

**A6.4-SBM023-AA-A12**

Concept note

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Reversal Risk Buffer Pool Account  
contributions of authorized Article 6.4  
emission reductions, including potential  
implications for accounting of nationally  
determined contributions

Version01.0



**United Nations**  
Framework Convention on  
Climate Change

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## 1. Procedural background

1. The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), through decision 3/CMA.3,<sup>1</sup> adopted the rules, modalities and procedures (RMPs) for the mechanism established by Article 6, paragraph 4, of the Paris Agreement (the Article 6.4 mechanism), as contained in the annex to the decision. The decision requested the Supervisory Body of the Article 6.4 mechanism (the Supervisory Body) to develop provisions for various processes necessary to operate the mechanism.
2. Decision 2/CMA.3 provided that host Parties must apply corresponding adjustments to the emissions covered by its nationally determined contributions (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,<sup>2</sup> and that participating Parties using ITMOs towards their NDC must subtract the quantity of the ITMOs used for the calendar year in which the mitigation outcomes are used towards the implementation and achievement of the NDC, ensuring that the mitigation outcomes are used within the same NDC period as when they occurred.<sup>3</sup> Further, it provided 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, by a date to be determined by the CMA.<sup>4</sup>
3. In decision 4/CMA.6, the CMA built upon this, providing that for ITMOs authorized for use towards other international mitigation purposes (OIMP), the first transfer of the mitigation outcome shall be recorded no later than 31 December of the year prior to the submission of the BTR referred to in decision 2/CMA.3, annex, paragraph 12, for the NDC period in which the mitigation outcome occurred.<sup>5</sup> Hereinafter, unless otherwise specified, these final dates for making adjustments to a BTR in respect of additions and subtractions for a quantity of ITMOs traded between Parties are referred to collectively as the final date for corresponding adjustments, noting that this date is Party-dependent and authorization-dependent.
4. At its fourteenth meeting (SBM 014), the Supervisory Body adopted the “Standard: Application of the requirements of Chapter V.B (Methodologies) for the development and assessment of Article 6.4 mechanism methodologies”<sup>6</sup> (hereinafter referred to as the

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<sup>1</sup> 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](https://unfccc.int/sites/default/files/resource/cma2021_10a01E.pdf#page=25).

<sup>2</sup> Decision 2/CMA.3, Annex, “Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement”, paragraph 8(a). Available at:  
[https://unfccc.int/sites/default/files/resource/cma2021\\_10a01E.pdf#page=16](https://unfccc.int/sites/default/files/resource/cma2021_10a01E.pdf#page=16).

<sup>3</sup> Ibid., paragraph 8(b).

<sup>4</sup> Ibid., paragraph 12.

<sup>5</sup> Decision 4/CMA.6. “Matters relating to cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement”, paragraph 14. Available at:  
[https://unfccc.int/sites/default/files/resource/cma2024\\_17a01E.pdf#page=18](https://unfccc.int/sites/default/files/resource/cma2024_17a01E.pdf#page=18).

<sup>6</sup> See <https://unfccc.int/sites/default/files/resource/A6.4-STAN-METH-001.pdf>.

Methodologies Standard) and the “Standard: Requirements for activities involving removals under the Article 6.4 mechanism” (hereinafter referred to as the Removals Standard),<sup>7</sup> and recommended that the CMA endorse the approach and provide any additional guidance, among additional recommendations. The CMA, through decision 5/CMA.6, took note of the Supervisory Body’s adoption of the standards.<sup>8</sup>

5. At its eighteenth meeting (SBM 018), the Supervisory Body:

- (a) Adopted the “Standard: Addressing non-permanence and reversals in mechanism methodologies” (hereinafter referred to as the Reversals Standard);<sup>9</sup>
- (b) Requested the secretariat to prepare a concept note on the buffer pool contributions of authorized Article 6.4 emission reductions (A6.4ERs), including potential implications for accounting of NDCs. In preparing the concept note, the Supervisory Body requested the secretariat to launch a call for input on the matter to gather a broader range of views from stakeholders, particularly Parties impacted by corresponding adjustments related to the buffer pool, for its consideration at a future meeting;<sup>10</sup>
- (c) Noted that until the decision by the Supervisory Body on the implications of this work, transfers of units to the Reversal Risk Buffer Pool Account are to be considered as “forwarded” without effecting a first transfer;<sup>11</sup> and
- (d) Published the “Information note: Elements related to non-permanence and reversals for inclusion in relevant regulatory documents”<sup>12</sup> (hereinafter referred to as the “Reversals Information Note”), which provides additional requirements for inclusion in updates of various procedures, including the “Procedure: Article 6.4 mechanism registry”<sup>13</sup> (hereinafter referred to as the “Registry Procedure”).

