A6.4-MEP014-A08

Concept note

Options for implementing the provisions in paragraph 62 of the “Standard: Requirements for activities involving removals under the Article 6.4 mechanism”

Version 01.0

United Nations
Framework Convention on
Climate Change

TABLE OF CONTENTS **Page**

1. Procedural background

1. The Supervisory Body of the mechanism established by Article 6, paragraph 4, of the Paris Agreement (hereinafter the Supervisory Body), at its seventeenth meeting,[1] requested the Methodological Expert Panel (MEP) to prepare a concept note on options for implementing the provisions in paragraph 62 of the "Standard: Requirements for activities involving removals under the Article 6.4 mechanism" (A6.4-STAN-METH-002) (hereinafter the "Removals Standard").[2]

2. Paragraph 62 of the Removals Standard reads as follows:
"The Supervisory Body will consider and implement any potential remedial actions necessary to manage risks to the robustness of the Reversal Risk Buffer Pool Account, including ongoing consideration of measures to remediate reversals and ensure the resilience, sufficiency, and solvency of the Reversal Risk Buffer Pool Account, and other appropriate measures and procedures that may provide suitable alternative means to remediate reversals, including the following:

    (a) Requirements and approval procedures for the use of insurance policies, or comparable guarantee products, or third-party guarantee approved by the Supervisory Body to cover the risk that reversals occur;

    (b) Procedures for establishing, managing, and using a monetary permanence reserve enabling remediation of reversals through the direct or potentially centralized purchase and cancellation of A6.4ERs with negligible or no reversal risk."

3. The Supervisory Body, at its eighteenth meeting,[3] further requested the MEP, in addressing the mandate referred to in paragraph 1, to develop a proposal on conditions and criteria for justification of the demonstration of sufficiency of coverage as indicated in the "Information Note: Elements related to non-permanence and reversals for inclusion in relevant regulatory documents" (A6.4-INFO-METH-002) (hereinafter the "Information Note").[4]

4. This concept note draws upon the following sources:

    (a) Public input received during prior stakeholder consultations, including but not limited to the "Standard: Addressing non-permanence and reversals in mechanism methodologies" (A6.4-STAN-METH-007) (hereinafter the "Reversals Standard");[5]

    (b) Rules, regulations, and standards of other market-based mechanisms; and

    (c) Reports and other relevant publicly available data.

[1] See paragraph 16 of A6.4-SBM017, https://unfccc.int/sites/default/files/resource/A6.4-SBM017.pdf.

[2] See https://unfccc.int/sites/default/files/resource/A6.4-INFO-METH-002.pdf.

[3] See paragraph 30 of A6.4-SBM018, https://unfccc.int/sites/default/files/resource/A6.4-SBM018.pdf.

[4] See https://unfccc.int/sites/default/files/resource/A6.4-INFO-METH-002.pdf.

[5] See https://unfccc.int/sites/default/files/resource/A6.4-STAN-METH-007.pdf.

2. Purpose

5. The purpose of this document is to address the mandate provided by the Supervisory Body to develop a concept note on options for implementing the provisions in paragraph 62 of the Removals Standard, including a proposal on conditions and criteria to demonstrate sufficiency of coverage for any insurance products or guarantees pursuant to section 4.2.1 of the Information Note.

3. Key issues and proposed solutions

6. The MEP, in consultation with the secretariat, reviewed paragraph 62 of the Removals Standard and determined that it refers to measures to ensure the robustness and resilience of the Reversal Risk Buffer Pool Account as well as alternative measures to the Reversal Risk Buffer Pool Account for the remediation of reversals. The MEP also took note of the specific mandate to propose conditions and criteria related to insurance products or guarantees, and through its deliberations identified risks related to approving alternatives to the Reversal Risk Buffer Pool Account. Accordingly, the MEP agreed to structure the concept note as follows:

   (a) Measures to ensure the robustness and resilience of the Reversal Risk Buffer Pool Account (section 3.1);

   (b) Alternative measures to the Reversal Risk Buffer Pool Account for remediation of reversals (section 3.2), including a Monetary Permanence Reserve;

   (c) Use of insurance policies, comparable guarantee products, or third-party guarantees during the post-crediting monitoring period (section 3.3); and

   (d) Risks of approving alternatives to the Reversal Risk Buffer Pool Account (section 3.4).

7. To fulfil the Supervisory Body's mandate referred to in paragraph 1, the MEP identified multiple potential measures. Each option identified in sections 3.1 and 3.2 includes a description of the option, a summary of its advantages and disadvantages, and conditions for its potential use under the Article 6.4 mechanism. In some cases, the MEP also makes recommendations to the Supervisory Body.

8. To fulfil the Supervisory Body's mandate pursuant to paragraph 3, this concept note includes a proposal on conditions and criteria for justification of the demonstration of sufficiency of coverage for insurance policies, comparable guarantee products, or third-party guarantee during the post-crediting period (section 3.3).

9. In addition, the MEP identified a set of cross-cutting considerations that would arise if the Supervisory Body were to approve any reversal-risk-management measures beyond the Reversal Risk Buffer Pool Account (section 3.4). Accordingly, the MEP recommends an analytical framework intended to support any such future Supervisory Body deliberations.

10. The MEP notes that the Supervisory Body has requested the secretariat to prepare a concept note on buffer pool contributions of authorized A6.4ERs, including potential implications for accounting of nationally determined contributions (NDCs).[6] The MEP observes that the secretariat's concept note is under development as of this writing and

[6] See paragraph 29 of A6.4-SBM018 https://unfccc.int/sites/default/files/resource/A6.4-SBM018.pdf.

notes that there may be additional considerations for this concept note, pending the conclusions of the secretariat’s concept note. This concept note may be updated at a future date to reflect such considerations.

11. The MEP observes that for some, but not all, of the issues addressed in this concept note, there may be significant further legal and policy considerations that would need to be addressed by the Supervisory Body or CMA. These considerations may apply to some of the measures discussed in sections 3.1 and 3.2 (e.g., Reversal Risk Buffer Pool Account replenishment by a Party discussed in section 3.1.4 or the Party remediation of reversals through NDC accounting discussed in section 3.2.3) that relate to the obligations of Parties under the Paris Agreement. They do not apply to the recommendations provided in section 6.

3.1. Measures to ensure the robustness and resilience of the Reversal Risk Buffer Pool Account

12. This section elaborates on various measures that could be considered by the Supervisory Body to enhance the robustness and resilience of the Reversal Risk Buffer Pool Account, as referenced in paragraph 62 of the Removals Standard.

3.1.1. Reversal Risk Buffer Pool Account stress tests

13. Pursuant to paragraphs 60 and 61 of the Removals Standard, the Supervisory Body shall oversee a periodic stress test of the Reversal Risk Buffer Pool Account at least every three years and whenever a significant loss event occurs. The MEP notes that the Supervisory Body has not yet implemented a procedure for the stress test, nor is the development of such a procedure part of any of the MEP’s active mandates.

14. The MEP notes that a stress test would likely involve an assessment of:

    (a) The assets of the Reversal Risk Buffer Pool Account, such as the number of A6.4ERs held in the account or the number of A6.4ERs expected to be held in the account as of a future date due to future issuance;

    (b) The liabilities of the Reversal Risk Buffer Pool Account, such as the number of issued A6.4ERs that are subject to reversal risks or the number of A6.4ERs that are expected to be issued as of a future date, as well as their respective risk of reversal; and

    (c) The level of confidence that the Supervisory Body seeks to establish in making a determination that the assets of the Reversal Risk Buffer Pool Account are sufficient to cover its liabilities.

15. The MEP notes that the assets and liabilities of the Reversal Risk Buffer Pool Account also depend on several factors, including:

    (a) The development of additional regulatory provisions for the Article 6.4 mechanism. Pursuant to paragraphs 38 and 39 of the Removals Standard and paragraphs 31 and 32 of the Reversals Standard, the contribution of A6.4ERs to the Reversal Risk Buffer Pool Account shall be based on the use of the “Methodological tool: Reversal risk assessment” (hereinafter “Reversal Risk Assessment Tool”), which is actively under development at the MEP as of this writing;

(b) The expected reversal risk ratings of activities involving a risk of reversal that are eligible for registration under approved methodologies and may issue A6.4ERs in the future; and

(c) The reversal risk ratings of activities that are issued A6.4ERs under approved methodologies.

