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Concept note

Evaluation of the implementation of the Share of proceeds

Version 01.0

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Climate Change

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1. Background

1. Article 6, paragraph 6, of the Paris Agreement provides that the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) shall ensure that a share of the proceeds from activities under the mechanism established by Article 6, paragraph 4, of the Paris Agreement, is used to cover administrative expenses (share of proceeds (SOP) for administrative expenses) as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation (SOP for the Adaptation Fund).

2. The CMA, through decision 3/CMA.3,[1] adopted the rules, modalities and procedures for the Article 6.4 mechanism (RMPs), as contained in the annex to the decision. The decision requested the Supervisory Body of the Article 6.4 mechanism to develop provisions for various processes necessary to operate the mechanism, and provided that a levy of 5 per cent and 2 per cent of issued Article 6, paragraph 4, emission reductions (A6.4ERs) are to be provided to the Adaptation Fund and the cancellation account for overall mitigation, respectively.[2] In relation to the administrative expenses of the Article 6.4 mechanism, the decision provided that the SOP for administrative expenses shall be set in monetary terms at a level and implemented in a manner to be determined by the CMA[3].

3. Also through decision 3/CMA.3, the CMA requested the Supervisory Body to evaluate the implementation of the SOP no later than in 2026 and every five years thereafter and, following such review, to make recommendations on possible improvements in order to optimize the resources available to the Adaptation Fund for consideration and adoption by the CMA.4

1.1. Background on the SOP for administrative expenses

4. With regard to SOP for the administrative expenses, decision 7/CMA.4 provides:

    (a) That the levels of the SOP for administrative expenses are to be reviewed periodically for the sound operation of the Supervisory Body and for enabling a periodic contribution of funds to the Adaptation Fund;[5]

    (b) That the secretariat is to take necessary steps to establish a separate trust fund for the receipt of the SOP for administrative expenses charged as fees under the mechanism and other contributions;

    (c) That transitioning clean development mechanism (CDM) activities shall be subject to the SOP for administrative expenses;[6]

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[1] Decision 3/CMA.3. “Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement” Available at: https://unfccc.int/sites/default/files/resource/cma2021_10a01E.pdf#page=25.

[2] Decision 3/CMA.3, annex, Sections VII and VIII.

[3] Decision 3/CMA.3, annex, paragraph 68.

[4] Decision 3/CMA.3, paragraph 8.

[5] Decision 3/CMA.3, paragraph 13.

[6] Decision 3/CMA.3, paragraph 14.

(d) The composition of the SOP for administrative expenses,[7] as detailed in Appendix I, and that all fees shall be paid at the time of submission of the respective requests,[8] that the paid fees may be reimbursed partially or fully under certain circumstances to be specified by the Supervisory Body,[9] and that all fees shall be waived for activities in least developed countries (LDCs) and small island developing States (SIDS);[10] and

(e) That the Supervisory Body may adjust and implement the fee structure and levels within a boundary to be set by the CMA, on the basis of the guiding principles of balancing income and expenditure, enabling long-term sound operation of the Article 6.4 mechanism, being fair to activity participants, ensuring administrative efficiency and providing predictability to activity participants and the Supervisory Body.[11]

1.2. Background on the SOP for the Adaptation Fund

1.2.1. Background on relevant CMA decisions

5. Decision 2/CMA.3 provides the process for the application of corresponding adjustments. Specifically, host Parties must apply corresponding adjustments to the emissions covered by their nationally determined contribution (NDCs) by adding the quantity of internationally transferred mitigation outcomes (ITMOs) authorized and first transferred for the calendar year in which the mitigation outcomes occurred.[12] Participating Parties using ITMOs towards their NDCs must subtract the quantity of the ITMO used for the calendar year in which the mitigation outcomes are used towards the implementation and achievement of the NDCs, ensuring the mitigation outcomes are used within the same NDC period as when they occurred.[13] The CMA specified that additions and subtractions for an NDC implementation period shall be considered final, prior to the initiation of the review of the first biennial transparency report (BTR) that contains information on the end year or the end of the period of the NDC (final BTR), by a date to be determined by the CMA.[14] Additionally, the CMA specified that in its initial report, each participating Party must provide, for each cooperative approach, the authorized entities for the cooperative approach.

