

1st March 2025

Subject: A6.4 Registry Mechanism: Implementing Financial Security Interests in A6.4ERs

Dear Members of the Article 6.4 Supervisory Body,

In response to your call for inputs for A6.4 - SBM015 – AA - A11, “Analysis of Pros and Cons related to Framing Users’ rights with regards to control versus confirming ownership of account holdings, I would like to submit my thoughts primarily to make a case to support “Securitization” of A6.4 Credits and how A6.4 SB and Registry Mechanism can facilitate the same.

My focus in the enclosed submissions, addresses only the view of a financial market participant (efficient allocation of capital), and therefore centered on creation of conducive environment to attract Private Capital (Looking for returns) and Capital Commitments of Early buyers (as opposed to only off-take agreements) into Article 6.4 projects

My most humble and sincere thanks for offering the opportunity to make these submissions to the esteemed body and hope to contribute a financial markets’ perspective towards operationalizing Article 6.4.

Kind regards
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Submissions have been made in personal capacity only

The need to facilitate Securitization of Article 6.4 Emission Reduction (A6.4ERs)

A6.4 SB faces several challenges with registry mechanism as have been highlighted in the A6.4 – SBM015 – AA – A11 such as the below duly noted in the note under Section 5 “Absence of applicable law and jurisdiction for implementing ownership”

- a. A6.4 Registry Mechanism will not be able to provide clarity on legal nature of A6.4 Credits
- b. It is extremely hard for A6.4 Registry Mechanism to frame users’ rights with regards to confirming ownership.
- c. Absence of applicable jurisdiction to settle disputes, enforce court orders

However, all of the above are critical elements to providing conducive environment for Private Capital and Banks to finance projects against off-take agreements or purely having security interest over Carbon credits to be delivered / or delivered.

Nonetheless, A6.4 Registry mechanism could provide the following functionality, which has been confirming in mechanism documents as well as A6.4 – SBM015 – AA – A11

1. Transfer of A6.4 Credits subsequent to “First Transfer” allowing change of control i.e. transfer of proprietary rights over Registry Account.

2. A6.4 mechanism holds Host Parties responsible for implementing regulatory and legal framework required to facilitate such transfer and ensuring provision of clear legal opinions to provide clarity on enforceability
3. A6.4 Registry records to allow global checks by registered institutions with respect to account holdings as long as authorized by Account controller.
4. Special Accounts to be created for Custodians / Exchanges etc. to allow them to create a separate layer to address the 3 points in section above independently.

Implementing effective Securitization of A6.4 Credits to attract Private Capital

Functionalities discussed above can allow effective Securitization of A6.4 Credits by those institutions which may be organized in favourable jurisdictions

1. Recognition of A6.4ERs as an Asset (Host party jurisdiction) –
 - Host parties must implement regulatory and legal framework for recognition of Verified Carbon Credits (VCCs) including A6.4 Credits.
 - Project companies must be allowed to recognize these assets on financial statements appropriately in line with global financial reporting standards (GAAP / IFRS)
2. Segregation of Carbon Project's business activity and Carbon Potential by facilitating "Transfer" of A6.4ERs to Institutional players post "First Transfer", allowing sale / purchase of asset like any other asset produced in normal course of business.
 - Host Parties must allow for such transfers and provide clean legal opinions on transfer of all proprietary rights from Host Party for ITMOs.
3. Encumbering Proprietary Rights over A6.4ERs, including operations at A6.4 Registry Mechanism level, to ensure enforcement upon default, liquidation and any other actions required to secure lent monies.
 - They may do it by holding the A6.4 under their own A6.4 Account (upon "Second transfer") and issuing a Warrant or Title of Ownership under specific jurisdiction and law.
4. Provide Legal and regulatory infrastructure to settle disputes in Courts or via arbitration, in favorable jurisdiction where they are domiciled. The enforcement process is typically based on self help remedies allowing significant time and operational efficiencies.

A6.4 Registry mechanism, in this way, can facilitate Institutional participation by forming a layer above, and filling in the gaps, which are not possible for A6.4 mechanism by virtue of its mandate, character and responsibilities within the UNFCCC framework.

A6.4 SB may consider organizing working groups with relevant institutions as well as members of legal fraternity to identify the requirements which may be fulfilled by A6.4SB.

Such Institutions may be designated separately from Project Sponsors and A6.4 Buyers, including separate jurisdictions, allowing Capital Providers to offer Smart and Innovative Financing solution.