16. The MEP notes that the stress test may involve additional-considerations related to buffer pool contributions of authorized A6.4ERs, including potential implications for accounting of NDCs, as indicated above in paragraph 10.

17. Accordingly, the MEP recommends that the Supervisory Body provide a mandate to the MEP to:

(a) Develop a procedure for the Reversal Risk Buffer Pool Account stress test;

(b) Define the intended level of confidence in the sufficiency of the Reversal Risk Buffer Pool Account; and

(c) Define what constitutes a “significant loss event” that would trigger an unplanned stress test, pursuant to paragraph 61 of the Removals Standard.

3.1.2. UNFCCC enforcement capacity and alternatives

18. Pursuant to the provisions in section 4.6.3 of the Removals Standard, the purpose of the Reversal Risk Buffer Pool Account is to ensure that reversals of emission reductions and removals for which A6.4ERs are issued are fully remediated by cancelling A6.4ERs held in the Reversal Risk Buffer Pool Account.

19. The MEP notes that the remediation of reversals functions differently depending on whether the reversal is avoidable or unavoidable.[7] In both cases, the mechanism registry administrator is required to cancel the appropriate quantity and type (e.g., authorized A6.4ERs or non-authorized A6.4ERs) of A6.4ERs held in the Reversal Risk Buffer Pool Account. In the case of avoidable reversals only, and pursuant to the provision in paragraph 58 of the Removals Standard, activity participants “shall be fully liable for replenishing” any such A6.4ERs.

20. The MEP observes that whenever avoidable reversals occur, the sufficiency of the Reversal Risk Buffer Pool Account will be affected if activity participants do not replenish it. Because activity participants have their activity-specific registry operations suspended when a potential reversal is detected and only have these operations reinstated when any actual reversal is fully remediated,[8] activity participants have an incentive to replenish the Reversal Risk Buffer Pool Account as required. Nevertheless, activity participants might choose not to comply with this requirement or claim that they are unable to do so, particularly if activity participants elect to transfer A6.4ERs out of their accounts shortly after issuance. The MEP expects that the rate at which activity participants comply depends, in part, on the legal authority and administrative capacity of other parties to compel compliance.

21. Although activity participants are fully liable for replenishment of A6.4ERs that are cancelled due to avoidable reversals under paragraph 58 of the Removals Standard, the

7 See sections 5.1 and 5.2 of the Information Note.

8 See paragraphs 5 and 11 of the Information Note.

MEP understands that the United Nations Framework Convention on Climate Change (UNFCCC) secretariat may not have sufficient legal authority or administrative capacity to enforce this requirement against activity participants in national courts or comparable fora. While having robust legal authority and enforcement capacity vis-à-vis activity participants would help to ensure the sufficiency of the Reversal Risk Buffer Pool Account, such authority typically lies with States and their competent institutions rather than with the UNFCCC secretariat. The secretariat has advised the MEP that potential changes to the legal authority of the UNFCCC secretariat or to domestic enforcement arrangements would require decisions by the relevant governing bodies or Parties and are therefore outside the scope of the MEP’s mandate; therefore, this note focuses instead on measures that can operate within the existing institutional framework.

22. The MEP notes that compliance with the Article 6.4 mechanism’s requirements for Reversal Risk Buffer Pool Account replenishment could be facilitated by, inter alia:

   (a) Requiring activity participants to submit legally enforceable attestations (see paragraph 23 below); and

   (b) Third-party enforcement (see paragraph 24 below).

23. The MEP observes that, in other carbon crediting mechanisms, activity participants (or their equivalents) may be required to provide legal attestations stating that they agree to be irrevocably bound by program requirements and to resolve any related legal disputes through specified processes, including the use of local courts or appropriate dispute resolution processes. Such legal attestations can help to reduce barriers to enforcement by making it difficult for activity participants (or their equivalents) to dispute the general applicability of program requirements and by resolving procedural considerations, such as legal jurisdiction and venue. However, the MEP observes that legal attestations, while helpful, nevertheless presume the ability and willingness of a carbon crediting mechanism to enforce its rules against private parties in an appropriate legal forum. To the extent that the UNFCCC secretariat either cannot or does not anticipate undertaking an enforcement role, then a requirement that activity participants file legal attestations may not be sufficient to meaningfully improve compliance rates.

24. The MEP observes that, in some countries’ legal systems, violations of legal agreements, including those formalized through legal attestations, may be separately enforceable by third-party private or government entities. In general, these enforcement capacities are expected to increase the probability that activity participants replenish the Reversal Risk Buffer Pool Account following an avoidable reversal (i.e., to entice or compel compliance in situations where the absence of third-party enforcement capacity would lead to non-compliance). Due to the variety of legal systems and relevant laws among the Parties participating in the Paris Agreement, the MEP suggests that it may be unrealistic to quantify the extent to which these enforcement capacities would increase compliance rates. However, the MEP notes that requiring legal attestations, which may be enforceable by third parties, is expected to increase (rather than decrease) compliance rates. Furthermore, the MEP observes that where third-party enforcement capacity is present, its effect on increasing compliance rates is likely to be aided by the presence of legal attestation requirements from activity participants.

25. The MEP concludes that it would help ensure the resilience, sufficiency, and solvency of the Reversal Risk Buffer Pool Account to require activity participants to submit a standardized legal attestation form. While in theory an attestation form could be limited to matters involving the Reversal Risk Buffer Pool Account, the MEP determined that it would

be beneficial to have the attestation form cover a broader set of topics, with each activity participant formally attesting and agreeing:

(a) To be irrevocably bound by all applicable Article 6.4 mechanism requirements; and

(b) That its obligations under the Article 6.4 mechanism are intended to be valid, binding, and enforceable in its local jurisdiction(s), as applicable under the laws of its local jurisdiction(s) and to the maximum extent allowed by those laws.

26. The MEP notes that such attestations would not themselves confer new enforcement powers on the UNFCCC secretariat but could facilitate the use of existing enforcement capacities within the legal systems of Parties.[9]

27. Accordingly, the MEP recommends the Supervisory Body provide a mandate to the secretariat to:

(a) Develop a standardized legal attestation form that includes the provisions of paragraphs 25(a) and 25(b); and

(b) Amend the “Procedure: Article 6.4 activity cycle procedure for projects” (A6.4-PROC-AC-002)[10] and “Procedure: Article 6.4 activity cycle procedure for programmes of activities” (A6.4-PROC-AC-003)[11] to require Article 6.4 activities and programmes of activities to submit a standardized legal attestation form.

3.1.3. Insurance of the Reversal Risk Buffer Pool Account

28. The MEP understands that one or more insurance products are available in private markets today to provide protection against unexpected high-loss events that could severely deplete a buffer pool and render it unable to reliably remediate future reversals. While smaller losses, even if occurring more frequently, are expected to be covered by the buffer pool, these insurance products focus instead on rare major loss events, as well as consecutive medium sized events that could lead to buffer pool depletion.

29. The MEP understands that it is common in private insurance contracts to refer to the events or conditions that trigger an insurance payment as “covered losses”. The MEP uses that term in this concept note to refer specifically to the relevant provisions in insurance contracts. As discussed in paragraph 47 below, it may be necessary to align the definition of covered losses with the Article 6.4 mechanism’s definition of reversals.

30. Depending on the maturity of the buffer pool (i.e., whether the buffer pool is established or new), the features of this type of insurance product can vary. For new buffer pools, some insurance products may recognize that there is a potential risk of the buffer pool not achieving a critical mass of A6.4ER contributions, which could impede its ability to manage near-term liquidity risk. For such cases, an insurance product could help increase the financial resilience and provide a backstop in the event of a reversal event causing a major loss in the buffer pool. The MEP notes that if the Supervisory Body were to consider such

---

[9] For example, this could be implemented by including following provision in an attestation form: “These attestations are administrative instruments of the Article 6.4 mechanism and do not constitute, or imply, any assumption by the UNFCCC secretariat of an enforcement role in national courts or other fora, nor any guarantee of enforceability under domestic law.”

[10] See https://unfccc.int/sites/default/files/resource/A6.4-PROC-AC-002.pdf.

[11] See https://unfccc.int/sites/default/files/resource/A6.4-PROC-AC-003.pdf.

a product, the case of a new buffer pool would likely be most relevant to the Article 6.4 mechanism at this time.