6. In decision 7/CMA.4, the CMA clarified that where the A6.4ERs forwarded to the SOP account held by the Adaptation Fund are authorized, the mechanism registry administrator shall distinguish the forwarding as effecting a first transfer, subject to a corresponding adjustment.[15] It also provided that the Adaptation Fund Board and its support structure

[7] Decision 3/CMA.3, annex, section A.

[8] Decision 3/CMA.3, annex, paragraph 56

[9] Decision 3/CMA.3, annex, paragraph 57

[10] Decision 3/CMA.3, annex, paragraph 58

[11] Decision 3/CMA.3, annex, paragraph 59.

[12] Decision 2/CMA.3, paragraph 8(a).

[13] Decision 2/CMA.3, paragraph 8(b).

[14] Decision 2/CMA.3, annex, paragraph 12.

[15] Paragraph 39 of decision 7/CMA.4, annex I.

shall develop and implement a strategy on monetizing A6.4ERs received by the Adaptation Fund and inform the state of monetization annually to the CMA.

7. The CMA provided further guidance on the final recording of corresponding adjustments in decision 4/CMA.6, providing that for mitigation outcomes authorized for use towards other international mitigation purposes (OIMP), the first transfer of the mitigation outcome must be recorded no later than 31 December of the year prior to the submission of the final BTR for the NDC period in which the mitigation outcome occurred.[16] Further, in this decision the CMA provided that:

(a) The authorization of an ITMO may be time bound, and that the participating Party shall include in their authorization of use of ITMOs the date and duration of the authorization, including the final date for mitigation outcomes to be issued, or to be used or cancelled, in connection with the first transfer specified by the Party as per decision 2/CMA.3, annex, paragraph 2(b), as applicable;[17]

(b) Each participating Party must provide the names of the participating Parties and/or entities, if known, covered by the authorization;[18]

(c) Where changes to the authorization of ITMOs may occur, the participating Party must provide information on the circumstances in which such changes may occur and a description of the process for managing them in a way that avoids double counting;[19]

(d) Any changes to authorization of the use of ITMOs from a cooperative approach shall not apply to, or affect, mitigation outcomes that have already been first transferred, unless otherwise specified by the Parties participating in the cooperative approach in the applicable terms and conditions of the authorization that specify the circumstances for such changes and the process for managing them, in order to ensure the avoidance of double counting;[20]

(e) Changes to authorization shall be consistent with the terms and conditions of the authorization that specify the circumstances for such changes and the process for managing them;[21]

(f) Each participating Party shall apply robust accounting to ensure that any changes to authorization of the use of ITMOs from a cooperative approach do not lead to double counting.[22]

[16] Paragraph 14 of decision 4/CMA.6

[17] Paragraph 5(c) of decision 4/CMA.6

[18] Paragraph 5(b) of decision 4/CMA.6

[19] Paragraph 5(g) of decision 4/CMA.6.

[20] Paragraph 7 of decision 4/CMA.6.

[21] Paragraph 8 of decision 4/CMA.6.

[22] Paragraph 9 of decision 4/CMA.6.

8. The CMA, through decision 6/CMA.6, clarified that:

   (a) Parties may allow mitigation contribution A6.4ERs (mitigation contribution units (MCUs)) to be issued for the underlying activity, while noting that the host Party may authorize the A6.4ERs at a later stage;[23] and

   (b) The ability for host Parties to provide post-issuance authorization to MCUs is subject to the host Party providing the Supervisory Body with a revised statement of authorization with which the host Party authorizes the A6.4ERs that have already been issued within the time frame to be set by the Supervisory Body, if necessary, which applies from the date of issuance prior to any transfer of the MCUs in or out of the mechanism registry, and applying the requirements for corresponding adjustments with respect to the corresponding MCUs already forwarded for the SOP for adaptation pursuant to decision 7/CMA.4, annex I, paragraph 39, and cancelled to deliver overall mitigation in global emissions pursuant to decision 7/CMA.4, annex I, paragraph 40.[24]