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<sup>7</sup> See <https://unfccc.int/sites/default/files/resource/A6.4-STAN-METH-002.pdf>.

<sup>8</sup> Decision 5/CMA.6. “Guidance on the mechanism established by Article 6, paragraph 4, of the Paris Agreement” Available at: [https://unfccc.int/sites/default/files/resource/cma2024\\_17a01E.pdf#page=33](https://unfccc.int/sites/default/files/resource/cma2024_17a01E.pdf#page=33).

<sup>9</sup> “Meeting report: Eighteenth meeting of the Article 6.4 mechanism Supervisory Body”, paragraph 26. Available at: <https://unfccc.int/sites/default/files/resource/A6.4-SBM018.pdf#page=7>.

<sup>10</sup> Ibid., paragraph 29.

<sup>11</sup> “Meeting report: Eighteenth meeting of the Article 6.4 mechanism Supervisory Body”, paragraph 29.

<sup>12</sup> “Information note: Elements related to non-permanence and reversals for inclusion in relevant regulatory documents”. Available at: <https://unfccc.int/sites/default/files/resource/A6.4-INFO-METH-002.pdf>.

<sup>13</sup> “Meeting report: Eighteenth meeting of the Article 6.4 mechanism Supervisory Body”, paragraph 27. Available at: <https://unfccc.int/sites/default/files/resource/A6.4-SBM018.pdf#page=7>.

6. The Reversals Information Note clarified that upon a reversal event, the secretariat, as the registry administrator, shall cancel A6.4ERs held in the Reversal Risk Buffer Pool Account as follows:
- (a) The number of A6.4ERs cancelled shall be equal to the amount of the unavoidable/avoidable reversals, as expressed in tonnes of carbon dioxide equivalent;
  - (b) The number of each type of A6.4ER cancelled (whether Mitigation Contribution Unit (MCU) or authorized A6.4ERs (AERs)) shall be based on the proportion of MCUs or AERs issued for the Article 6.4 activity's emission reductions and/or net removals at the time of the reversal;
  - (c) The cancellation of A6.4ERs from the Article 6.4 activity experiencing the reversal shall be prioritized over A6.4ERs from other Article 6.4 activities, until no such A6.4ERs are available in the Reversal Risk Buffer Pool Account; and
  - (d) According to further criteria that may be specified at a future point in time.<sup>14</sup>

## 2. Purpose

7. The purpose of this concept note is to address the request by the Supervisory Body from SBM 018 regarding buffer pool contributions of AERs. This concept note was drafted with consideration of the inputs received in response to the call for public input referred to in paragraph 5(b) above.

## 3. Public inputs received

8. The Supervisory Body received five inputs in response to the call for inputs mentioned in paragraph 5(b) above from the following submitters:
- (a) Shanghai Green Carbon & Green Hydrogen Technology Co. Ltd.;
  - (b) Brazilian Tre Industry – Ibá;
  - (c) Ethics and Anticorruption Commission – Kenya;
  - (d) European Union (EU); and
  - (e) Oeko-Institut.
9. Four of the five inputs received focused on the topics of this call for inputs (Brazilian Tree Industry – Ibá, Ethics and Anticorruption Commission – Kenya, the European Union and Oeko-Institut). The input received from Shanghai Green Carbon & Green Hydrogen Technology Co. Ltd., proposed an alternative reversal remediation system in the form of a permanent carbon sink-driven global buffer pool coordination mechanism. This input did not elaborate on the role of corresponding adjustments in respect of its proposed remediation system, nor the Reversal Risk Buffer Pool Account.
10. The Brazilian Tree Industry – Ibá noted its view that A6.4ERs forwarded to the Reversal Risk Buffer Pool Account should not be subject to corresponding adjustments as it stated

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<sup>14</sup> Paragraph 57 (unavoidable) and 59 (avoidable) of the “Information note: Elements related to non-permanence and reversals for inclusion in relevant regulatory documents”, version 01.0.

that these act as “de facto back-up units”, replacing others already in the market, and raised the concern of a double burden on host governments. The Ethics and Anticorruption Institute – Kenya focused its submission on the need to collaborate with national and subnational institutions in the design of the Reversal Risk Buffer Pool Account in order to reduce risks associated with corresponding adjustments, raising concerns of corruption and unethical conduct.