31. The MEP observes that in terms of benefits, this product could provide a financial backstop for the Reversal Risk Buffer Pool Account, enhance confidence for buyers of A6.4ERs, and could also be a test case for the use of insurance in the Article 6.4 mechanism, especially in the mechanism’s initial implementation period (e.g., as the Article 6.4 mechanism establishes the Reversal Risk Buffer Pool Account and gains experience in the operation of the Reversal Risk Buffer Pool, including the use of the Reversal Risk Assessment Tool).

32. However, the use of such an insurance product would have consequences on the operation of the Reversal Risk Buffer Pool Account and the Article 6.4 mechanism. This requires further consideration prior to the use of the insurance product. The following is a non-exhaustive list of relevant considerations:

(a) The insurance product would increase the operational cost of the mechanism. The MEP has not attempted to assess the cost of such product at this time, but notes that these costs would need to be borne by either:

(i) The UNFCCC secretariat directly, noting that these costs have not been previously budgeted for the Article 6.4 mechanism (e.g., under the “Information Note: Article 6.4 mechanism two-year business and resource allocation plan 2026–2027” (A6.4-INFO-GOV-024)[12]); or

(ii) Activity participants implementing activities that are subject to non-permanence risks, noting that the fee schedules in the “Procedure: Article 6.4 activity cycle procedure for projects” (A6.4-PROC-AC-002)[13] and “Procedure: Article 6.4 activity cycle procedure for programmes of activities” (A6.4-PROC-AC-003)[14] would require amendments to introduce a fee schedule. These amendments would likely require further deliberation to address, inter alia, the following issues:

a. Calibration of the fee schedule in relation to an activity’s size;

b. Calibration of the fee schedule in relation to an activity’s reversal risk rating; and

c. Considerations related to the equitable sharing of increased cost burden for activity participants.

(b) The use of an insurance product would require a procedure for cancelling A6.4ERs to remediate reversals from a loss covered by the insurance product, consistent with the Removals Standard, Reversals Standard, and Information Note. These requirements, in turn, would depend on whether the insurance product provides

[12] See https://unfccc.int/sites/default/files/resource/A6.4-INFO-GOV-024.pdf.

[13] See https://unfccc.int/sites/default/files/resource/A6.4-PROC-AC-002.pdf.

[14] See https://unfccc.int/sites/default/files/resource/A6.4-PROC-AC-003.pdf.

the delivery of A6.4ERs or a financial payment when a covered loss (i.e., a reversal) occurs:

(i) For products that deliver A6.4ERs when a covered loss occurs, a procedure would be needed to ensure that:

a. The equivalent amount and type of A6.4ERs (e.g., as required by paragraph 58 of the Removals Standard and section 5.2 of the Information Note) are delivered and to whom they are delivered (e.g., the Article 6.4 mechanism registry administrator);

b. The party receiving the A6.4ERs (e.g., the Article 6.4 mechanism registry administrator) causes them to be cancelled; and

c. The cancellation purpose is recorded as remediating a reversal, consistent with other requirements of the Article 6.4 mechanism registry administrator.

(ii) For products that deliver a financial payment when a covered loss occurs, a procedure would be needed to ensure that:

a. The financial payment is made to a beneficiary that is reliably able and willing to accept the funds and use them to procure an appropriate quantity and type of A6.4ERs, cancel the A6.4ERs, and record the cancellation of A6.4ERs as being done to remediate a reversal (as provided in paragraph 32(b)(i)); and

b. The financial payment provides sufficient funds to effect the requirements of paragraph 32(b)(i), noting that this issue is closely related to a key issue that would arise in the implementation of a Monetary Permanence Reserve (see section 3.2.4) and could potentially be implemented by a Monetary Permanence Reserve, if one were established in the future.

33. The MEP notes that paragraph 54 of the Removals Standard requires that the Reversal Risk Buffer Pool Account “shall be administered and accessed only by the Article 6.4 mechanism registry administrator.” Depending on how this requirement is interpreted, it may raise additional considerations.
Question 1: Does Reversal Risk Buffer Pool Account insurance require the Article 6.4 mechanism registry administrator to provide any type of access or administrative rights to the Reversal Risk Buffer Pool Account to an insurer or its agent(s)? Would a read-only application programming interface (API) be sufficient, and would that be consistent with paragraph 54 of the Removals Standard? How are these considerations managed in other crediting mechanisms?

34. The MEP further observes that the effectiveness of buffer pool insurance depends on the expected assets and liabilities of the Reversal Risk Buffer Pool Account, as discussed in section 3.1.1, and the type of A6.4ERs that would be contributed to the Reversal Risk Buffer Pool Account as a result of a covered loss (e.g., authorized or non-authorized A6.4ERs). Therefore, the outcome of a Reversal Risk Buffer Pool Account stress test could inform whether an insurance product may be needed and, vice versa, the existence of an insurance product could affect the outcome of Reversal Risk Buffer Pool Account stress tests.

35. The MEP also notes that an insurance of the Reversal Risk Buffer Pool Account may require significant further considerations related to buffer pool contributions of authorized A6.4ERs, including potential implications for accounting of NDCs, as indicated above in paragraph 10.

3.1.4. Reversal Risk Buffer Pool Account replenishment by a Party

36. A Party could guarantee the cancellation of the appropriate type and number of A6.4ERs to account for avoidable reversals by agreeing to replenish the Reversal Risk Buffer Pool Account when an activity participant is obligated to do so but does not (e.g., to remediate avoidable reversals pursuant to section 5 of the Information Note). The replenishment of an appropriate type and number of A6.4ERs could be undertaken by the Party hosting the Article 6.4 activity (the "host Party") or another Party (e.g., a Party that has purchased A6.4ERs).

37. The MEP notes that this approach may require a decision by the CMA, as it would introduce an optional Party responsibility under the Paris Agreement. The analysis here presumes that the required decision is in place, without expressing a view about whether it should be in place.

38. The primary advantage of this approach is that it would increase confidence in the ability of the Reversal Risk Buffer Pool Account to remediate avoidable reversals.

39. The primary disadvantages of this approach include:

    (a) The risk that a Party providing a guarantee of replenishment might not be able or willing to satisfy its responsibility, when a reversal occurs in the future; and

    (b) Potential information asymmetry and divergent interests between the Article 6.4 activity (which benefits immediately from this arrangement) and a Party providing the guarantee (which takes on a responsibility that is technically difficult to assess).

40. The MEP also notes that this approach may require significant further considerations related to buffer pool contributions of authorized A6.4ERs, including potential implications for accounting of NDCs, as indicated above in paragraph 10.

3.2. Alternative measures for remediating reversals

41. This section elaborates on various measures that could replace the need for activity participants to contribute A6.4ERs to the Reversal Risk Buffer Pool Account, as referenced in paragraph 62 of the Removals Standard.

3.2.1. Activity-level insurance through a private third party

42. In this measure, activity participants would have the option to purchase an insurance product or third-party guarantee (referred to here as "activity-level insurance") as an alternative to contributing A6.4ERs to the Reversal Risk Buffer Pool Account.

43. The MEP notes that the considerations in this section relate to the use of activity-level insurance as an alternative to the Reversal Risk Buffer Pool Account in the crediting and post-crediting monitoring periods. In contrast, section 3.3 implements the mandate in paragraph 3 by elaborating the conditions and criteria that would justify an activity participant terminating its obligation to monitor in the post-crediting monitoring period and

transferring this obligation to an approved insurance provider, without replacing the use of the Reversal Risk Buffer Pool Account.

44. The primary advantage of implementing activity-level insurance as an alternative to the Reversal Risk Buffer Pool Account is that it could lower costs. If activity-level insurance is cheaper than the cost of contributing A6.4ERs to the Reversal Risk Buffer Pool Account and the activity-level insurance provides an equal or greater level of assurance that any reversals will be remediated, then this option could lower activity participants’ cost of participating in the Article 6.4 mechanism and, potentially, the price of A6.4ERs to buyers.

45. The primary disadvantages of this approach are:

(a) The technical challenge of establishing an activity-level insurance product that provides an equal level of assurance as the Reversal Risk Buffer Pool Account that any reversals will be remediated (as described in section 3.2.1.1); and

(b) The relatively nascent stage of activity-level insurance products in carbon crediting mechanisms today (section 3.2.1.2).

3.2.1.1. Recommended requirements for the use of activity-level insurance as an alternative to the Reversal Risk Buffer Pool Account

46. To demonstrate equivalency with the coverage of the Reversal Risk Buffer Pool Account, an activity-level insurance policy would need to:

(a) Cover all A6.4ERs issued to an activity that are subject to a risk of reversal;

(b) Define covered losses to include all avoidable and unavoidable reversals, as defined in the Removals Standard, the Reversals Standard, and the Information Note; and

(c) Provide coverage for the duration of the crediting periods and the post-crediting monitoring period, including as defined in individual mechanism methodologies.

