

Agenda item 2.3

Paragraph 14 of the annotated agenda

Article 6.4 mechanism registry

Article 6.4 Supervisory Body – Sixth meeting

Bonn, Germany, 10 to 13 July 2023



Part 1: *Content, purpose and review of relevant decisions*



Content

- **Part 1:** Content, purpose and review of relevant decisions
- **Part 2:** Overview, implementation milestones and status of work
- **Part 3:** The registry business model, including open issues and recommendations in relation to
 - Units, accounts and transactions
 - Reporting
 - Fee structure
 - Summary of recommendations
- **Part 4:** Software approach and cost considerations
 - High-level implementation approach
 - Process for estimating costs
 - Recommendations



Purpose

To seek guidance from the Supervisory Body on issues related to:

- The registry business models as a basis for the registry procedure
- The software development approach as a basis for procurement
- Identify further issues and/or elements that require analysis / further information



Relevant decisions (1 of 2)

Decision 3/CMA.3, annex, paragraphs 24(a)(v),54-55, 58-61, 63-70, 75

- The Supervisory Body shall establish the requirements and processes necessary to operate the registry
- The registry shall be operated according to best practice standards for registries
- The secretariat shall serve as the mechanism registry administrator
- The registry shall be connected to the Art.6.2 international registry
- Specific tracking rules
- Transfer of CERs from the CDM registry

Decision 7/CMA.4, annex I, chapter II.A-B, chapter IV

- Process for transfer and use of CERs from the CDM registry
- Registry form and functions, transaction procedures, information and connection with the international registry, including the registry to be consistent with the requirements for registries contained in the guidance on cooperative approaches referred to in Art.6.2 and further relevant CMA decisions



Relevant decisions (2 of 2)

Decision 2/CMA.3, annex, chapter IV

- Tracking requirements

Decision 6/CMA.4, annex I, chapter I

- Guidance relating to registries
- Common nomenclatures

Activity cycle procedures

- Modalities of communication
- Distribution request as part of the issuance request, including for addition quantity (*above 2 %*) of A6.4ERs for mandatory cancellation towards overall mitigation in global emissions



Expected guidance by the CMA

Further CMA guidance that will impact the registry

- Connection of the mechanism registry to the international registry as per paragraph 63 of the rules, modalities and procedures for the mechanism, as well as to other registries referred to in decision 2/CMA.3, annex, paragraph 29, if applicable, including the nature and extent of interoperable features (*decision 7/CMA.4, paragraph 9(b)*)
- Authorization process (*decision 7/CMA.4, paragraph 9(c)*)
 - The inclusion of any **specified uses** for which A6.4ERs are authorized as per para 55 of the rules, modalities and procedures
 - Implications from **changing the authorization** status of units, including on reporting
 - How to treat **entities if they loose authorization**, including with respect to registry accounts
- Guidance on removals and non-permanence (*decision 7/CMA.4, paragraph 20*)
- Relevant further guidance under Article 6.2
 - First transfer rules
 - Agreed electronic format and other format(s) for reporting of quantitative information
 - Whether the international registry can acquire authorized A6.4ERs
 - Common nomenclatures



Part 2: *Overview, implementation plan and status of work*



Overview

Registry scope of operations: Unit tracking from issuance to use

(Note: Information on activities is tracked in the mechanism information system)

Registry governance:

- CMA: Accounting framework and key design elements
- Supervisory body: Registry procedure, oversight and reporting to CMA
- Secretariat as the registry administrator:
 - Implements the registry software and procedure
 - Manages the day-to-day operations of the registry

Registry procedure: The registry operations and reporting will be performed according to a registry procedure

Registry software: The registry will be implemented as an electronic accounting database that tracks serialized units and will be connected to other systems



Registry procedure - possible elements

- **Definitions**
- **Governance arrangements**
- **Units**
- **Accounts**
 - Types
 - Status
 - Administration of accounts
 - Representatives
- **Transactions**
 - Types
 - Transaction rules
- **Reporting**
- **Confidentiality**
- **Service availability**
- **Fees**
- **Help desk**
- **Incidents management**
- **Interoperability arrangements**
- **Reconciliation procedures**
- **Other**