11. The European Union's input highlighted the requirement for the Reversal Risk Buffer Pool Account to be implemented consistent with CMA decisions. In particular, the input noted the requirement for the remediation system for reversals to take into account the type of A6.4ER and accounting limitations for corresponding adjustments. In this regard, the EU raised the concern that the Reversal Risk Buffer Pool Account, as it is currently designed, does not provide remediation of AERs as it does not impose an equivalent corresponding adjustment when compensating for AERs.
12. The Oeko-Institut's input referenced a working paper published by the organization providing a technical analysis of options for implementing the concept of first transfer in the context of contributions to the Reversal Risk Buffer Pool Account. The paper explores options in respect of corresponding adjustments and the remediation of reversals, discussing the complexity of the matter in respect of A6.4ERs broadly and systematic limitations resulting from CMA decisions.
13. These inputs were considered in the preparation of this concept note, while noting that many of the matters raised by the Oeko-Institut are relevant to the operation of the mechanism broadly (i.e., the issuance of AERs and corresponding adjustments), and that given that the Supervisory Body is bound by its mandate from the CMA, these matters are more appropriate for consideration by the CMA.

#### **4. Background on buffer pool approaches to addressing reversals**

14. Carbon markets have long recognized the importance of permanence of the emission reductions or removals which are credited to ensure they represent a meaningful action for the purposes of mitigating climate change. Buffer pool mechanisms were developed by the voluntary carbon market to address issues of permanence. They operate like an insurance mechanism, providing a pooled reserve of credits from activities at risk of reversal so that in the event of a reversal, the reserved credits can be cancelled to reflect the lost carbon storage in order to preserve the perceived integrity of credits in the market which can theoretically claim to be unaffected by the reversal event. Each activity contributes a proportion of its credits to the buffer pool informed by its risk. All the credits are pooled and recognized as able to compensate for any contributing activity (noting at this time that there were no accounting obligations associated with the credits), thereby diversifying the risk and creating a collective exposure of the market based on the liquidity of the pool to compensate for risk across the carbon crediting programme's portfolio.
15. Buffer pool mechanisms have continued to evolve and reflect the market sentiment that not all carbon credits are equal, and preserving the perceived integrity of credits requires a consideration of like-for-like compensations by the buffer pool. Notably, the voluntary market differs in the fungibility of credits considered for like-for-like compensations. For example, the American Carbon Registry is very specific about the type of credits it cancels from its buffer pool in the event of a reversal. Where a reversal occurs regarding emission

reductions or removals in respect of which CORSIA eligible carbon credits were issued, the buffer pool will cancel only CORSIA eligible carbon credits to compensate that reversal. Similarly, the vintage of carbon credits is also considered, with reversals for projects (non-AFOLU) compensated with credits with a vintage within five years of the affected project's start date.<sup>15</sup> Although other carbon market operators have similar policies, limited information is available on these publicly. For example, Verra does not provide equivalent information on how fungibility of carbon credits in its buffer pool is considered in respect of reversal events.<sup>16</sup>

16. The fungibility of carbon credits in a buffer pool mechanism, or any other reversal compensation mechanism, is a policy matter of whether these mechanisms should operate like insurance for other industries where the replacement asset should have characteristics comparable to the asset lost, or whether a minimum standard of equivalence (i.e., representation of 1 tonne of CO<sub>2</sub> reduced or removed) suffices.
17. The Supervisory Body has already made decisions reflecting the importance of equivalence for fungibility of A6.4ERs in the buffer pool. These include the following:
  - (a) The Removals Standard provides that reversals of removals for which A6.4ERs have been issued shall be fully remediated, and establishes the Reversal Risk Buffer Pool Account in the Article 6.4 mechanism registry to remediate avoidable and unavoidable reversals in full through cancellation of an equivalent amount and authorization status (AER or MCU) of Buffer A6.4ERs;
  - (b) The Removals Standard further provides that when the reversal was avoidable, the activity participants are fully liable for replenishing the Reversal Risk Buffer Pool Account by forwarding the equivalent amount and type (AER or MCU) of A6.4ERs to the Reversal Risk Buffer Pool Account within a timeframe to be specified by the Supervisory Body;<sup>17</sup> and
  - (c) The Reversals Information Note elaborates on the processes to be actioned upon a reversal event, including that the number of each type of A6.4ERs cancelled (whether AER or MCU) shall be based on the proportion of MCUs or AERs issued for the Article 6.4 activity's emission reductions and/or net removals at the time of reversal.<sup>18</sup>
18. These decisions reflect the Supervisory Body determining A6.4ER type (MCU or AER) as the key fungibility aspect in respect of the Reversal Risk Buffer Pool Account.