9. Decision 6/CMA.6 also requested the secretariat, with the approval of the Supervisory Body, to establish necessary guidelines and operationalize the process for post-issuance authorizations, ensuring that:

   (a) Respective MCUs are still held by the mitigation activity participants and have not been transferred in or out of the mechanism registry;

   (b) Corresponding adjustments pursuant to decision 2/CMA.3, annex, chapter III (Corresponding adjustments), are applied by the host Party as if the authorization had been provided no later than at issuance; and

   (c) Respective SOPs for adaptation received by the Adaptation Fund pursuant to decision 3/CMA.3, annex, chapter VII (Levy of share of proceeds for adaptation and administrative expenses), are comprised of authorized A6.4ERs (AERs) rather than MCUs.

2. Purpose

10. The purpose of this information note is to inform the Supervisory Body of challenges and considerations for the Adaptation Fund in operationalizing SOP from Article 6.4 mechanism activities.

3. Key issues and proposed solutions: SOP for administrative expenses

3.1. Issues

11. The Article 6.4 mechanism is at a very early stage of implementation. Thus far, there has been limited experience in implementing the SOP for administrative expenses for projects and programmes of activities (PoAs). Until more experience is gained, it is not possible to analyse whether the fee levels are appropriately set for the self-financing of the mechanism.

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[23] Paragraph 11(c) of decision 4/CMA.6.

[24] Paragraph 12 of decision 4/CMA.6.

12. One issue has been identified regarding the implementation of the SOP for administrative expenses that may require action by the Supervisory Body at this stage. Paragraph 4 of Appendix 1 of the “Procedure: Article 6.4 activity cycle procedure for programmes of activities” provides that all fees related to activities under the Article 6.4 mechanism shall be waived for PoAs and component projects (CPs) therein hosted in LDCs and SIDS or for multi-country PoAs where at least one of the host Parties is an LDC or SIDS.

13. Notably, this paragraph enables CPs which are not hosted in LDCs and SIDS to be exempt from all fees for the SOP for administrative expenses provided the PoA contains one CP within an LDC or SIDS. This exemption to the administrative expenses has the potential to undermine the effective self-financing operation of the mechanism.

14. The Supervisory Body may wish to reconsider this fee waiver for the next revision of the “Procedure: Article 6.4 activity cycle procedure for programmes of activities”.

3.2. Proposed solutions

15. In respect of the broader implementation of the SOP for administrative expenses and any review of fee levels for the self-financing of the mechanism, the Supervisory Body may wish to (i) defer the evaluation of these issues until next year (or the year after) once more experience is gained and informed decisions can be made; and (ii) inform the CMA of this deferral in its annual report.

16. In respect of the issues related to the SOP for administrative expenses for PoAs, the Supervisory Body, upon the next revision of the “Procedure: Article 6.4 activity cycle procedure for programmes of activities”, may wish to reconsider this fee waiver for CPs hosted in non-LDCs and SIDS to ensure its application to only CPs hosted within LDCs and SIDS, and ensure processes for collecting the fees facilitate this limited application of the fee waiver. This proposed solution is within the administrative functions of the Supervisory Body and can be implemented without referral to the CMA for any additional guidance or amendment of the RMPs.

4. Key issues and proposed solutions: SOP for the Adaptation Fund

4.1. Key issues

17. There are two main issues relating to the SOP for the Adaptation Fund, as follows:

    (a) Pursuant to decision 2/CMA.3,[25] and as reiterated in decision 4/CMA.6,[26] only authorized entities of a cooperative approach may hold ITMOs. In other words, in respect of AERs, the Adaptation Fund must be an authorized entity and will only be able to transfer to other authorized entities; and

Complications of different types of A6.4ERs reducing the likely effective monetization for the Adaptation Fund.

18. These issues relating to the SOP for the Adaptation Fund are explored in turn in the following sections.

[25] Paragraph 18(g) of the annex to decision 2/CMA.3.

[26] Paragraph 3 of decision 4/CMA.6.

