

## **Agenda item 3.5**

Paragraph 25 of the annotated agenda, Annex 9

# Draft Procedure for the Article 6.4 mechanism registry

**Article 6.4 Supervisory Body – Fifteenth meeting**

Thimphu, Bhutan - 11 to 14 February 2025



## Procedural background

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- 3/CMA.3, 7/CMA.4 and -/CMA.6;
- 2/CMA.3, 6/CMA.4 and -/CMA.6 with regard to A6.4ERs that are ITMOs and the connection to the international registry;
- SBM 006 requested a concept note on general functional aspects and issues related to registry, and launched a call for input;
- SBM 008 took note of developments and progress of work with regard to the operation of the registry;
- SBM 010 requested the secretariat prepare a procedure;
- SBM 011 considered the Draft Procedure and requested its further developed taking into account the guidance provided at the meeting.



## Procedural background cont.

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- SBM 013 considered the revised procedure and requested its further development, taking into account the guidance provided at the meeting, in particular to:
  - a) Undertake editorial review for consistency of language with agreed decisions;
  - b) Further develop the provisions, including for:
    - Suspension of accounts/account holders;
    - Level of transparency of account holdings;
    - Issues of ownership or control and security interests;
    - Account types and purposes;
    - Implications of multiple accounts;
    - Serialization of Article 6.4 emissions reductions (A6.4ERs);
    - Approaches for A6.4ERs tagging, considering best practices.
  - c) Strengthen the links and references to:
    - Voluntary cancellation functionality and a possible voluntary cancellation platform
    - The 'know-your-customer' provisions;
    - The terms and conditions for authorized account holders and the document for Party account holders that outlines their roles and responsibilities.



- SBM 013 also requested the secretariat, as it implements the mechanism registry, to ensure the design of the information technology solution for the mechanism registry is flexible to incorporate changes based on future guidance from the CMA, in particular, on the timing of and changes to the statement of authorization.



### **Suspension, reactivation and termination of accounts**

- Due to potential implications on NDCs, the secretariat is undertaking further work on these matters in the registry. The procedure provides that Parties or the registry administrator may suspend, reactivate, and terminate accounts under certain conditions or to ensure the integrity of the mechanism registry process. These provisions of the procedure will be updated in future.

### **Level of transparency of account holdings**

- The procedure provides that the registry will provide real-time information on holdings in the registry to be publicly available.

### **Ownership and security interests**

- Information notes on these matters are provided alongside this registry procedure for the Supervisory Body's consideration.
- Given these are still under consideration, the procedure does not address these matters.



## Key issues and proposed solutions in revised procedure

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### **Account types and purposes**

- The account types are in accordance with 7/CMA.4 guidance. Notably, the CMA does not distinguish between AERs and MCUs in the account types provided. The procedure distinguishes between them as necessary for reporting purposes.
- The procedure provides that Parties and entities may open accounts in the registry, and that entity accounts will be associated with their authorizing Party.

### **Implications of multiple accounts**

- The procedure provides that users (Parties and entities) may open multiple accounts in the registry.
- The ability of entities to open multiple accounts can be restricted by their authorizing Party (which must approve requests by entities to open accounts).
- Entities may open accounts associated with multiple Parties if the respective Parties authorize them to do so. While entities may access all their accounts with one login to the registry interface, their accounts are treated as distinct.



### **Serialization of A6.4ERs / Approaches for A6.4ER tagging, considering best practice**

- All A6.4ERs will be assigned serial numbers for each combination of host Party, vintage year and activity. This will include the Party ID, activity ID, vintage year, and serial number.
- MCUs will be designated as MCUs.
- AERs will have additional identifiers for the cooperative approach (CA0001 for the 6.4 mechanism), the mechanism registry as its issuing registry (UN01); information on its authorization; and an 'FT' flag if it has been first transferred.

### **Voluntary cancellation functionality**

- The procedure reflects that the mechanism registry will provide voluntary cancellation functionality, without predetermining the form this will take given this is still under consideration by the Supervisory Body. The procedure will be updated in future to reflect decisions on this matter by the Supervisory Body.

## Key issues and proposed solutions in revised procedure

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### **Know-your-customer provisions**

- The secretariat is still undertaking work to develop know-your-customer measures (identification requirements, pursuant to paragraph 63 of annex I to 3/CMA.3) for managing risks of fraud, money laundering and the financing of terrorism.
- The procedure will be updated in future regarding this matter.

### **Terms and conditions for authorized account holders (T&Cs) and the document for Party account holders that outlines their roles and responsibilities (Party document)**

- Both the T&Cs and Party document are still under development. The procedure provides that users of the registry must comply with any applicable T&Cs; and that the registry administrator will treat all Party account holders as having considered all rules and regulations related to the mechanism registry, and any other information provided to them with respect to the mechanism registry.
- The procedure will be updated in future regarding these documents.





## Key issues and proposed solutions in revised procedure

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### **Dormant accounts**

- The procedure does not address dormant accounts. This will be addressed by a future version.

### **Issuance and distribution**

- The procedure provides that distribution instructions must be given for the issuance of A6.4ERs, as to avoid any accumulation of A6.4ERs in the pending account, which could pose a financial and operational risk and could be exploited for tax evasion and money laundering purposes.
- The SOP and OMGE levies will be automatically issued and forwarded from the pending account upon the final approval of issuance. The remaining portion will be issued upon distribution instruction.
- The 'Procedure: Article 6.4 activity cycle procedure for projects' has been updated pursuant to this change.