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<sup>15</sup> ACR's Approach to Non-Permanence Risk Mitigation, ACR at Winrock International. Available at: <https://accarbon.org/resources/acrs-approach-to-non-permanence-risk-mitigation>.

<sup>16</sup> Area of Focus – Agriculture, Forestry, and Other Land Use (AFOLU), Verra. Available at: <https://verra.org/programs/verified-carbon-standard/area-of-focus-agriculture-forestry-land-use>.

<sup>17</sup> Ibid., paragraph 58.

<sup>18</sup> "Information note: Elements related to non-permanence and reversals for inclusion in relevant regulatory documents", version 01.0. Sections 5.1 and 5.2. Available at: <https://unfccc.int/sites/default/files/resource/A6.4-INFO-METH-002.pdf>.

## 5. Issues in respect of A6.4ER type (MCU and AER) and the operation of the Reversal Risk Buffer Pool Account

### 5.1. Overview of issues

19. The following CMA guidance is relevant to the issues in respect of A6.4ER type and the operation of the Reversal Risk Buffer Pool:

- (a) 2/CMA.3, annex, paragraph 2, which provides that the first transfer of a mitigation outcome is (a) a mitigation outcome authorized by a participating Party for use towards the achievement of an NDC, the first international transfer of the mitigation outcome; or; (b) for a mitigation outcome authorized by a participating Party for use for OIMP, (1) the authorization, (2) the issuance or (3) the use or cancellation of the mitigation outcome, as specified by the participating Party. For the purposes of the overview of issues table below, this guidance is referred to as the “**2/CMA.3 first transfer definition rule**”;
- (b) 2/CMA.3, annex, paragraphs 8, 9 and 10, which provide that each Party must apply corresponding adjustments by adding the quantity of ITMOs authorized and first transferred for the calendar year in which the mitigation outcomes occurred. For the purposes of the overview of issues table below, this guidance is referred to as the “**2/CMA.3 corresponding adjustments by calendar year rule**”;
- (c) 2/CMA.3, annex, paragraph 12, which provides that additions and subtractions for an NDC implementation period shall be considered final, prior to the initiation of the review of the first BTR that contains information on the end year or end of the period of the NDC, by a date to be determined by the CMA. For the purposes of the overview of issues table below, this guidance is referred to as the “**2/CMA.3 final date for corresponding adjustments rule**”;
- (d) 4/CMA.6, paragraph 5, which provides that Parties must provide, as part of their statement of authorization of a mitigation outcome, the applicable duration of the authorization. For the purposes of the overview of issues table below, this guidance is referred to as the “**4/CMA.6 duration of authorization rule**”;
- (e) 4/CMA.6, paragraphs 5, and 7–9, in which the CMA recognized that Parties may change the authorization of authorized mitigation outcomes, and thereby limited the ability of participating Parties to change the authorization of mitigation outcomes where the authorized mitigation outcome has been first transferred (such changes only able to occur where the authorization of the use of the ITMO provided circumstances in which such changes may occur and a description of the processes for managing them in a way that avoids double counting). Notably, the CMA did not provide any limitation on changes to the authorization of authorized mitigation outcomes prior to their first transfer. For the purposes of the overview of issues table, this guidance is referred to as the “**4/CMA.6 change of authorization rules**”;
- (f) 4/CMA.6, paragraph 12, in which the CMA clarified that where a first transferring Party has authorized the use of the same mitigation outcome towards achievement of NDCs or towards OIMP, the first transfer shall be recorded for the earlier of: (a) first international transfer of the mitigation outcome, pursuant to 2/CMA.3, annex,

paragraph 2(a); (b) the first transfer of the mitigation outcome, as specified by the first transferring Party, pursuant to decision 2/CMA.3, annex, paragraph 2(b). For the purposes of the overview of issues table, this guidance is referred to as the “**4/CMA.6 dual authorization first transfer rule**”;