Registry software – functional features

- **Maintain accounts** for Parties and authorized activity participants, Adaptation Fund Board, centrally managed accounts
- **Issue serialized units** for authorized A6.4ERs (ITMOs) and mitigation contribution A6.4ERs aka mitigation contribution units (MCUs)
- **Create serialized units** for transitioned CERs, including tracking of the original serial numbers of the CERs
- **Receive input on authorization** to assign/maintain authorization status of A6.4ERs
- **Perform transactions** with unit types between account types, including external transfers subject to CMA guidance
- **Track first transfer** for authorized A6.4ERs
- The software will implement **business rules applicable to ITMOs as per the Article 6.2 guidance** and will track authorized A6.4ERs consistently with the **agreed electronic format**

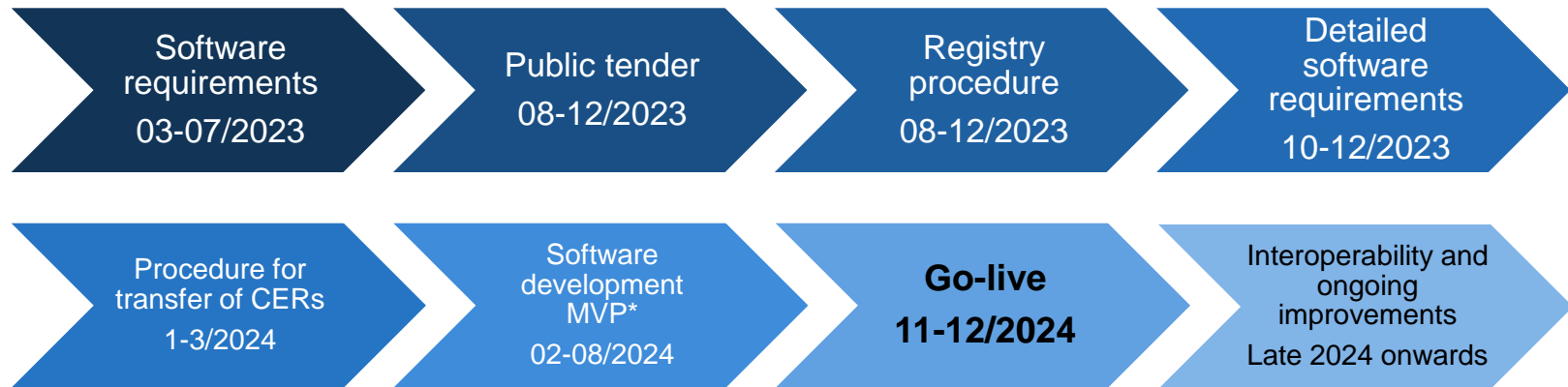


Registry software – technical features

- **Database / data storage**
- **Software code that implements transaction management and the business rules processing**
- **Access security, user and system authentication and authorization**
- **Infrastructure security**
- **User interface**
 - Account holders' interface
 - Public interface
- **Interoperability features**
 - Mechanism information system
 - The Article 6.2 international registry
 - The Article 6.2 centralized accounting and reporting platform, including the Article 6 database
 - Other as required – Party registries, cancellation platform, trading platforms/carbon exchanges



Implementation milestones and status of work



* MVP – minimum viable product

- Initial market research was conducted in H1 of 2023, including with respect to service providers operating for the financial market
- The high-level requirements have been completed and will undergo internal review
- Procurement is being initiated

Due to dependency on future decisions:

- The technical design will provide for **flexibility** to define specific rules at a later point in time, including on an on-going basis during operation