47. To satisfy the requirements of paragraph 46(a), the policy’s covered loss events would need to align with the Article 6.4 mechanism’s definition and treatment of reversals, including reversals reported in monitoring reports (per section 6 of the Reversals Standard and the Information Note in general) as well as deemed avoidable reversals from missing report submissions (per section 3.3 of the Information Note).

48. To satisfy the requirements of paragraph 46(c), the duration of the policy’s term would need to align with the period of coverage provided by the Reversal Risk Buffer Pool Account. The MEP notes that, pursuant to decision 3/CMA.3, annex, para. 31(f), activities involving removals have a maximum crediting period of up to 45 years, while emission reduction activities can elect a maximum crediting period of either 10 or 15 years. The MEP also notes that, pursuant to paragraph 48 of the Reversals Standard, mechanism methodologies shall define a minimum period for monitoring during the post-crediting monitoring period. Thus, the required policy term would be:

(a) Forty-five years plus an additional period to be determined in each mechanism methodology, for activities involving removals; or

(b) Ten or fifteen years plus an additional period to be determined in each mechanism methodology, for emission reduction activities with reversal risks.

49. Insurance products would also need to specify the payment that would be made to a specific beneficiary in the event of a covered loss, which could include delivery of A6.4ERs or financial payments, as well as a procedure to ensure these outcomes result in remediation of the reversal. These requirements would vary as follows:

(a) For insurance products that deliver A6.4ERs when a covered loss occurs, a procedure would need to meet the requirements in paragraph 32(b)(i); or

(b) For products that deliver a financial payment when a covered loss occurs, a procedure would need to meet the requirements in paragraph 32(b)(ii).

50. The insurer and the insured (e.g., activity participants or, where applicable, the buyer of A6.4ERs issued for activities that are subject to reversal risks), would also need to provide assurance that the Supervisory Body and the UNFCCC secretariat (acting on behalf of the Article 6.4 mechanism) would not be liable in any capacity to the insurer, such as for payments for the insurance. The UNFCCC secretariat would also need to be listed in the insurance contract as a beneficiary, noting that the waiver of liability applies solely to the secretariat in its institutional capacity.

51. The insurer would need to be a regulated provider of insurance services, duly licensed or otherwise approved in the host Party(ies) of the activity and, where necessary, in any other Party concerned by the implementation of the activity or the establishment of the insured. The insurer would need to operate under the supervision of a competent regulatory authority and have the legal and financial capacity to fulfil its obligations for the required coverage period.

3.2.1.2. Discussion on the status of insurance products in carbon markets

52. This section provides an overview of the current status of the use of insurance products for remediation of reversals in carbon crediting markets and discusses the technical limitations of their design features against the recommended requirements in section 3.2.1.1.

53. The MEP observes that limited insurance products exist in the market today that would enable the activity participants to purchase insurance for A6.4ERs as an alternative to contributions to Reversal Risk Buffer Pool Account. Current reversal risk insurance products appear to mostly be offered at a portfolio level (e.g., to insure buffer pools), rather than at the level of individual activities.

54. While some carbon crediting mechanisms allow for such instruments in theory, in practice the MEP was unable to identify any specific activity-level insurance policies that are recognized or approved by the relevant carbon crediting mechanisms. The MEP is aware of some voluntary carbon crediting mechanisms that are evaluating such options at a pilot level. Accordingly, and without prejudging the potential evolution of market practices, the MEP concludes that the use of insurance as an alternative to buffer pools is currently not prevalent in carbon crediting mechanisms.
Question 2: The MEP seeks stakeholder feedback on any existing uses of insurance as an alternative to buffer pool contributions in other carbon crediting mechanisms.

55. The MEP was unable to identify any standardized insurance products and infers that insurance offerings may require a case-by-case assessment by the insurer, considering factors such as the activity type and the applicable carbon crediting methodology and mechanism. Combined with lack of public information on key product features, such as duration, exclusions, coverage conditions, this creates a challenge in understanding the

full scope of limitations of insurance products and thereby the full extent of their potential implications if they were used under the Article 6.4 mechanism.

Question 3: The MEP seeks stakeholder feedback on whether any standardized reversal risk insurance products exist, or whether offerings generally require a case-by-case assessment by the insurer.

56. In private insurance markets, covered losses are generally limited to unavoidable events and do not include avoidable events due to the risk of moral hazard.[15] The MEP is therefore not aware of any insurance contracts that include coverage conditions aligned with the requirements in paragraphs 46 and 47 above. The MEP notes that requirements for addressing reversals, were only recently decided on by the Supervisory Body, such that it may be unrealistic to expect such products to exist today. Nevertheless, these requirements would need to be satisfied for an insurance product to replace the function of the Reversal Risk Buffer Pool Account.

57. Therefore, the MEP observes that in today’s commercial market an activity participant would be unable to solely rely on activity-level insurance to cover all reversal risks. This could potentially be mitigated through the following measures:

(a) Use of a combination of insurance and contributions to the Reversal Risk Buffer Pool Account, while ensuring that all reversal risks, as determined by the Reversal Risk Assessment Tool, are covered: this could provide the insurer with flexibility in covering the reversal risks it would insure to mitigate the risk of moral hazard while requiring the remaining conditions to be covered by the activity participants through contributions to the Reversal Risk Buffer Pool Account. However, because the classification of reversals as avoidable or unavoidable only occurs in a verified monitoring report filed after a reversal event,[16] the operationalization of this measure would require the activity participants and the insurer to jointly provide assurances that all potential risks of reversal are covered before approval of the insurance. The MEP notes that the legal implications and enforcement challenges of this approach may require further consideration; or

(b) Allowing A6.4ER buyers to hold insurance: the risk of moral hazard from insuring avoidable reversals could potentially be mitigated by allowing the option of A6.4ER buyers to hold insurance for the risk of reversal instead of the activity participants. However, this concept may require additional analysis to address its viability under existing Article 6.4 mechanism requirements (which are largely directed at activity participants and mechanism methodologies), buyer willingness, and the assurance (including its enforceability) that may be required to maintain the integrity of the Article 6.4 mechanism with a comparable level of assurance to the use of the Reversal Risk Buffer Pool Account.

58. In addition, the MEP is not aware of any long-term insurance contracts with terms that approach or match the requirements described in paragraph 48 above. The MEP understands that it may be more common for insurance contracts to provide short-term coverage, typically on an annual basis and sometimes with a few years of coverage.

[15] See the joint letter from insurance companies (23 September 2025), https://unfccc.int/sites/default/files/resource/SBM018_CFI_reversal_HowdenGroupHldgsInsurance_joint.pdf (“Not all reversal risks are insurable – insurance is best suited to cover unavoidable, catastrophic events rather than avoidable or moral hazard-driven losses.”).

[16] See paragraph 10 of the Reversals Standard.

Furthermore, the MEP understands that insurance contracts often include renewal provisions, though typically without a guaranteed price and sometimes without a guarantee that renewed coverage will be available.

Question 4: The MEP seeks feedback from stakeholders on the comparability of insurance product coverage and the coverage conditions of the Reversal Risk Buffer Pool Account as per paragraphs 46 and 48 above. The MEP seeks feedback on topics including the duration of insurance contract terms, contract coverage provisions, and the nature of contract renewal provisions, including whether the price and availability of renewed coverage is guaranteed in carbon market applications.

59. The risk of non-renewal of insurance during the crediting period(s) could potentially be mitigated, in part, by requiring activity participants to submit a proof of renewal or continued insurance each year. To maintain a comparable level of assurance with the Reversal Risk Buffer Pool Account, any failure to submit such proof would need to trigger a mandatory contribution to the Reversal Risk Buffer Pool Account that would be deducted prior to issuance of further A6.4ERs, including with respect to historical A6.4ER issuance for which insurance reduced or eliminated the otherwise-required contribution of A6.4ERs to the Reversal Risk Buffer Pool Account. However, if the failure to submit proof were to result in a requirement to contribute more A6.4ERs to the Reversal Risk Buffer Pool Account than would be issued to the activity participant (e.g., to account for historical A6.4ER issuance), then the activity participant may be unable or unwilling to make the required contributions and would eventually be deemed to have experienced an avoidable reversal pursuant to section 3.1 of the Information Note. The MEP notes that the risk of non-compliance may be particularly challenging in the last years of the crediting period(s) and in the post-crediting monitoring period, during which time no new issuance of A6.4ER is allowed. The MEP further notes that a requirement to submit proof of renewal or continued insurance does not address the risk that the cost of such insurance goes up over time, or that the availability of such insurance goes down over time.

