

Agenda item 2.3

Paragraph 12 of the annotated agenda, Annexes 9 and 14

Activities involving removals under Article 6.4 mechanism

Article 6.4 Supervisory Body – Sixth meeting

Bonn, Germany, 10 to 13 July 2023



(1) MEMBER RESPONSES



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Results: Questions on substantive issues for removals activities

- The elements of removals recommendations contain a range of unresolved issues at varying technical depths.
- During SB006, the co-chairs propose that SB members discuss and identify which issues should be resolved by SB007.
- The co-chairs distributed written questions to members at SB006.
- The aim of the written questions was to request members to indicate initial preferences, reflections on, and any additions to high-level options and elements, to help provide focus for the SB's guidance to the Secretariat as it undertakes further development of recommendations for activities involving removals.



Results: Questions on substantive issues for removals activities

- The survey followed a hypothetical activity cycle step-by-step to identify options for elements related to the activity cycle and standard and methodological requirements.
- As of Wednesday, 12-7, 15 6.4SB members provided written responses to the questions and the initial findings were discussed during SB006 meeting.
- This presentation summarizes key findings and takeaways identified by the co-chairs as promising areas for convergence as well as areas where continued work is needed to address gaps in information, the elements, and current member views.
- In the week following SB006, co-chairs will circulate follow-up questions (Part II) to members addressing key substantive issues related to, e.g., definition, social and environmental impacts.



(1) Promising areas of convergence

RISK ASSESSMENT

- All activities that present a risk of reversals will identify, evaluate such risks using a risk assessment tool developed by the 6.4SB
- Risk assessment results and documentation are included with a PDD that is submitted for Host Party approval and consultation

MONITORING | REPORTING

- Monitoring (a) plans, (b) activities, and (c) reports encompass, e.g.,
 - reversal risk sources that were identified in risk assessment
 - plans for mitigating those risks
- Monitoring plans pertaining to these aspects, as well as risk assessments and activity baselines, are: (*periodicity, triggers TBD*)
 - periodically updated,
 - also reviewed, updated if needed following reversal events



(1) Promising areas of convergence

ADDRESSING REVERSALS

Which of these tools will address reversals? Or combination of these?

- All respondents supported “Feature A: Reversal risk pool (buffer)”, which the questionnaire described as common current practice.
- Members considered the potential for this to be developed and used as a “menu” / in combination with other tools, the nature of which requires greater clarity:
 - a) “Feature B: Insurance or other guaranteed replacement mechanism”
 - b) “Feature C: Direct replacement”
- Co-chairs noted need to clarify the nature of B and C, including whether, how, and when they could be used as standalone tools.
- Buffer contributions are calculated based on a risk rating.



(2) Areas for further work: **Potential for compromise / combination**

MONITORING | REPORTING

- Should the proponent be required to *periodically* update its monitoring plan every five years **and/or** at the end of the crediting period?
- Should monitoring reports be submitted within the first [2] [5] years of activity implementation? After the first report, at least once every [2] [5] years?
- Are the “reversal notification” reports referred to in SB003 recommendations ad hoc digital notification of an observed event that could lead to a possible reversal of removals, submitted within [90][120] days of the observation, followed by submission of a full monitoring report within [6 months] [1 year]?



ADDRESSING REVERSALS

- How / would other tools to address reversals involving direct credit replacement (including use of insurance / guarantees) be used in combination with a buffer pool?
- Is the risk rating used to calculate buffer contributions based on the results of an individual activity risk assessment **and/or** a standard rate determined by the 6.4SB?
- Are uncanceled ERs in the buffer pool returned to the activity proponent to incentivize performance **and/or** automatically cancelled, and is this done periodically throughout activity cycle or only after the end of the activity lifecycle OR the host Party NDC timeframe?