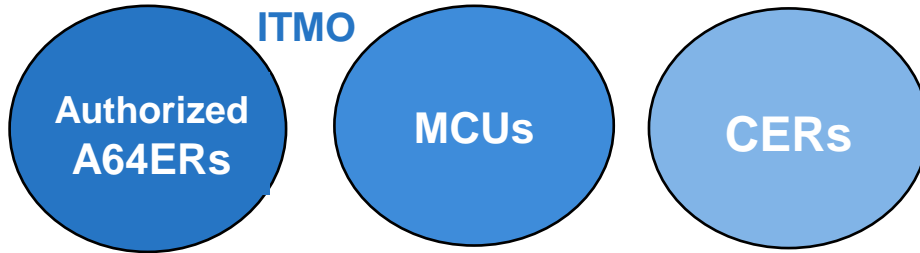


Part 3: *The registry business model*



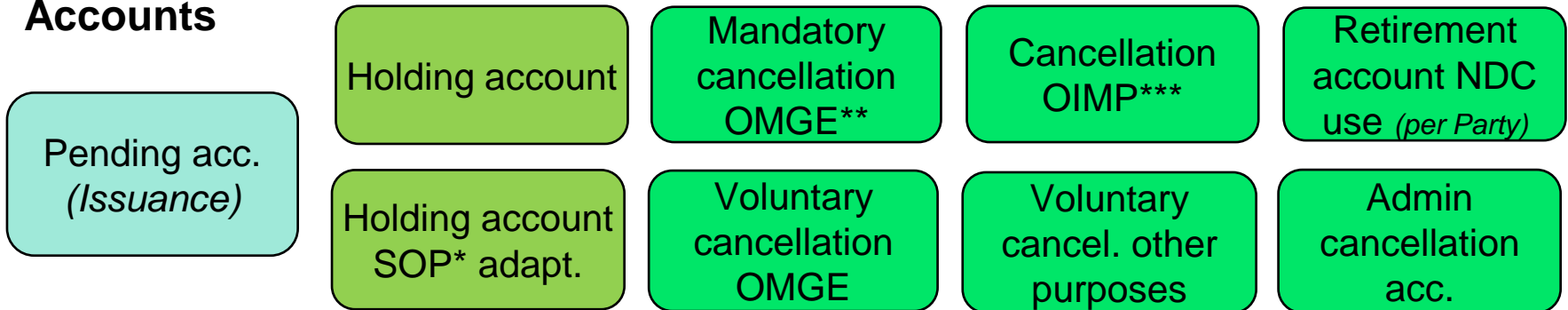
Unit, transactions and account types

Unit types



CERs – Certified emission reductions
ITMOs – Internationally transferred mitigation outcomes
MCUs – Mitigation contribution A6.4ERs aka mitigation contribution units
OMGE – Overall mitigation in global emissions
OIMP – Other international mitigation purposes
SOP – Share of proceeds

Accounts



Basic transactions



** Note: The pending account is a transitory account. It is envisaged that units cannot stay in the pending account. The draft activity cycle procedure for projects, para 131(c) requires activity participants to provide distribution requests prior to issuance.*



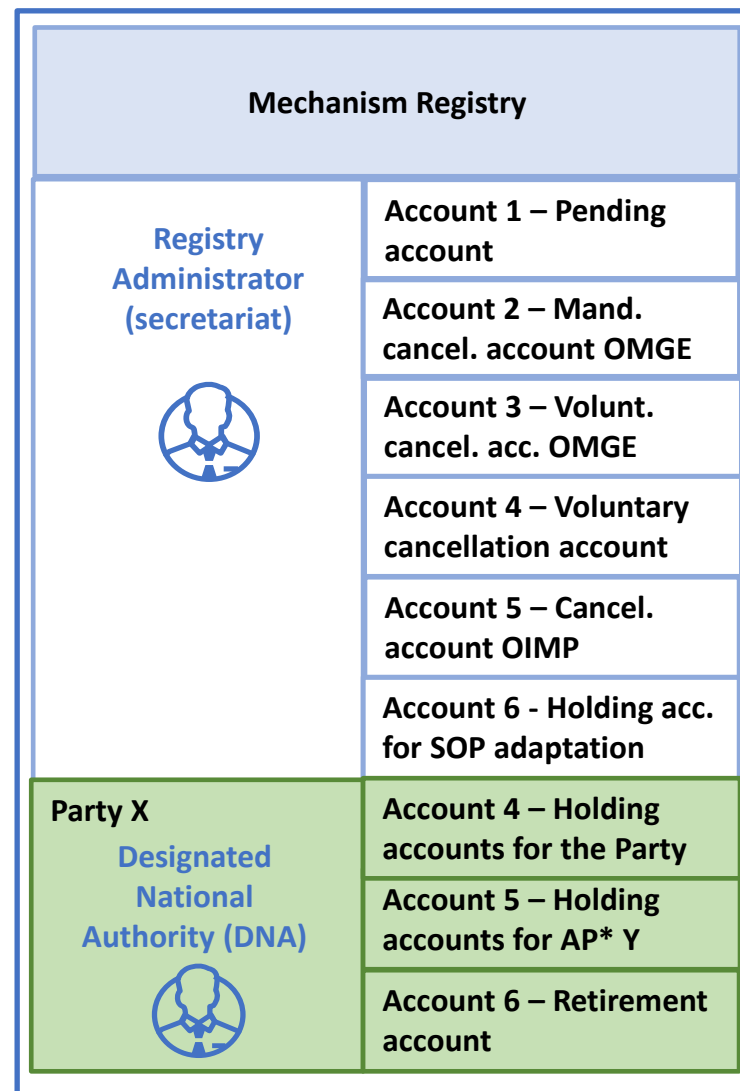
Accounting ledger (1 of 3)