Question 5: The MEP seeks stakeholder feedback on the potential moral hazard concerns that may arise if alternatives to the Reversal Risk Buffer Pool Account are approved but not fully implemented, such that retroactive liability may be triggered from non-compliance with approved alternative measures. The MEP seeks stakeholder feedback on whether these concerns are present during an activity's crediting period, toward the end of an activity's crediting periods, during an activity's post-crediting period, or during multiple of these options.

60. The MEP observes that the use of insurance as an alternative to contributing A6.4ERs to the Reversal Risk Buffer Pool Account also presents the challenge of the Reversal Risk Buffer Pool Account bearing more risk than it would if it were operated in isolation. As discussed in section 3.4, it is highly likely that Article 6.4 activities with relatively low reversal risks would be able to preferentially access approved third-party insurance instruments (e.g., due to the potentially lower cost of insurance premiums compared to Article 6.4 activities with higher reversal risks), which would leave the Reversal Risk Buffer Pool Account to cover Article 6.4 activities with higher reversal risks.

61. Furthermore, the operationalization of insurance products would require criteria on the type and quantity of insurance payouts in the event of a reversal, similar to those mentioned in paragraph 32(b). The MEP notes that depending on the size, number, and timing of reversal events, as well as the overall size of the Article 6.4 mechanism, it might be challenging to procure A6.4ERs to compensate for reversals.

62. Based on the above observations, the MEP notes that the use of activity-level insurance products for addressing the risk of reversal is at a nascent stage of development and would

be technically challenging to implement at this stage. Considering the Article 6.4 mechanism’s early stages of operationalization, the Supervisory Body may wish to continue operationalizing the Reversal Risk Buffer Pool Account for managing the risk of reversal, and to periodically monitor insurance market developments. This will provide time to reassess the market for insurance instruments and incorporate lessons learned by the market as they may apply to A6.4ERs, while the Article 6.4 mechanism matures.

3.2.2. Party guarantee

63. A Party could guarantee the cancellation of an appropriate type and amount of A6.4ERs to account for avoidable and unavoidable reversals by assuming this responsibility directly, replacing an activity participant’s obligation to contribute A6.4ERs to the Reversal Risk Buffer Pool Account. A Party guarantee could be offered by the Party hosting the Article 6.4 activity (the “host Party”) or another Party (e.g., a Party that purchases A6.4ERs to count toward its nationally determined contribution).

64. The MEP notes that this approach may require a decision by the CMA, as it would introduce an optional Party responsibility under the Paris Agreement. The analysis here presumes that the required decision is in place, without expressing a view about whether it should be in place.

65. The primary advantage of this approach is that it would not require A6.4ER contributions to the Reversal Risk Buffer Pool Account and therefore would result in a greater number of A6.4ERs being issued to activity participants. It would also eliminate the need for activity participants to apply the Reversal Risk Assessment Tool.

66. The primary disadvantages of this approach include:

(a) The risk that a Party providing a guarantee might not be able or willing to satisfy its responsibility, when a reversal occurs in the future;

(b) Potential information asymmetry and divergent interests between the Article 6.4 activity (which benefits immediately from this arrangement) and a Party providing the guarantee (which takes on a responsibility that is technically difficult to assess); and

(c) The difference in timing of the benefits (e.g., a greater number of A6.4ERs being issued to activity participants) and the discharging of any obligations by a Party (e.g., the need to replenish the Reversal Risk Buffer Pool Account in the future).

3.2.3. Party remediation of reversals through NDC accounting

67. Under certain circumstances, the host Party may remediate reversals by reporting emissions resulting from reversals in its national greenhouse gas inventory, accounting for these emissions when accounting for its NDC, and remediating them by implementing additional mitigation actions to achieve its NDC.

68. The MEP observes that for this approach to provide comparable assurance to the Reversal Risk Buffer Pool Account, a host Party would need to:

(a) Include the emission sources and sinks related to the greenhouse gas reservoir(s) for which A6.4ERs are issued in its national greenhouse gas inventory, and use its national greenhouse gas inventory, or relevant parts thereof, to account for its NDC;

(b) Have an NDC that covers the relevant emission sources and sinks related to the greenhouse gas reservoir(s) for which A6.4ERs are issued;

(c) Have an NDC that is expressed on a cumulative basis or similar, such that losses from relevant greenhouse gas reservoir(s) during any year of the NDC period, rather than in a single target year only, would be reflected as higher reported emissions when the country accounts for its NDC;

(d) Have an NDC that requires the country to implement additional efforts to address the increased emissions from relevant greenhouse gas reservoirs to achieve its NDC, beyond business-as-usual outcomes; and

(e) Have the ability and willingness to pursue additional mitigation efforts in the event of increased emissions from relevant greenhouse gas reservoirs.

69. In practice, the conditions in paragraph 68 could prove difficult to achieve, as illustrated by the following examples:

(a) Paragraph 68(a): The MEP notes that the 2006 IPCC Guidelines and their supplements may not provide methods for all relevant greenhouse gas reservoirs at this time. Further work that may help fill this gap is expected to be undertaken in the upcoming IPCC Methodology Report on Carbon Dioxide Removal Technologies, Carbon Capture, Utilization, and Storage for National Greenhouse Gas Inventories (Additional guidance). This report is expected to be published in 2027. In the interim, the absence of methods for all relevant greenhouse gas reservoirs would limit the applicability of this approach. Moreover, emissions resulting from losses from relevant greenhouse gas reservoir(s) may not always be "visible" in greenhouse gas inventories, due to a lack of granularity in the methods used for preparing the national greenhouse inventory;

(b) Paragraph 68(b): Some Parties have elected NDCs that have partial sectoral coverage. For example, when considering the risk of forest carbon storage reversals, some Parties do not include the forest sector in their NDCs;

(c) Paragraph 68(c): Some Parties have elected NDCs that are expressed as targets for a single year, rather than for all years covered by the NDC period. For example, a Party that has an NDC target only for emissions in 2035 would not account for emissions from a reversal that occurs in 2032.[17] Furthermore, there may be a disconnect between the time horizon of Parties' NDCs and the crediting periods and post-crediting monitoring obligations of Article 6.4 activities, such that the period over which reversals could occur exceeds the period covered by a host Party's NDCs. For example, for an Article 6.4 activity that has two 15-year crediting periods followed by a 20-year post-crediting monitoring period, reversals would need to be detected over a total of 50 years. However, consistent with decision 6/CMA.3 on common time frames for NDCs, most Parties currently have communicated NDCs that cover the period up to 2035 and will communicate an NDC in 2030 that covers the period up to 2040. Submitted NDCs will thus cover a shorter time horizon than the time period for which reversals may need to be addressed. This creates uncertainty about whether future reversals will be covered by future NDCs;

[17] This may also depend on the accounting method elected by the Party pursuant to decision 2/CMA.3, annex, para. 7, and how that accounting method is applied to the NDC period.

(d) Paragraph 68(d): A Party could have an NDC that it expects to achieve without undertaking any mitigation efforts beyond business-as-usual outcomes. In that case, even if that Party's national greenhouse gas inventory included the emissions from the relevant greenhouse gas reservoir(s) (per paragraph 68(a)), the Party accounts for these emissions when accounting for its NDC (as per paragraph 68(b)), and the NDC was expressed on a cumulative basis (per paragraph 68(c)), a reversal may not lead to any compensatory mitigation actions;

(e) Paragraph 68(e): Even if emissions from reversals are accounted for and the Party would need to pursue compensatory mitigation actions to achieve its NDC (as per paragraphs 68(a) through 68(d)), the Party may not be able or willing to pursue those mitigation actions. A practical challenge is that biennial transparency reports (BTRs) are submitted only every two years and include information on emissions from two years earlier or, where Parties make use of the flexibility provided under the enhanced transparency framework of the Paris Agreement, three years earlier. For example, a Party using a three-year time lag would report emissions from a reversal occurring in 2032 in its BTR submitted on 31 December 2036. By that time, the NDC period from 2031 to 2035 would have already elapsed and any compensatory measures to address the reversals would not affect NDC accounting for the period 2031 to 2035. While Parties may become aware of the reversals at an earlier point in time, information on whether they are on track to achieve their NDCs is available with a time delay. This could limit the ability of the Party to pursue the necessary additional mitigation efforts that affect emissions within the NDC period. Another challenge could be relatively large losses (e.g., in a year with many wildfires) in which case the Party may not be able to pursue the necessary additional mitigation efforts. Other factors may also play a role. For example, if Parties with conditional NDCs do not receive the support required to achieve them, they may not achieve their NDC target regardless of the reversals, which may reduce the incentives or willingness to pursue additional mitigation efforts to compensate for reversals.