4.1.1. Requirement for the Adaptation Fund to be an authorized entity for the receipt of AERs

19. As discussed in paragraph 5 and 7(b) above, pursuant to decision 2/CMA.3[27] and as reiterated in decision 4/CMA.6,[28] each participating Party must provide in its authorization the entities authorized for the cooperative approach, which are therefore eligible to receive ITMOs from a cooperative approach. AERs once first transferred are ITMOs. Therefore, to be eligible to receive AERs from activities under the Article 6.4 mechanism as part of the SOP for the Adaptation Fund, the Adaptation Fund (or its trustee) must be provided as an authorized entity of the cooperative approach by the participating Parties. While not explicitly stated by the CMA, given that the RMPs mandated that the Adaptation Fund shall receive ITMOs (i.e., A6.4ERs from an activity that has an "authorized" status), the RMPs imply that the Adaptation Fund (or its trustee) is a "deemed authorized entity" for the PACM cooperative approach (CA0001).

20. Further, as discussed above, the Adaptation Fund trustee is to develop and implement a strategy for monetizing A6.4ERs. This strategy is likely to involve the further transfer of the A6.4ERs it receives, either to the accounts of purchasers, or to cancellation or use accounts, as applicable (i.e., in exchange for payment the Adaptation Fund transfers the MCUs to a cancellation account, with the paying entity claiming the cancellation on their behalf).

21. Notably, the Adaptation Fund will only be able to further transfer AERs onto other authorized entities of the cooperative approach (i.e., entities whose account in the mechanism registry is approved to receive MCUs and AERs (and ITMOs)). This significantly limits the market for monetizing the AERs received by the Adaptation Fund. For example, where the participating Parties have only authorized the activity participants of a cooperative approach, the only entities eligible to receive the AERs from the Adaptation Fund will be the activity participants that were originally levied the SOP for the Adaptation Fund.

4.1.2. Complications of different unit types

22. As discussed in paragraph 2 above, the CMA provided that the SOP for the Adaptation Fund is levied to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation. The ability of the SOP to do this effectively depends on the effective monetization of the A6.4ERs the Adaptation Fund receives. This system was an effective model for raising funds for the Adaptation Fund under the CDM established by the Kyoto Protocol via which the Adaptation Fund received certified emission reductions from activities via a SOP upon issuance.

23. Notably, the monetization of A6.4ERs varies significantly from the similar system under the CDM due to the different authorization possibilities for A6.4ERs, which determine their possible uses and thereby their marketability. Pursuant to CMA decisions, there are 22 variations of A6.4ERs under the Article 6.4 mechanism:

    (a) MCUs which cannot be post-issuance authorized;

    (b) MCUs which can be post-issuance authorized; and

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[27] Paragraph 18(g) of the annex to decision 2/CMA.3.

[28] Paragraph 3 of decision 4/CMA.6.

(c) AERs authorized for use towards NDCs only, without terms and conditions;

(d) AERs authorized for use towards international mitigation purposes (IMP) only, without terms and conditions;

(e) AERs authorized for use towards other purposes (OP) only, without terms and conditions;

(f) AERs authorized for use towards OIMP only, without terms and conditions;

(g) AERs authorized for use towards NDC use and/or OIMP, without terms and conditions;

(h) A further five variations of AERs as in (c) to (g) above, but for which terms and conditions have been provided, enabling a change of authorization after the AER has been first transferred;

(i) A further list of variations of units that are now ITMOs (i.e., AERs listed in (c) to (h) that have been first transferred).

24. While on the one hand, the Adaptation Fund will only receive the variations of A6.4ERs in paragraph 23(a), (b) and (i) above, the Adaptation Fund's monetization strategy will need to be specific to each authorization possibility of the A6.4ERs they receive so as to navigate their marketability and therefore their income potential. The complexities that must be considered for each possible authorization category of A6.4ERs is detailed in sections 4.1.2.1 – 4.1.2.5 below.

25. The secretariat notes that the Adaptation Fund has not yet prepared their monetization strategy for A6.4ERs received from the SOP for the Adaptation Fund and is still considering the complications explored in this paper.