- The registry is a ledger of accounts comprising of:
 - Accounts associated with Parties that use the registry and approve accounts for authorized entities (*decision 7/CMA.4, annex I, paras 33, 44*)
 - Centrally managed accounts, including special purpose accounts under the registry administrator (*issuance, SOP adaptation, various cancellation accounts, including for admin. cancellation*)

Note on the voluntary cancellation for OMGE:

Voluntary cancellation for OMGE will be tracked and attributed according to the originating account's association with a Party. For example, if voluntary cancellation for OMGE is initiated from the holding account of activity participant Y, authorized by Party X, the transaction will be reported for Party X.

**AP – Activity participant*



Accounting ledger (2 of 3)

Issue 1: How to report A6.4ERs transferred to the account for cancellation of A6.4ERs for other international mitigation purposes (OIMP)?

- **Option 1.1***: A6.4ERs transferred to the account for cancellation of A6.4ERs for OIMP shall be reported as cancelled for an international mitigation purpose

(Rationale: It is unclear if A6.4ERs authorized for other purposes can be transferred for use to different cancellation account types, i.e. to an account for cancellation of A6.4ERs for other international mitigation purposes and to an account for voluntary cancellation of A6.4ERs for other purposes. Under the proposed option, cancellation of A6.4ERs for use for international mitigation purposes is distinct from voluntary cancellation of A6.4ERs for use for other purposes. CMA clarification is recommended.)

- **Option 1.2:** Recommend to CMA to clarify the reporting approach

Issue 2: How many accounts for cancellation of A6.4ERs for OIMP are necessary?

- **Option 2.1:** At least one account per international mitigation purpose

(Rationale: Separate accounts for each international mitigation purpose would simplify the tracking and reporting of use of A6.4ERs for international mitigation purposes. This approach is aligned with the notion of determining the use through the type of the final destination account. Currently, the only international mitigation purpose is ICAO's CORSIA. Other international mitigation purposes may emerge over time and cancellation accounts can be opened accordingly.)

- **Option 2.2:** One account only

*** Recommended options are highlighted.** *Rationale for recommended options and clarification notes are in italic font.*