70. Even where a Party meets the conditions in paragraph 68, there may be differences in the level of assurance provided that reversals are remediated. The cancellation of A6.4ERs in the Reversal Risk Buffer Pool Account provides an immediate response to the effects of a reversal and explicitly demonstrates the environmental integrity of A6.4ERs issued in the Article 6.4 mechanism. There are no future contingencies associated with this remediation, although the ongoing sufficiency of the Reversal Risk Buffer Pool Account depends on the management practices discussed in section 3.1.1. In contrast, a country that meets the conditions in paragraph 68 may or may not achieve the additional tonne-for-tonne mitigation to remediate reversals.

71. The primary advantage of this approach is that it would not require A6.4ER contributions to the Reversal Risk Buffer Pool Account and therefore would result in a greater number of A6.4ERs being issued to activity participants.

72. The primary disadvantages of this approach include:

(a) Its complexity, as its effectiveness depends on whether a Party:

(i) Reports emissions from reversals in its greenhouse gas inventory;

(ii) Accounts for emissions from reversals in its NDC; and

(iii) Remediates any emissions from reversals as a result of its NDC.

(b) The Supervisory Body’s technical capacity to assess a Party’s reporting, accounting, and remediation practices; and

(c) The political sensitivity of the Supervisory Body making determinations about the adequacy of a Party’s reporting, accounting, and remediation practices.

3.2.4. Monetary Permanence Reserve

73. Paragraph 62(b) of the Removals Standard indicates that the Supervisory Body may consider “procedures for establishing, managing, and using” a Monetary Permanence Reserve that would enable “remediation of reversals through the direct or potentially centralized purchase and cancellation of A6.4ERs with negligible or no reversal risk.”[18]

74. A Monetary Permanence Reserve is a mechanism that would serve as an alternative to the Reversal Risk Buffer Pool Account and deliver the same assurance as the Reversal Risk Buffer Pool Account by:

(a) Collecting fees from activity participants;

(b) Managing the collected funds responsibly; and

(c) Making the collected funds available to purchase and cancel A6.4ERs with negligible or no reversal risk, distinguishing between authorized and non-authorized A6.4ERs (as appropriate) and potentially purchasing A6.4ERs through centralized procurement strategies.

75. The MEP notes that a Monetary Permanence Reserve could be designed to operate with activity participants conducting their own monitoring during the crediting and post-crediting periods, or with activity participants delegating those functions to the Monetary Permanence Reserve during the post-crediting period. In either case, the concept relies on a robust system for monitoring and detecting reversals, consistent with the Reversals Standard and Information Note.

76. In order to collect funds to invest and make available for the purchase of A6.4ERs with negligible or no reversal risk, a Monetary Permanence Reserve would need to determine a fee structure for the A6.4ERs it would cover. This fee structure would be based on:

(a) The risk of reversal for A6.4ERs issued for activities covered by the Monetary Permanence Reserve;

(b) The expected distribution of timing of future reversals;

(c) The expected financial returns from managed funds; and

(d) The expected future price of A6.4ERs issued for activities with negligible or no reversal risk, taking into account any difference in prices for authorized and non-authorized A6.4ERs.

77. The MEP notes that challenges associated with characterizing the risk of reversal for covered A6.4ERs (paragraph 76(a)) are conceptually the same as those involved in the Reversal Risk Assessment Tool and could even be analysed using the same tool, such that both the Reversal Risk Buffer Pool Account and the Monetary Permanence Reserve would use the same foundational risk analysis. The MEP further notes that detailed

[18] A similar concept, called the Permanence Trust Fund, was proposed in a stakeholder consultation.

discussions about the potential implementation of a Monetary Permanence Reserve would benefit from the completion of the work on the Reversal Risk Assessment Tool, as the robust assessment of reversal risks is a prerequisite to the Monetary Permanence Reserve.

78. The MEP notes that determining the distribution of the timing of expected reversals (paragraph 76(b)) is more complicated for the Monetary Permanence Reserve than it is for the operation of the Reversal Risk Buffer Pool Account. For the purposes of determining the amount of A6.4ERs to contribute to the Reversal Risk Buffer Pool Account, it is sufficient to know the total quantity of credited greenhouse gases (or their precursors) that is expected to be lost over a given period. But for the purpose of designing the Monetary Permanence Reserve, it matters when a reversal might occur, not just whether a certain quantity of credited carbon storage is expected to be lost over a given period. Because the Monetary Permanence Reserve needs to collect funds that are expected to grow over time through sound financial management, such that the appropriate amount of money is available at the time of a reversal, the expected timing of future reversals matters when determining the amount of the initial fee.

79. The MEP notes that determining the financial returns from managed funds (paragraph 76(c)) presents similar challenges as may arise in other fiduciary financial relationships (e.g., the management of pension funds and financial endowments) for which the manager is charged with delivering low-risk, predictable financial returns at the portfolio level. These challenges include:

(a) Identifying and applying prudential management practices; and

(b) Determining what financial returns can reasonably be expected over time.

80. The MEP notes that it may be relevant to consider establishing a Monetary Permanence Reserve in a jurisdiction with sound regulatory requirements for similar financial institutions, and that these considerations may benefit from external expertise that draws on analogous financial management practices.

81. Furthermore, the MEP notes that the appropriate fee structure depends on the future price and availability of A6.4ERs with negligible or no reversal risk (paragraph 76(d)). The design objective of a Monetary Permanence Reserve is to have sufficient liquid financial means to purchase an appropriate number and type of A6.4ERs whenever reversals may occur, but the price and availability of qualified A6.4ERs in the future is uncertain. To that end, the MEP notes that:

(a) It is difficult to assess the expected price and supply of future A6.4ER issuance at this early stage of the Article 6.4 mechanism’s operations, but it may become easier to project these trends with additional experience;

(b) Price of A6.4ERs may vary substantially between different types of Article 6.4 activities. For example, prices for removals-based A6.4ERs issued to activities with negligible or no reversal risk might be higher than for emission-reduction A6.4ERs with no reversal risk. Depending on what service(s) the Monetary Permanence Reserve seeks to deliver, including what specific claims it is intended to support, it may be necessary to deliver one or both types of A6.4ERs (e.g., to deliver either removals-based outcomes or to deliver generic climate benefits that are agnostic to the carbon cycle intervention);

(c) Prices and supply of A6.4ERs may be substantially different for authorized and non-authorized A6.4ERs; and

(d) The uncertainty in estimating the future price and availability of A6.4ERs may be mitigated, in part, if the Monetary Permanence Reserve is able to centralize procurement efforts, such as making funds available for forward procurement of the appropriate number and type of A6.4ERs (e.g., through a reverse auction mechanism or a public request for proposals for offtake agreements).

3.3. Use of insurance policies, comparable guarantee products, or third-party guarantees during the post-crediting monitoring period

82. Section 4.2.1 of the Information Note addresses the use of insurance policies, comparable guarantee products, and third-party guarantees (hereinafter collectively referred to as “insurance”) during the post-crediting monitoring period.

83. Paragraph 47 of the Information Note provides that activity participants may cease their obligation to monitor in the post-crediting monitoring period and transfer this obligation to an approved insurance provider when an activity participant submits a DOE-justified demonstration of sufficient insurance, consistent with paragraph 46 of the Information Note. Accordingly, this section of the concept note proposes conditions and criteria to demonstrate sufficient insurance under paragraph 46 of the Information Note.

84. The MEP notes that the use of insurance in the post-crediting monitoring period could either be proposed as an alternative to the ongoing use of the Reversal Risk Buffer Pool Account or as a complement to the ongoing use of the Reversal Risk Buffer Pool Account. In both cases, the considerations for demonstration of sufficiency of coverage of insurance would be the same as those described in section 3.2.1.1, except that:

(a) The necessary term of coverage would need to align with the duration of the post-crediting monitoring period as defined in the applicable mechanism methodology (rather than inclusive of the total crediting period as indicated in paragraph 48); and

(b) The covered losses may be limited to avoidable reversals when the insurance is used to complement the ongoing use of the Reversal Risk Buffer Pool Account.