(3) Areas for further work: **Likely involves distinct choice**

MONITORING | REPORTING

- To ensure and demonstrate the continued existence of removals, are activity proponents required to undertake monitoring and address reversals
 - a) only during active crediting period(s) or
 - b) also [15] [X] years after the last active crediting period?
 - c) The longer of [option a] [option b] *or* a timeframe specified by the host Party (e.g., communicated in LoA or earlier)
- Is simplified annual reporting required to ensure and demonstrate the continued existence of removals? In what cases and how long?



(3) Areas for further work: **Likely involves distinct choice**

MONITORING | REPORTING (continued)

- Are measures required to address the residual risk of reversals beyond the monitoring timeframe? For how long?
- If so, what are the options for, e.g., the mechanism(s), responsible entity(ies), oversight?

ADDRESSING REVERSALS

- Should procedures take the same or different approaches to instances of reversals that are (a) intentional/planned versus (b) unintentional / unplanned?



(2) KEY CLARIFICATIONS



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Summary of clarifications from discussions

In commenting on these issues (in writing or discussion), members or co-chairs offered initial clarifications regarding some key issues:

RISK ASSESSMENT

- The reversal risk assessment tool applies to activities involving removals and presenting a risk of reversals. The reversal risk assessment is not a general PDD requirement.
- The tool is a core component of project design and documentation.
 - a) The 6.4SB will develop this form / template / tool.
 - b) PP applies the tool to assess an activity's reversal risk and to score and document the results.
 - c) The risk assessment is an Annex to the PDD and is maintained and updated by the PP in accordance with requirements.



Summary of clarifications from discussions

In commenting on these issues (in writing or discussion), members or co-chairs offered initial clarifications regarding some key issues:

MONITORING | REPORTING

- If [material / significant] reversals are monitored and verified, PP reviews the activity risk assessment to identify and make any needed updates and submits the results with the relevant monitoring report.
- Important that the requirements for reviewing, updating, and submitting risk assessments and monitoring plans and reports are considered in combination to ensure that their timing and frequency avoids unnecessary burden and transaction costs.



Summary of clarifications from discussions

In commenting on these issues (in writing or discussion), members or co-chairs offered initial clarifications regarding some key issues:

ADDRESSING REVERSALS

- The reversal risk buffer pool refers to ERs that are contained in a distinct, designated registry account for the purpose of cancellation to compensate for reversals of removals for which 6.4ERs have been issued.
- Each removal activity contributes the required amount of buffer ERs to that **pool**, which serves all relevant 6.4 mechanism activities to ensure, e.g., that sufficient buffer ERs are available for cancellation in any instance that reversals incurred by an activity exceed its individual buffer contributions.



(3) FURTHER CONSIDERATIONS



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Potential areas for further work

In commenting on these issues (in writing or discussion), members or members identified additional questions and issues for further consideration, supported by Secretariat update to Elements paper:

Reviews and revisions:

Options for specifying the circumstances/triggers and/or periodic milestones requiring the review and possible update of activity baselines, risk assessments and risk ratings, and monitoring plans, including in relation to

- verified reversals of removals and
- the stages of activity cycle implementation.



Potential areas for further work

In commenting on these issues (in writing or discussion), members or members identified additional questions and issues for further consideration, supported by Secretariat update to Elements paper:

Basis for determining applicability of tools, requirements:

Options for the basis for using simplified / standardized elements *or* more frequent, full, or activity-specific elements, and where these are relevant to key substantive issues:

- a) activity type or category
- b) risk rating level (e.g., above versus below a given %-based threshold)
- c) risk assessment contents (e.g., nature, number, variety of risk factors)
- d) monitoring plan (e.g., complexity, frequency, responsible entity)



In commenting on these issues (in writing or discussion), members or members identified additional questions and issues for further consideration, supported by Secretariat update to Elements paper:

Reversals risk tools: General (buffer pool, replacement, insurance)

- Current practice with those approaches, including the extent and nature of their use (respectively and in combination), transaction costs and how these are financed, and potential roles of the Host Party in multi-decadal compensation requirements.
- The circumstances under which the use of a given tool may be required or supplemental—for example, for intentional versus unintentional reversals, or during versus beyond the last active crediting period—and rationales.