Cancellation
OIMP***

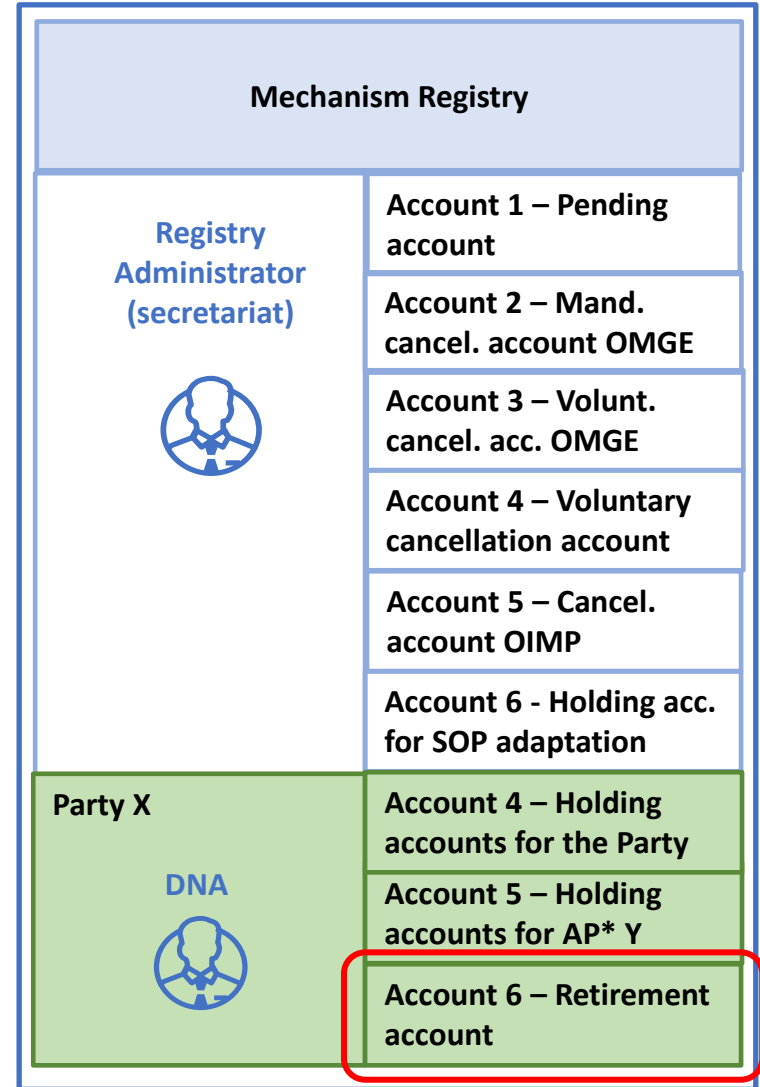
Voluntary
cancel. other
purposes



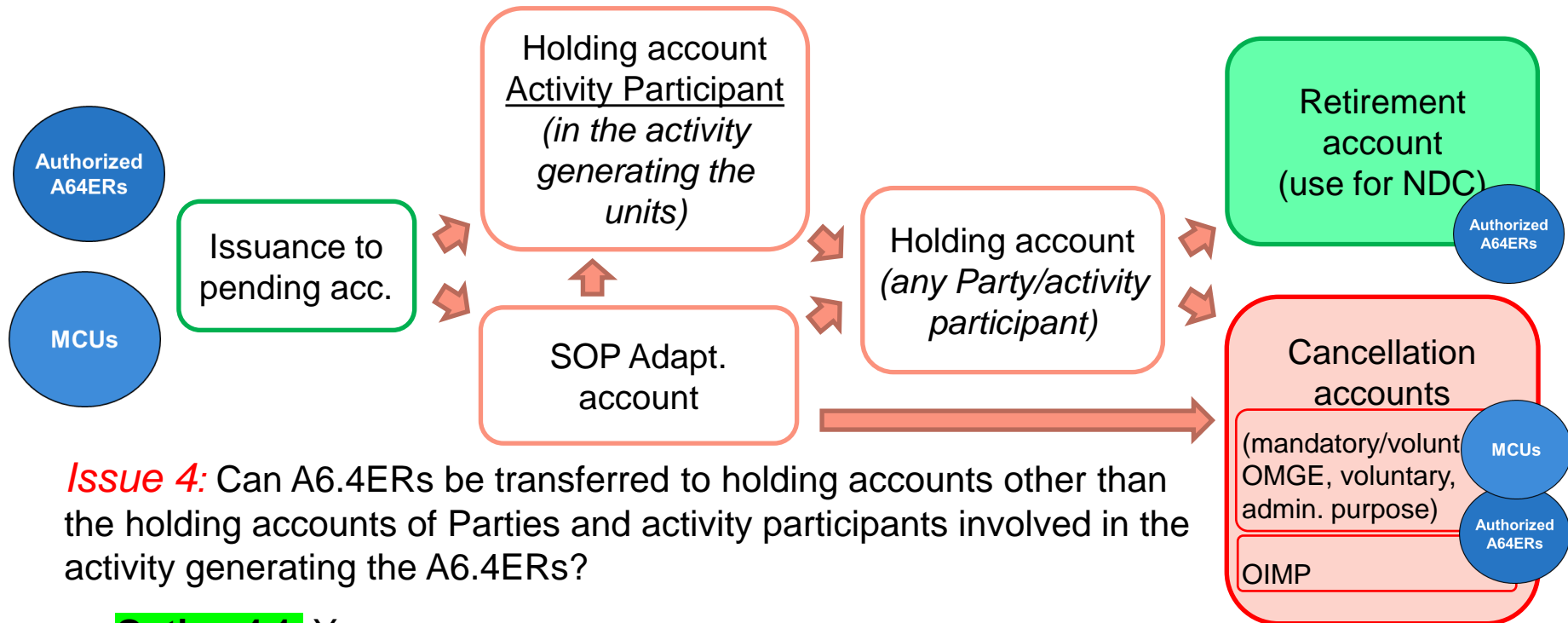
Accounting ledger (3 of 3)