85. The MEP notes that, although the presence of moral hazard considerations may make it difficult for insurers to cover avoidable reversals during an Article 6.4 activity’s crediting period, these considerations may be different in the post-crediting monitoring period. For activity types seeking to use insurance during the post-crediting monitoring period, the activity participant may not play an active role in the post-crediting monitoring period and therefore may present fewer moral hazard considerations. Under these conditions, the feasibility of providing insurance coverage to avoidable reversals, including deemed avoidable reversals arising from missing monitoring reports, may be more commercially feasible.
Question 6: The MEP seeks stakeholder feedback on whether, or under what conditions, potential moral hazard considerations would be different as between the crediting period and post-crediting monitoring period.

86. Activity participants seeking to use insurance in the post-crediting monitoring period as an alternative to the Reversal Risk Buffer Pool Account may seek the return of some or all of the A6.4ERs contributed to the Reversal Risk Buffer Pool Account and deducted from the activity participant's issuance per section 6.5 of the Reversals Standard. The MEP notes

that the transfer of A6.4ERs to activity participants from the Reversal Risk Buffer Pool Account is prohibited by paragraph 55 of the Removals Standard, which only allows for cancellation of Buffer A6.4ERs held in the Reversal Risk Buffer Pool Account and prohibits their further transfer. In addition, returning authorized A6.4ERs may raise a number of issues related to the finalization of NDC accounting and the timing of first transfer. For example, if A6.4ERs held in the Reversal Risk Buffer Pool Account that have not yet been first transferred were returned after the emissions balance for an NDC period has been closed, this could lead to double counting if these A6.4ERs were subsequently used.

87. Accordingly, the MEP understands that the use of third-party insurance in the post-crediting monitoring period would only be allowed as a complement to the ongoing use of the Reversal Risk Buffer Pool Account. In that case, the MEP recommends the following conditions and criteria for the demonstration of sufficient insurance:

(a) A party, other than the activity participant, shall:

(i) Demonstrate its ability to monitor for potential reversals during the post-crediting monitoring period by demonstrating that it meets the criteria for monitoring under the applicable mechanism methodology, as though it were the activity participant;

(ii) Agree to submit to the secretariat an annual reversal report and monitoring reports through the end of the post-crediting monitoring period, as required by sections 2 and 4 of the Information Note and as though it were the activity participant.

(b) The insurer, and any other third-party responsible for monitoring and reporting in the post-crediting monitoring period, as applicable, shall be approved by the Article 6.4 activity's host Party or host Parties;

(c) The insurer shall replenish the Reversal Risk Buffer Pool Account by forwarding A6.4ERs to the Reversal Risk Buffer Pool Account to account for any avoidable reversals, according to section 5.2 of the Information Note; and

(d) The policy term of the insurance shall be equal to or greater than the duration of the remaining post-crediting monitoring period, as defined in the applicable mechanism methodology and as determined at the time of the submission made pursuant to paragraph 46 of the Information Note. This may include annual adjustments of premiums and term renewals, provided that the policy guarantees coverage for the remainder of the post-crediting monitoring period.

88. The MEP also recommends that the Supervisory Body clarify that the insurer may request to terminate post-crediting monitoring prior to the completion of the post-crediting monitoring period as though it were the activity participant, consistent with section 4.2 of the Information Note. The purpose of this recommendation is to allow the third-party insurance provider to demonstrate any of the other options available to activity participants to terminate post-crediting period monitoring and reporting requirements (e.g., to demonstrate that the Article 6.4 activity has a negligible risk of reversal), which is implied by the current rule structure but not made explicit without this clarification.

3.4. Risks of approving alternatives to the Reversal Risk Buffer Pool Account

89. The MEP notes that reversal risk management strategies are usually designed in isolation and that significant analytical efforts may be needed to evaluate the incentives created by

the simultaneous approval of multiple options in the Article 6.4 mechanism and to anticipate the implications for the distribution of reversal risks that could result.

90. Even when alternative reversal risk management mechanisms are designed to comprehensively address risks in an equal-handed manner with respect to one another, it is likely that the requirements of some alternative mechanisms will be simpler for some activity types to satisfy than it will be for others. As a result, the presence of multiple risk management mechanisms will likely result in an uneven distribution of activity types across each of those mechanisms and, ultimately, an uneven distribution of reversal risk ratings being managed by each of these mechanisms.

91. It would be particularly concerning if, due to the presence of one or more alternatives to the Reversal Risk Buffer Pool Account, Article 6.4 activities with lower risk ratings preferentially enrol in alternative reversal risk management mechanisms. The practical result of such a pattern would be a concentration of Article 6.4 activities with higher reversal risk ratings in the Reversal Risk Buffer Pool Account, which in turn would increase the probability that the Reversal Risk Buffer Pool Account could become insolvent.

92. Accordingly, the MEP recommends that, when considering any of the alternatives to the Reversal Risk Buffer Pool Account (e.g., as discussed in section 3.2), the Supervisory Body may wish to:

(a) Collect information about the performance of the Reversal Risk Buffer Pool Account, including the distribution of reversal risk ratings of Article 6.4 activities that are subject to reversal risks within and across activity types;

(b) Consider information about the performance of other carbon crediting mechanisms’ buffer pools, including the distribution of reversal risk ratings covered by those buffer pools and evidence about actual and reported reversals in those mechanisms;

(c) Consider potential complications related to the treatment of authorized A6.4ERs, as the secretariat is expected to elaborate pursuant to the concept note referenced in paragraph 10;

(d) Evaluate the performance of alternative measures in the market, including learnings from pilots currently underway in other carbon crediting mechanisms to understand how the measures would apply to different activity types within the Article 6.4 mechanism; and

(e) Evaluate whether the approval of any alternatives to the Reversal Risk Buffer Pool Account could have the practical effect of concentrating Article 6.4 activities with reversal risk ratings that are higher than average in the Reversal Risk Buffer Pool Account, and whether any such concentration poses a risk for the sustainable management of the Reversal Risk Buffer Pool Account.

4. Impacts

93. This concept note evaluates options for implementing paragraph 62 of the Removals Standard. This is intended to inform Supervisory Body deliberations on measures to improve the resilience of the Reversal Risk Buffer Pool Account as well as potential alternative measures to address non-permanence and reversal risks. In addition to

providing a recommended framework for evaluating any potential alternatives to the Reversal Risk Buffer Pool Account, this concept note also:

(a) Recommends conditions and criteria for justification of the demonstration of sufficiency of coverage pursuant to paragraph 46 of the Information Note (see Section 3.3);

(b) Recommends that the Supervisory Body mandate the MEP to develop a procedure for the Reversal Risk Buffer Pool Account stress test referenced in paragraphs 60 and 61 of the Removals Standard (see Section 3.1.1); and

(c) Recommends that the Supervisory Body mandate the secretariat to develop a standardized legal attestation form to ensure compliance with the requirements of Article 6.4 mechanism (see Section 3.1.2).

5. Subsequent work and timelines

94. If the Supervisory Body were to provide a mandate, the MEP would develop a procedure for the Reversal Risk Buffer Pool Account stress test referenced in paragraphs 60 and 61 of the Removals Standard. The MEP notes that the development of such a procedure is important to the management of non-permanence and reversal risks but may not be immediately urgent.

95. If the Supervisory Body were to provide a mandate, the secretariat would:

(a) Incorporate the recommended conditions and criteria for justification of the demonstration of sufficiency of coverage pursuant to paragraph 46 of the Information Note and in any other appropriate regulatory documents; and

(b) Develop a standardized legal attestation form to support the resilience of the Reversal Risk Buffer Pool Account, consistent with paragraph 62 of the Removals Standard, and incorporate a requirement to submit the standardized legal attestation form into the appropriate regulatory documents.

96. The MEP notes that the timeline for the subsequent work identified in paragraph 95 would best be addressed by the secretariat, rather than the MEP.

97. The MEP agreed to seek public input from stakeholders on the draft concept note. The MEP will consider stakeholders’ input and recommend an updated draft of the concept note for consideration by the Supervisory Body.