4.1.2.1. Complexities pertaining to MCUs which cannot be post-issuance authorized

26. The Adaptation Fund will be able to market MCUs which cannot be post issuance authorized to any account holder in the mechanism registry, or to purchasers on behalf of whom the MCUs will be cancelled (i.e., in exchange for payment, the Adaptation Fund transfers the MCUs to a cancellation account and with the paying entity claiming the cancellation on their behalf).

4.1.2.2. Complexities pertaining to MCUs which may be post-issuance authorized

27. Where the Adaptation Fund receives MCUs which may be post-issuance authorized, if the MCUs are post-issuance authorized while held in the Adaptation Fund account, the additional complexities pertaining to them as AERs will apply. The Adaptation Fund may wish to navigate the issues which would arise upon the MCU's post-issuance authorization so as to avoid complication upon the event of post-issuance authorization.

28. The Supervisory Body has not yet developed and adopted the necessary guidelines and operationalized the process for post-issuance authorizations as referred to in paragraph 9 above. Further issues may arise depending on the guidance the Supervisory Body develops regarding MCUs eligible for post-issuance authorization that have been transferred to the Adaptation Fund.

4.1.2.3. Complexities pertaining to AERs authorized for use towards NDCs only

29. When developing their strategy for monetizing A6.4ERs (ITMOs) authorized for use towards NDCs alone, the Adaptation Fund must be cognizant of the limited market given that the only possible end users of the ITMOs are:

(j) Participating Parties with intention to use ITMOs towards their NDCs; and

(k) Entities authorized by the Parties in (j).

30. The size of this market will directly correspond to the available Parties which are able to undertake the necessary corresponding adjustment to use the A6.4ER as an ITMO towards their NDCs pursuant to the accounting rules for NDC periods as provided in decision 2/CMA.3 and 4/CMA.6. As the final date for corresponding adjustments passes for more Parties, the market of potential purchasers of ITMOs authorized for use towards NDCs only shrinks. Once there are no eligible purchasers of ITMOs authorized for use towards NDCs only, any of these ITMOs still held by the Adaptation Fund will effectively be stranded assets, unable to be monetized.

4.1.2.4. Complexities pertaining to AERs authorized for use towards OIMP (OIMP only, or in combination with use towards NDC)

31. As discussed above, pursuant to decision 2/CMA.3 [29] and as reiterated in decision 4/CMA.6,[30] in respect of ARs authorized for use towards OIMP only, the Adaptation Fund will only be able to further transfer these AERs to authorized entities. However, the Adaptation Fund can cancel them for a beneficiary (i.e., an airline or other corporation) that is not an authorized entity.

32. In relation to the implication of the final date for corresponding adjustments, in comparison to AERs that are authorized for use towards NDCs only, those authorized for use towards OIMP (OIMP alone, or in combination with an authorization for use towards NDCs) are not as severe and do not necessarily result in the same stranded asset outcome. This is because the use by a purchaser towards OIMP is not time bound given that the purchaser is not undertaking a corresponding adjustment to their NDC accounting, as the only corresponding adjustment in respect of OIMP is that of the host Party triggered by the first transfer to the Adaptation Fund upon issuance. This means that even after all Parties have finalized their accounting for the NDC period, the OIMP-authorized AERs may still be monetized, irrespective of NDC period dates, where a market demand for them exists.

4.1.2.5. Complexities pertaining to AERs for which the host Party provided terms and conditions enabling a change of authorization after first transfer (those authorized for use towards NDCs only, OIMP only, or NDCs and OIMP)

33. Pursuant to decision 6/CMA.6, all AERs forwarded to the Adaptation Fund’s account will be first transferred, meaning they can only have their authorization changed if the host Party provided terms and conditions enabling this at the time of authorizing the AERs.

34. This means, in addition to the complexities discussed above in respect of their authorized uses, AERs for which the host Party provided terms and conditions enabling a change of authorization after first transfer have the additional complexity, to be considered by the

[29] Paragraph 18(g) of the annex to decision 2/CMA.3.