Issue 3: Do temporal conditions need to apply to any accounts?

- **Option 3.1:** Retirement accounts for *use towards NDC should be NDC-period bound* (Rationale: This is a good usability practice.)
- **Option 3.2:** Due to vintage based accounting, registry accounts do not need to be time bound
- **Option 3.3:** Recommend to CMA to clarify if temporal conditions apply to any account types



Transaction procedure for A6.4ERs (1 of 4)



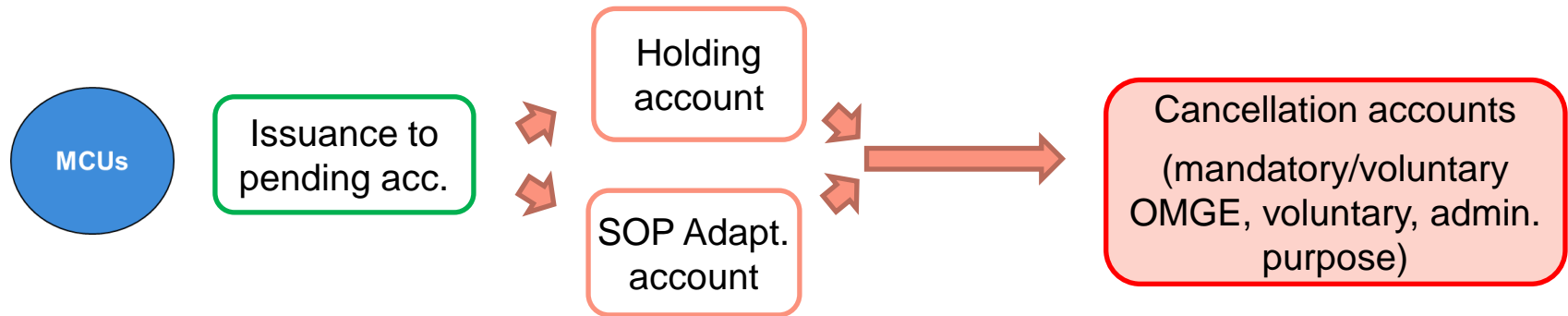
Issue 4: Can A6.4ERs be transferred to holding accounts other than the holding accounts of Parties and activity participants involved in the activity generating the A6.4ERs?

- **Option 4.1:** Yes (Rationale: Enables trading, Parties and activity participants have unimpeded access to A6.4ERs.)
- **Option 4.2:** Yes, with conditions to be determined
- **Option 4.3:** No

(Note: Traders / aviation operators have to become an activity participant (be authorized) in at least one activity to be eligible to request a holding account in the registry)



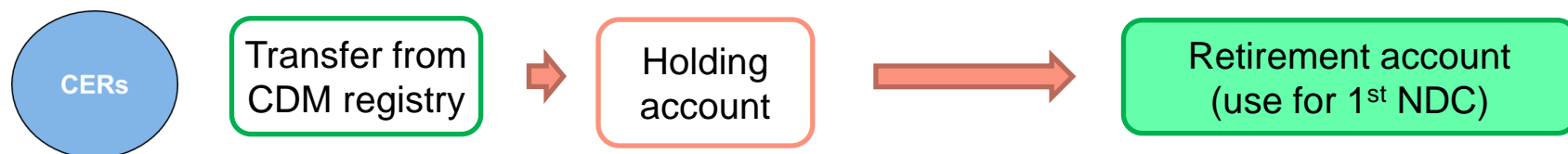
Transaction procedure for A6.4ERs (2 of 4)



Issue 5: Can MCUs be transferred to accounts associated with a Party other than the host Party?

