated operational entities to submit to the secretariat, by 19 September 2011, their views on:
 - (a) Whether the concept of materiality could be applied in the context of the CDM;
 - (b) If appropriate:
 - (i) How materiality should be defined in the context of the CDM;
 - (ii) The appropriate thresholds used to define the conditions under which a piece of information should be regarded as material;
 - (iii) The areas to which the concept of materiality should be applied;
 - (c) The relation, as well as the differences between, uncertainty and materiality.

¹ FCCC/SBSTA/2011/MISC.2.

² FCCC/TP/2011/4.

4. The SBSTA requested the secretariat to compile the submissions referred to in paragraph 3 above, into a miscellaneous document for consideration by the SBSTA at its thirty-fifth session.

Annex

[English only]

Draft text on materiality

[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 decision 3/CMP.6,

Recognizing that applying the concept of materiality could simplify processes 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 projects,

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 whose omission or misstatement, or erroneous reporting, could change a decision by the Executive Board of the clean development mechanism [on the registration of a project activity or the issuance of certified emission reductions];
3. *Decides* that the scope of materiality [only] covers [data] [the stage[s] of [validation,]] verification, [for emission reduction project activities] [including the assessment] by designated operational entities, the Executive Board of the clean development mechanism and its support structure, [non-prescriptive [and prescriptive] requirements, and quantitative [as well as qualitative] information;]] [with a view to possibly broadening the scope at a later date;]

Option 1:

4. *Also decides* that information related to a clean development mechanism project shall be considered material if its omission [or] misstatement or [the non-compliance with a requirement] [erroneous reporting] 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) [X1] [0.5] per cent of the emission reductions [or removals] for project activities achieving a total emission reduction [or removal] of more than [Y] [500,000] tonnes of carbon dioxide equivalent per year;
 - (b) [X2] [2] per cent of the emission reductions [or removals] for large-scale project activities achieving a total emission reduction [or removal] of [Y] [500,000] tonnes of carbon dioxide equivalent per year or less;
 - (c) [X3] [5] per cent of the emission reductions [or removals] for small-scale project activities other than projects covered under paragraph 4(d) below;
 - (d) [X4] [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.

Option 2:

4. *Requests* the Executive Board of the clean development mechanism to adopt appropriate quantitative thresholds to define when the omission or misstatement of information or the non-compliance with a requirement related to a clean development

mechanism project shall be considered material, taking into account the total amount of emission reductions [or removals] achieved by the project activity;

5. *[Also decides* that the emission reduction thresholds and the materiality thresholds shall be reviewed [by the Executive Board of the clean development mechanism] based on data reported [by designated operational entities] no later than one year after their implementation;]

6. *Decides* that the designated operational entity conducting the [validation or] 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 experiences gained with the implementation of the concept;
- (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;

[8. *Also invites* the Executive Board of the clean development mechanism to develop guidance on de minimis sources, which are defined as sources of emissions that do not require monitoring and verification.]]