[30] Paragraph 3 of decision 4/CMA.6.”

Adaptation Fund, whereby any AERs that have their authorization changed after monetization by the Adaptation Fund, which were purchased by a buyer with the intention to use towards OIMP, OP or an NDC, will pose a double-counting risk[31]. The Adaptation Fund will likely need to manage this complexity so as to avoid any commercial liabilities associated with their monetization of the A6.4ERs, and any actions the Adaptation Fund may need to take in order to fulfil the Parties' processes to avoid double-counting (i.e., if the authorizing Party determined the Adaptation Fund responsible for notifying any entities to which they transferred the affected A6.4ERs).

4.2. Proposed solutions

35. Given the early stage of the Article 6.4 mechanism's development, there is no "real-world" experience yet with the complexities associated with the A6.4ERs provided to the Adaptation Fund and their monetization. This noted, these complexities associated with each variation of the A6.4ERs the Adaptation Fund may receive will increase the complexity of their processes to monetize the A6.4ERs and associated administration costs. The costs of monetizing A6.4ERs will need to be funded by the Adaptation Fund, meaning these complexities will directly impact the funding ultimately made available to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

36. As discussed in paragraph 3 above, in decision 3/CMA.3, the CMA requested the Supervisory Body to evaluate the implementation of the SOP for adaptation this year (2026) and every five years thereafter, and make recommendations on possible improvements in order to optimize the resources available to the Adaptation Fund for consideration by the CMA. In light of these complexities, their associated administrative burden and related costs, and the resulting impact on funding to assist developing country Parties with adaptation costs, the Supervisory Body may wish to recommend to the CMA a simpler system which would optimize the provision of resources for the Adaptation Fund.

37. If the Supervisory Body sought to make a recommendation for a simpler system, this early stage of the mechanism's development is the optimum time given that significant resources have not yet been invested into the processes for monetizing A6.4ERs and, as of the preparation of this concept note, no A6.4ERs have been transferred to the Adaptation Fund account in the mechanism registry.

38. Noting the Supervisory Body's mandate to evaluate the implementation of the SOP for adaptation and make recommendations on possible improvements in order to optimize resources available to the Adaptation Fund,[32] the Supervisory Body may wish to consider the following options:

    (a) **Option 1: Delay evaluation and recommendation** – Assume that the complexity was by design and the CMA indented it to be so. In response to the mandate in decision 3/CMA.3,[33] the Supervisory Body may, in its annual report, inform the CMA of the lack of "real-world" experience in monetizing A6.4ERs by the Adaptation Fund and defer the evaluation until [2027][2028];

[31] Decision 4/CMA.6, paragraph 7.

[32] Paragraph 8, decision 3/CMA.

[33] Paragraph 8, decision 3/CMA.

(b) **Option 2: Inform the CMA and recommend it develop a simpler system –** Pursuant to the decision 3/CMA.3 mandate,[34] inform the CMA, through the Supervisory Body' annual report, of the complexities pertaining to the SOP for the Adaptation Fund and implications on the resources of the Adaptation Fund, and recommend that the CMA consider a simpler system to optimize resources available to the Adaptation Fund;

(c) **Option 3: Inform the CMA and recommend it consider a simpler system proposed by the** Supervisory **Body –** Pursuant to the 3/CMA.3 mandate,[35] inform the CMA, through the Supervisory Body' annual report, of the complexities pertaining to the SOP for the Adaptation Fund and implications on resources of the Adaptation Fund, and recommend:

(i) Option 3A – The SOP for the Adaptation Fund is changed to a fee charged for each issuance, which is directly passed on to the Adaptation Fund. The fee could be a single flat fee, or a fee determined by different factors pertaining to the activity and/or issuance request;

(ii) Option 3B – The CMA creates a unique variation of A6.4ERs (e.g., Adaptation A6.4ERs). These are generated for the SOP for the Adaptation Fund (instead of the Adaptation Fund receiving all other variations of A6.4ERs) and are by nature equivalent to MCUs that are not eligible for post-issuance authorization, and which therefore have significantly reduced complexities for monetizing. The Supervisory Body may wish to note that the funds generated from monetizing this variation of A6.4ERs would depend on their market demand;