- **Option 5.1:** Yes (*Rationale: For example, to facilitate results-based financing from foreign/international agents.*)
- **Option 5.2:** No

Transaction procedure for CERs (3 of 4)



Issue 6: How to handle CERs after the end of the 1st/1st updated NDC period when CERs could no longer be used?

- **Option 6.1:** Defer the matter to CMA 6 (*Rationale: CMA guidance is required. The matter is not urgent and could be deferred to CMA 6 without implications for implementation.*)
- **Option 6.2:** Recommend to the CMA to permit other use/s, i.e. voluntary cancellation
- **Option 6.3:** Recommend to the CMA to clarify that CERs not used towards NDC will be administratively cancelled



Transaction details (4 of 4)

Issue 7: Can account holders specify details for initiated transactions?

- **Option 7.1:** Yes, a mandatory text field for details related to cancellation for OIMP and for voluntary cancellation and an optional free text field for details related to other transaction types

(Rationale: Transaction details provide description necessary for reporting purposes and/or serve as a reference for the parties to the transaction. The free text field will be limited (e.g. to 500 characters). In the CDM registry, transaction details are mandatory for voluntary cancellation of CERs, including details on the beneficiary and the purpose of the voluntary cancellation. In relation to cancellation for OIMP, and specifically for IMP, the airline operator name/identification for which the cancellation is performed maybe provided as a transaction detail for reporting purposes. Implementing transaction details at the initial registry software development may be cost efficient.)

- **Option 7.2:** Yes, an optional free text field for details
- **Option 7.3:** No transaction details can be specified

(Note: This option may require a solution for tracking cancellation for international mitigation purposes to individual airline operators in the context of CORSIA, for example a requirement for airline operators to become activity participants and open holding accounts from where to initiate cancellations.)



Role of the mechanism registry administrator

Issue 8: What functions the registry administrator performs?

- Managing user access
- Opening and maintaining accounts
- Performing issuance and special purpose transactions with A6.4ERs, including assigning and changing units' authorization status
- Classifying and labelling transactions as first transfer
- Liaising with the Trustee of the Adaptation Fund
- Supporting users
- Reporting on the operations of the registry
- Performing incident management
- Liaising with registry and connected systems service providers
- Liaising with other stakeholders
- **Option 8.1:** Confirm the functions *(Rationale: These are standard registry administrator's functions that can be updated as necessary.)*
- **Option 8.2:** Specify different functions



Reporting

Issue 9: What standard reports shall be generated by the registry?

Option 9.1:

- DNAs
 - **Aggregation-level:** Disaggregated transactions and holdings reports for accounts associated with the Party, including prefilling of the agreed electronic format and of other quantitative information requirements pursuant to chapter IV (Reporting) of the annex to decision 2/CMA.3 in relation to authorized A6.4ERs
 - **Frequency:** Monthly

(Note: It may be possible to provide reports on demand via a self-service module of the registry.)

- Public reports
 - **Aggregation-level:**
 - Disaggregated: Issuance, all mandatory and voluntary cancellation, retirement
 - Aggregated: Holdings per unit type and vintage
 - **Frequency:** Monthly for all report other than annual for retirement

(Rationale: Consistent with common reporting practice of registries. Disaggregated information on holdings is not public under the Kyoto Protocol and in the voluntary market, with national registries publishing information with time lag according to domestic data protection legislation. Retirement is proposed to be annual; to match the frequency of reporting of such information as per Article 6.2. Frequency of reporting may be revised over time.)

(Note: Other reports include (1) input to annual report of the Supervisory Body to the CMA and (2) input to the annual report on infrastructure as per decision 2/CMA,6, annex, para 36(c).)

Option 9.2: Other reports and frequency



Agenda item 2.3.

Paragraph 14 of the annotated agenda

Issue 10: Should and what fees for holding accounts be charged?

- **Option 10.1:** Holding account fees shall apply for opening and for maintenance. Maintenance fee shall apply for each year after the year in which the account was opened

(Rationale: Registry operators commonly charge a one-off fee for account opening and annual account maintenance fees, in the range of several hundreds to over a thousand USD. The fee schedule of the draft activity cycle procedure does not consider services beyond those related to the specific activity, such as holding and transacting acquired units. Rates to be proposed as part of the draft procedure for the mechanism registry.)

