

Submission to a Call for Input: Provision of a functionality for security interest arrangements in the mechanism registry through a pledge system

Document reviewed: *Legal, Technical and Financial Implications of Providing Functionality for the Treatment of Financial Security Interests in Article 6.4 Emission Reductions within the Mechanism Registry* ([here](#))

Section	Feedback
Legal Implications	<p>Clear ownership definitions are crucial for the legal enforceability of transactions and the establishment of financial security interests. The analysis in A6.4-SBM015-AA-A11 highlights the complexity of recognizing ownership within the registry due to evolving legal frameworks and suggests that focusing on control rights may mitigate legal uncertainties.</p> <p>Current practices observed in many international registries is to avoid attributing legal ownership to prevent entanglement in ownership disputes.</p> <p>To adopt a control-rights-based framework for A6.4ERs while enabling Parties to establish national presumptions of ownership if desired. This balances operational clarity and legal recognition without compromising the registry's neutrality.</p> <p><i>(Document A6.4-SBM015-AA-A11, Section 4; Document A6.4-SBM015-AA-A12, Section 3: Relationship to the Recognition of Ownership in the Mechanism Registry.</i></p>
Technical Implications	<p>A proposed pledge system would allow account holders to grant security interests to financiers (pledge holders) over specific A6.4ERs.</p> <p>Implementing functionality for financial security interests in the A6.4 mechanism registry would require technical enhancements. Interoperable systems must be developed to ensure seamless integration with existing financial platforms, while maintaining high standards of data integrity and preventing unauthorized access.</p> <p><u>Examples</u> of enhancements include updates to the data model (e.g. as adding new fields to capture pledge details; metadata tags to indicate encumbered A6.4ERs); update registry user interface to provide dashboards for account holders and pledgees, with visual indicators to distinguish pledged credits; enhanced permission and access controls to define user roles and restrict unauthorized actions involving pledged assets; implement automated rule enforcement to prevent transfers of encumbered credits and ensure compliance with registry terms; integrate audit logs and reporting tools to track all pledge-related activities and support legal and compliance reviews, etc.</p>

	(Document A6.4-SBM015-AA-A12, Section 8 and Section 9; Document A6.4-SBM015-AA-A11, Section 7)
Financial Implications	<p>Introducing financial security interests within the mechanism registry could enhance market liquidity by providing collateral options for participants. However, it also introduces potential risks, such as market speculation and increased volatility. It might be useful to implement comprehensive risk assessment frameworks to monitor and mitigate these financial risks effectively as provided in the document (<i>Document A6.4-SBM015-AA-A12, Section 5 and Section 10; Document A6.4-SBM015-AA-A11, Section 4</i>)</p>