

S&P Global Limited
25 Ropemaker Street, 4th Floor
London, EC2Y 9LY
Jonty Rushforth
Head of Environmental Solutions
Jonty.Rushforth@spglobal.com
+44 20 7176 7814

For the attention of:

Supervisory Board, A6.4 Mechanism Registry
UNFCCC (A6.4mechanism-registry@unfccc.int)

Inputs for Stakeholder consultation – A6.4 mechanism registry – Security Interests

Please find our response to the **Provision of a functionality for security interest arrangements in the mechanism registry.**

1. Security Interests:

We understand from discussions with banks and investors that the ability to take a security interest could help unlock financing for carbon market projects.

It is technically possible for functionality to be provided that allows security interest arrangements to be implemented in Article 6.4 emissions reductions within the mechanism registry.

As an example, below we suggest how such functionality could be implemented, however, this could be modified depending on legal and financial considerations.

Sub-account and locking mechanism:

- The registry provider creates a sub-account within the account holder's main account, in the name of the security holder.
- In order to create a security interest, the account holder sends units to the sub-account. The account holder initiates the process in the registry's online interface.
- The security interest holder receives a message to accept the security interest, on acceptance the units would move into the sub-account.
- A "lock" feature would prevent the transfer or retirement of units as long as the security interest is in place, without the consent of the security holder.
- In order for the security interest to be released, the account holder could request from the registry's online interface for the units to be released from the lock.

Call for Inputs: For Stakeholder Consultation

- The security interest holder would receive a message to accept the release, on acceptance the units would move from the sub-account back to the account holder's main account.

The registry would track and record all locks and releases, providing clarity and transparency to stakeholders.

Key considerations:

- The security holder would need to open an account in the registry, and the registry would undertake the usual checks on the security holder (such as KYC, AML, and ABC checks).
- We recommend extensive engagement with security interest holders to ascertain whether the proposed process would be a satisfactory solution.
- Technical implications will depend on the exact details of a satisfactory solution, but broadly will comprise workflows supported in the registry, number and types of accounts being opened in the registry, and number and types of manual interventions required, which could have financial implications.
- The registry provider should automate as much of the process as possible, in order to minimize manual intervention.

2. Ownership vs. Control: The legal nature of Article 6 units is currently being addressed by UNIDROIT. In essence though, we would agree that framing in terms of 'control' rather than 'ownership' could reduce complexities and disputes.

4. Feedback from Stakeholders: A framework can be developed that allows security interests to be expressed, as part of the system, thereby facilitating finance of projects. Such a framework should account for the risks and burdens in the system. There have been some concerns around security interests that allow a disconnection between a tokenized asset (a form of derivative) and the underlying carbon credit. We believe this should be recognized in the framework but should not be a barrier to security interests in general. We would be pleased to provide further clarification on our feedback above if required.