(Note: Under the CDM, project participants pay SOP for administration and no additional fees are charged for registry services, including for the voluntary cancellation platform services. However, the CDM registry does not support emissions trading, i.e. CERs are forwarded for trading and use to Annex I Party registries, noting that voluntary cancellation was introduced in the CDM registry from 2012. The secretariat does not maintain standard rates for services, e.g. cost of service per hour.)*

- **Option 10.2:** Holding account fees shall not apply

* <https://offset.climateneutralnow.org/>



Recommendations to the Supervisory Body

It is recommended that the Supervisory Body:

- Provide guidance on the open issues as follows:

#	Issue	Option
Issue 1	How to report A6.4ERs transferred to the account for cancellation of A6.4ERs for other OIMP?	Option 1.1
Issue 2	How many accounts for cancellation of A6.4ERs for OIMP are necessary?	Option 2.1
Issue 3	Do temporal conditions apply to any accounts?	Option 3.1
Issue 4	Can A6.4ERs be transferred to holding accounts other than the holding accounts of Parties and activity participants involved in the activity generating the A6.4ERs?	Option 4.1
Issue 5	Can MCUs be transferred to accounts associated with a Party other than the host Party?	Option 5.1
Issue 6	How to handle CERs after the end of the 1st/1st updated NDC period when CERs could no longer be used?	Option 6.1
Issue 7	Can account holders specify details for initiated transactions?	Option 7.1
Issue 8	What functions the registry administrator performs?	Option 8.1
Issue 9	What standard reports shall be generated by the registry?	Option 9.1
Issue 10	Should and what fees for holding accounts be charged?	Option 10.1

- Specify any other issues and/or elements that require analysis / further information



Part 4: Software development approach and cost considerations



High-level implementation approach

- The registry requirements are aligned with the requirements for other Article 6 infrastructure, including the mechanism information system, the Article 6.2 centralized accounting and reporting platform, including the Article 6 database and the international registry
- The registry development will follow the secretariat's standards and procedures for software development and best practice standards for registries
- It is planned that the mechanism registry and the international registry will be procured and developed as fully mutually consistent systems, in order to:
 - Simplify operations and ensure reporting consistency
 - Enable interoperability between the two registries that is not dependent on data exchange standards and communication protocols

=> Minimize implementation costs



Cost estimates - key costs categories and cost drivers

CaPex	OpEx
<ul style="list-style-type: none">• Developing requirements• Initial software development (MVP)	<ul style="list-style-type: none">• Hosting and ongoing software development• Operations (staff costs)

Cost drivers:

- Availability of a product on the market that may become a baseline for the development of the mechanism registry
- The extent and complexity with which authorizations and changes to authorizations may affect the processing of transactions
- Scale of operations:
 - Number of users
 - Number of accounts
 - Transaction volume
- Requirements for interoperability
- Timeline for go-live



Process for estimating costs

CaPex	OpEx
<ul style="list-style-type: none">• Finalizing requirements• Launching an expression of interest by potential vendors and conducting a commercial dialogue as part of the procurement process	<ul style="list-style-type: none">• Developing the registry procedure• Projecting A6.4ERs issuance• Projecting CERs transition
<p>Costs will be managed through the Resource Allocation Plan*</p>	

** As the mechanism registry and the international registry are planned to be procured and developed together, a cost allocation method between Art.6.2 and Art.6.4 will be applied*



Additional registry services

Issue 11: Should the registry requirements include services such as:

- a) An e-commerce platform for purchasing the cancellation of units tracked in the registry
 - b) Linking arrangements for carbon exchanges
- **Option 11.1:** Conduct a cost-benefit analysis as a basis for decision, including recommendation for re-purposing the CDM voluntary cancellation platform
 - **Option 11.2:** Defer consideration to a later time



Recommendations to the Supervisory Body

It is recommended that the Supervisory Body requests the secretariat to:

- Estimate the costs for the development and operation of the registry, including for additional services, as part of the Resource Allocation Plan
- Conduct a cost-benefit analysis for additional services
- Undertake any other activities as deemed necessary