## Key issues and proposed solutions in revised procedure

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### **Fees**

- Appendix 1 of the procedure provides the fees for opening accounts, account maintenance, and connection and initialization fees for all connecting Party registries.
- Exemptions apply for:
  - Activity participants from the account opening fee for their first account with each authorizing Party;
  - Account holders from the account maintenance fee for the first 12 months of an opened account (whereby the account opening fee was recently charged);
  - Parties for all fees.
- Appendix 2 of the Procedure provides a comparison table of how the registry fees compare to the fees charged by other carbon market registries.



## Recommendation

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- The secretariat recommends that the SBM adopt the “Procedure: Article 6.4 mechanism registry” and mandate the secretariat to maintain and update the adopted procedure as necessary to accommodate the functions of the mechanism registry.



## Registry related documents at SBM 015

Recommended action at this meeting	For consideration and possible action at this meeting or a future meeting	For noting only
<ul style="list-style-type: none"><li>• Procedure: Article 6.4 mechanism registry</li><li>• Information note: Interim mechanism registry</li></ul>	<ul style="list-style-type: none"><li>• Information note: Analysis of the pros and cons related to framing users' rights with regard to control versus confirming ownership of account holdings</li><li>• Information note: legal, technical and financial implications of providing functionality for the treatment of financial security interests in Article 6.4 emissions reductions (A6.4ERs) within the registry</li></ul>	<ul style="list-style-type: none"><li>• Information note: Important information about the mechanism registry for Parties</li></ul>



## How the proposed A6.4 registry fees compare to others

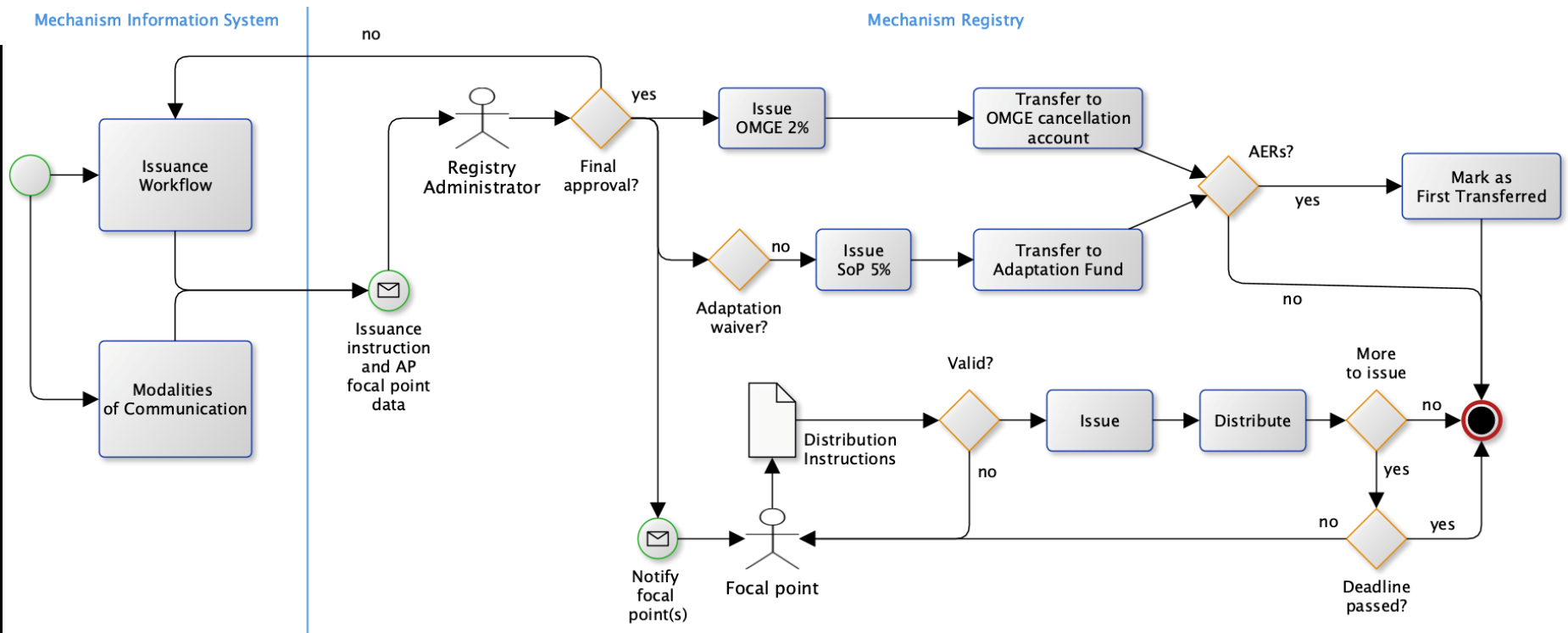
		Gold Standard	Verra	Universal Carbon Registry	Global Carbon Council	ACR Winrock	Puro.Earth	Climate Action Reserve	CTX	A6.4 registry (proposed)
Account fees	Account opening (per account)	1 000	750	No registry fees; only project registration and issuance fees	1 000	500	1 440	500	1 623	500 (800 for second account)
	Annual account maintenance (per account)	1 000	750		1 000	500	1 440	500	1 623	400
	Account reactivation (per account)	1 500	2 000		N/A	N/A	N/A	500		
Operation fees	Credits activation	N/A	N/A		N/A	0.20/credit	N/A	N/A		
	Transfer	0.02/credit	0.02/credit		0.04/credit	0.02/credit	N/A	0.03/credit		
	Retirement	0.02/credit	0.02/credit		0.04/credit	0.02/credit	0.25	0.03/credit		
	Cancellation	0.02/credit	0.02/credit		N/A	0.03/credit	N/A	Free		



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# Issuance and distribution process



\* Minor procedural steps and conditions are skipped for simplicity



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