(iii) Option 3C – The CMA creates a unique variation of A6.4ERs (e.g., Adaptation A6.4ERs). These are generated for the SOP for the Adaptation Fund (instead of the Adaptation Fund receiving all other variations of A6.4ERs) and are by nature uniquely deemed authorized for all uses irrespective of the authorization of other A6.4ERs issued from the activity, and which may be monetized by the Adaptation Fund for NDC use by Parties irrespective of NDC accounting period rules. These unique authorized A6.4ERs would therefore have significantly reduced complexities for monetizing. The Supervisory Body may wish to note that the funds generated from monetizing the variation of A6.4ERs would depend on their market demand.

39. In respect of options 2, 3A, 3B and 3C, the Supervisory Body would need to provide additional guidance on the processing of A6.4ERs determined for the SOP for the Adaptation Fund in the meantime. The Supervisory Body may wish to consider the following options:

(a) Pending CMA guidance, the Supervisory Body proceeds to apply the currently designed system for the SOP for the Adaptation Fund, forwarding/first transferring the SOP to the Adaptation Fund account upon issuance;

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[34] Paragraph 8, decision 3/CMA.

[35] Paragraph 8, decision 3/CMA.

(b) Pending CMA guidance, the Supervisory Body provides guidance that all A6.4ERs designated for the Adaptation Fund are to be held in the pending account and not forwarded/first transferred to the Adaptation Fund.

5. Impacts

40. In respect of the SOP for administrative expenses, the current wording of the SOP exemption applicability of the SOP to CPs and POAs could have a significantly adverse impact on the amount of funding received to support the operation of the mechanism. Limiting the exemption for the SOP for administrative expenses to only CPs hosted within LDCs and SIDS, pursuant to paragraph 58 of annex I to decision 7/CMA.4, will ensure funding for administrative expenses is received in respect of CPs held in non-LDCs and SIDS, thereby contributing to the successful self-financing of the mechanism.

41. In respect of the SOP for the Adaptation Fund, the complexities of monetizing A6.4ERs provided to the Adaptation Fund as part of the SOP will have direct impacts on how much funding is made available to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

6. Subsequent work and timelines

42. At SBM 023, the Supervisory Body will be finalizing its annual report to the CMA, which will include information on the Supervisory Body's evaluation of the SOP for the Adaptation Fund and recommendations on possible improvements to optimize resources for the Adaptation Fund, pursuant to decision 3/CMA.3.[36] If the Supervisory Body decides to seek clarity from the CMA in respect of the SOP for the Adaptation Fund, this will be included in the draft annual report for the Supervisory Body's consideration.

43. If the Supervisory Body decides to revise the exemption for administrative fees to limit the exemption only to those CPs hosted in LDCs and SIDS, this revision will be incorporated into the next version of the "Procedure: Article 6.4 Activity cycle procedure for programmes of activities".

7. Recommendations to the Supervisory Body

7.1. Recommendations relating to the SOP for administrative expenses

44. In relation to the SOP for administrative expenses, the secretariat recommends that the Supervisory Body consider a revision to the "Procedure: Article 6.4 activity cycle procedure for programmes of activities" in respect of the exemption provided from administrative fees to limit the exemption only those CPs hosted in LDCs or SIDs.

45. The secretariat recommends that the Supervisory Body inform the CMA in its annual report that it has deferred the assessment of the implementation of SOP for administrative expenses, pursuant to the decision 3/CMA.3 mandate,[37] until 2027.

[36] Paragraph 8, decision 3/CMA.

[37] Ibid.

7.2. Recommendations relating to the SOP for the Adaptation Fund

46. The secretariat recommends that the Supervisory Body take note of the complexities related to the SOP for the Adaptation Fund and consider the options provided in section 4.2 above in respect of its decision 3/CMA.3 mandate[38] to evaluate the implementation of the SOP for the Adaptation Fund and make recommendations on possible improvements in order to optimize the resources available to the Adaptation Fund.

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[38] Ibid.