6. Recommendations to the Supervisory Body

98. The MEP recommends that the Supervisory Body consider this concept note when addressing any matters related to the implementation of paragraph 62 of the Removals Standard, while noting that:

(a) Some issues discussed in sections 3.1 and 3.2 may raise significant legal and policy considerations that may be more appropriately addressed by the Supervisory Body or CMA, e.g., where those measures relate to the obligations of Parties under the Paris Agreement; and

(b) Some issues may require additional considerations related to buffer pool contributions of authorized A6.4ERs, including potential implications for accounting of NDCs, that are not addressed in this concept note.

99. The MEP recommends that the Supervisory Body consider taking the following actions when considering whether to approve any potential alternatives to the use of the Reversal Risk Buffer Pool Account:

(a) Collect information about the performance of the Reversal Risk Buffer Pool Account, including the distribution of reversal risk ratings of Article 6.4 activities that are subject to reversal risks within and across activity types;

(b) Consider information about the performance of other carbon crediting mechanisms' buffer pools, including the distribution of reversal risk ratings covered by those buffer pools and evidence about actual and reported reversals in those mechanisms;

(c) Consider potential complications related to the treatment of authorized A6.4ERs, as the secretariat is expected to elaborate pursuant to the concept note referenced in paragraph 10;

(d) Evaluate the performance of alternative measures in the market, including learnings from pilots currently underway in other carbon crediting mechanisms to understand how the measures would apply to different activity types within the Article 6.4 mechanism; and

(e) Evaluate whether the approval of any alternatives to the Reversal Risk Buffer Pool Account could have the practical effect of concentrating Article 6.4 activities with reversal risk ratings that are higher than average in the buffer pool, and whether any such concentration poses a risk for the sustainable management of the Reversal Risk Buffer Pool Account.

100. The MEP recommends that the Supervisory Body adopt the following conditions and criteria for justification of the demonstration of sufficiency of coverage for insurance policies, comparable guarantee products, or third-party guarantee during the post-crediting period pursuant to paragraph 46 of the "Information note: Elements related to non-permanence and reversals for inclusion in relevant regulatory documents" (A6.4-INFO-METH-002), noting that any such demonstration of sufficiency of coverage would complement the ongoing use of the Reversal Risk Buffer Pool Account:

(a) The insurance product, comparable guarantee product, or third-party guarantee shall be documented in a legally binding contract between the activity participant and the insurer or guarantor, as applicable, that:

(i) Covers all A6.4ERs issued to an Article 6.4 activity that are subject to a risk of reversal at the time of demonstration of sufficiency of coverage;

(ii) Defines covered losses to include all avoidable reversals, as defined in the "Standard: Requirements for activities involving removals under the Article 6.4 mechanism" (A6.4-STAN-METH-002), the "Standard: Addressing non-permanence and reversals in mechanism methodologies" (A6.4-STAN-METH-007), and the "Information Note: Elements related to non-permanence and reversals for inclusion in relevant regulatory documents" (A6.4-INFO-METH-002);

(iii) Provides a term of coverage that is equal to or greater than the duration of the remaining post-crediting monitoring period, as defined in the applicable mechanism methodology and as determined at the time of the submission made pursuant to paragraph 46 of the Information Note. This may include annual adjustments of premiums and term renewals, provided that the policy guarantees coverage for the remainder of the post-crediting monitoring period;

(iv) Specifies the conditions of the payment arising from a covered loss that would be made to the UNFCCC secretariat in the event of a covered loss from a reversal as follows:

a. For insurance policies or other instruments that deliver A6.4ERs when a covered loss occurs, the insurer or guarantor shall deliver to the UNFCCC secretariat the appropriate number and type of A6.4ERs (e.g., authorized A6.4ERs or mitigation contribution units), consistent with paragraph 61 of the Information Note; or

b. For insurance policies or other instruments that deliver a financial payment when a covered loss occurs, the insurer or guarantor shall deliver to the UNFCCC secretariat the appropriate funding amount, as determined by any applicable procedures that may be approved in the future.

(v) Provides assurance that the Supervisory Body and the UNFCCC secretariat (acting on behalf of the Article 6.4 mechanism) would not be liable in any capacity to the insurer or guarantor, such as for payments for the insurance or guarantee, with such assurance provided by:

a. The insurer or guarantor, as applicable; and

b. The insured or principal, as applicable (e.g., an activity participant or, where applicable, the buyer of A6.4ERs issued for activities that are subject to reversal risks).

(vi) Designates the UNFCCC secretariat in contract as a beneficiary of the insurance policy or guarantee, noting that the waiver of liability reference in paragraph 100(a)(v) applies solely to the secretariat in its institutional capacity; and

(vii) Is issued by an insurer or guarantor that:

a. Is a regulated provider of insurance or guarantee services, duly licensed or otherwise approved in the host Party(ies) of the activity and, where necessary, in any other Party concerned by the implementation of the activity or the establishment of the activity participant; and

b. Operates under the supervision of a competent regulatory authority and has the legal and financial capacity to fulfil its obligations for the required coverage period; and

(b) The activity participant shall designate a third-party entity to conduct all monitoring and reporting obligations in the post-crediting monitoring period, pursuant to section 4 of the Information Note, and the designated third-party entity shall:

(i) Demonstrate that it meets the requirements to monitor the Article 6.4 activity's applicable greenhouse gas reservoirs in the post-crediting monitoring period, as specified in the applicable mechanism methodology and as though the third-party entity were the activity participant;

(ii) Be approved by Article 6.4 activity's host Party, or host Parties as applicable;

(iii) Submit annual reversal reports and monitoring reports through the end of the post-crediting monitoring period, as required by sections 2 and 4 of the Information Note;

(iv) Submit a standardized attestation form to the secretariat (as recommended in paragraph 104 of this concept note); and

(v) Indemnify the UNFCCC and the UNFCCC secretariat, including in its capacity as mechanism registry administrator.
Question 7: The MEP is interested in feedback from stakeholders on whether there would be any moral hazard considerations if the third-party responsible for the post-crediting monitoring and reporting were the same entity as (or a subsidiary or corporate affiliate of) as the entity providing the insurance or guarantee. If so, are these considerations any different from the case where the activity participant is responsible for monitoring and reporting in the post-crediting monitoring period?

101. The MEP recommends that the Supervisory Body clarify that when an activity participant demonstrates sufficiency coverage pursuant to paragraph 46 of the Information Note, the insurer or guarantor may request to terminate post-crediting monitoring prior to the completion of the post-crediting monitoring period as though it were the activity participant, consistent with section 4.2 of that document.

102. The MEP recommends that the Supervisory Body provide a mandate to the secretariat, in consultation with the MEP, to incorporate the recommendations in paragraphs 100 and 101 into the Information Note and any other relevant regulatory documents as needed to effect these recommendations.

103. The MEP recommends that the Supervisory Body provide a mandate to the MEP to:

(a) Develop a draft procedure for the Reversal Risk Buffer Pool Account stress test, pursuant to paragraphs 60 and 61 of the Removals Standard;

(b) Prepare a recommendation on the intended level of confidence in the sufficiency of the Reversal Risk Buffer Pool Account; and

(c) Prepare a recommendation on what should constitute a "significant loss event" that would trigger an unplanned stress test, pursuant to paragraph 61 of the Removals Standard.

104. The MEP recommends that the Supervisory Body provide a mandate to the secretariat to:

(a) Develop a draft standardized legal attestation form via which activity participants would agree:

(i) To be irrevocably bound by all applicable Article 6.4 mechanism requirements; and

(ii) That its obligations under the Article 6.4 mechanism are intended to be valid, binding, and enforceable in its local jurisdiction(s), as applicable under the laws of its local jurisdiction(s) and to the maximum extent allowed by those laws; and

(b) Amend the “Procedure: Article 6.4 activity cycle procedure for projects” (A6.4-PROC-AC-002) and “Procedure: Article 6.4 activity cycle procedure for programmes of activities” (A6.4-PROC-AC-003) to require activities and programmes of activities to submit the standardized legal attestation form, for the Supervisory Body’s consideration.

\- - - - -

Document information

Version	*Date*	*Description*
01.0	1 July 2026	MEP 014, Annex 08. A call for input on this document will be issued following the conclusion of MEP 014 meeting. The input received will be considered by the MEP for the further development of this document at a future meeting.

Decision Class: Regulatory
Document Type: Concept note
Business Function: Methodology
Keywords: A6.4 mechanism, methodologies, emission removal activities, insurance, non-permanence, reversals