In commenting on these issues (in writing or discussion), members or members identified additional questions and issues for further consideration, supported by Secretariat update to Elements paper:

Reversal risk tools: Specific

- Options for robust buffer pool design, including conditions and procedures for its use, ER composition, replenishment, and administration.
- The need for additional procedures and guidance for the 6.4SB, PPs, insurers/guarantors to implement options for direct ER replacement, including for insurance or guarantees.

In commenting on these issues (in writing or discussion), members or members identified additional questions and issues for further consideration, supported by Secretariat update to Elements paper:

Treatment of uncanceled / unused buffer ERs

- Whether the options for treatment and timing are mutually exclusive or could be applied in combination (e.g., returning some but not all ERs to proponent).
- Possible basis for periodically returning ERs to proponents (e.g., metrics for activity performance, activity cycle milestones)
- Procedures for the 6.4SB's periodic review and ongoing management of buffer contributions (e.g., buffer composition, stress-testing the sufficiency of risk coverage).



(4) NEXT STEPS



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Proposed next steps

- **6.4 SB and small group on activities involving removals:**
 - Removals small-group co-chairs will circulate **follow-up questions (Part II)** for written response from SB members;
 - SB members call to discuss **results of Part II questionnaire** compiled by co-chairs of small group on removals
 - Small group on removals will provide **feedback, guidance to the Secretariat on draft documents**—on calls as needed throughout August, optionally also in writing—throughout August



Proposed next steps

- **Secretariat** requested to:
 - Publish 14-day **public consultation** based on the questions distributed to members (Part I) and areas for further work identified in slides 7-10, 16-20;
 - update the **information note** *Compilation of the public inputs on removal activities under the Article 6.4 mechanism* to further incorporate submissions to the structured consultations undertaken in June-July 2023, and following the guidance for the note's compilation and contents provided at SB005.



Proposed next steps

- **Secretariat** requested to (continued)
 - update the **information note** *Draft elements for the recommendation on activities involving removals* based on SB members' views on key substantive issues (written, discussed, Part I and Part II questions), and public consultations to inform SB007 considerations of corresponding draft recommendations (below), following the guidance for the note's compilation and contents provided at SB005 and SB006;
 - produce **draft recommendations** for consideration at SB007, based on 6.4SB outputs from SB004-SB006, SB members' views on key substantive issues (written, discussed; Part I and Part II questions), SB003 recommendations on removals, and informal guidance from the small group on removals on **preliminary draft recommendations** shared prior to SB007;



Timeline

Week of**	Tasks to complete
17 July	- Secretariat publish public consultation - Follow-up questions (Part II) circulated; responses by COB Friday, 21 July .
[27] July	→ 6.4SB call - responses to questions (Part II)
[7 August]	- Secretariat provides draft information notes for feedback from small group members → Removals small group call** - information notes
[14 August] (latest)	- Secretariat provides preliminary draft recommendations for feedback from small group members → Removals small group call** - feedback on drafts
[21 August]	→ Removals small group call** - feedback on drafts

* Dates assuming publication deadline of information notes and draft recommendations **28 August 2023**

** calls scheduled at least 48 hours after documents circulated



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Timeline

MEETINGS/WORK	DATES	JULY					AUGUST				
		17	24	31	7	14	21	28	4	11	
- <u>Secretariat</u> publish public consultation - Follow-up questions (Part II) circulated; responses by COB Friday, 21 July.	17 Jul										
→ 6.4SB call - responses to questions (Part II)	[27] Jul										
Secretariat provides draft information notes for feedback from small group <u>members</u> → Removals small group call** - information notes	[7 August]										
Secretariat provides preliminary draft recommendations for feedback from small group <u>members</u> → Removals small group call** - feedback on drafts	[14 August] (latest)										
→ Removals small group call** - feedback on drafts	[21 August]										
6.4 SB 007	11-14 Sep										



Thank you!



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