- (g) 4/CMA.6, paragraph 14, which provides that where a mitigation outcome has been authorized for use for OIMP pursuant to decision 2/CMA.3, annex, paragraph 2(b), the first transfer for the mitigation outcome shall be recorded no later than 31 December of the year prior to the submission of the BTR referred to in decision 2/CMA.3, annex, paragraph 12, for the NDC period in which the mitigation outcome occurred. For the purposes of the overview of issues table below, this guidance is referred to as the “**4/CMA.6 final first transfer for OIMP rule**”;
  - (h) 4/CMA.6, paragraph 15, which provides that each participating Party shall specify how it defines first transfer pursuant to decision 2/CMA.3, annex, paragraph 2(b), consistently for a given cooperative approach, while noting that it may choose to define “first transfer” differently for different cooperative approaches in which the Party participates. For the purposes of the overview issues table below, this guidance is referred to as the “**4/CMA.6 first transfer specification by the participating Party rule**”; and
  - (i) 6/CMA.6, paragraphs 10–14, which provide that each Article 6.4 activity host Party must provide to the Supervisory Body a statement of authorization for A6.4ERs for their authorization status to be assigned upon issuance, which may provide that the host Party allows MCUs to be issued for the underlying activity, while noting that the host Party may authorize the A6.4ERs at a later stage, provided the affected A6.4ERs are still held by the mitigation activity participants, have not been transferred in or out of the mechanism registry, and apply corresponding adjustments in respect of the A6.4ERs already forwarded for the share of proceeds 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, and provided that the statement of authorization is provided within the timeframe specified by the Supervisory Body, if applicable. For the purposes of the overview of issues table below, this guidance is referred to as the “**6/CMA.6 post-issuance authorization of A6.4ERs rule**”.
20. Table below sets out the summary of how the Reversal Risk Buffer Pool approach to managing permanence<sup>19</sup> is impacted by and interacts with the accounting requirements for cooperative approaches referred to in Article 6, paragraph 2 of the Paris Agreement, and the issues that they create for the operation of the Reversal Risk Buffer Pool approach. The sections that follow the table examine each of the issues in more detail.

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<sup>19</sup> As provided across the: “Standard: Requirements for activities involving removals under the Article 6.4 mechanism”, version 1.0; “Standard: Addressing non-permanence and reversals in mechanism methodologies”, version 1.0; and “Information note: Elements related to non-permanence and reversals for inclusion in relevant regulatory documents”, version 1.0.

**Table. Accounting issues raised by the Reversal Risk Buffer Pool account**

| Issue title                                                                                         | Relevant CMA guidance                                                                                                                                                                                                                | Summary of issue raised for the Reversal Risk Buffer Pool Account (explored in further detail in the sections that follow)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Inconsistent first transfer implications on contribution to Reversal Risk Buffer Pool</b>        | <ul style="list-style-type: none"> <li>• 2/CMA.3 first transfer definition rule</li> <li>• 4/CMA.6 first transfer specification by the participating Party rule</li> <li>• 4/CMA.6 dual authorization first transfer rule</li> </ul> | The Reversal Risk Buffer Pool Account will receive a mixture of AERs, some which are not first transferred (those authorized for use towards NDC or use towards OIMP with the definition of first transfer as its use or cancellation) and some which are first transferred (those which are authorized for use towards OIMP with the definition of first transfer as authorization or issuance)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Holdings of the Reversal Risk Buffer Pool Account affected by final date for accounting</b>      | <ul style="list-style-type: none"> <li>• 2/CMA.3 corresponding adjustments by calendar year rule</li> <li>• 2/CMA.3 final date for corresponding adjustments rule</li> <li>• 4/CMA.6 final first transfer for OIMP rule</li> </ul>   | <p>As above, the Reversal Risk Buffer Pool account will receive a combination of AERs that have not been first transferred and that have been first transferred. Those which have not been first transferred can only be first transferred prior to their final date for first transfer. After this date, their respective corresponding adjustment cannot be made. The Registry Procedure reflects this limitation by updating them to be MCUs after their final date of first transfer has passed.</p> <p>While the final date for first transfer will vary, this date is likely to apply widely in the early years of each new NDC period. Consequently, all non-first transferred AERs in the Reversal Risk Buffer Pool account will be updated to be MCUs in turn. As a result, the Reversal Risk Buffer Pool is unable to retain the necessary liquidity to remediate for reversal events of AERs over multiple NDC periods</p> |
| <b>Holdings of the Reversal Risk Buffer Pool Account unaffected by post-issuance authorizations</b> | <ul style="list-style-type: none"> <li>• 6/CMA.6 post- issuance authorization of A6.4ERs rule</li> </ul>                                                                                                                             | <p>Activities at risk of reversal contribute to the Reversal Risk Buffer Pool Account upon issuance. Host Parties have the ability to issue MCUs and later determine them authorized. According to CMA guidance, MCUs must be held by activity participants and not transferred in or out of the mechanism registry to be eligible for a post-issuance authorization; those which were contributed to the Reversal Risk Buffer Pool Account are excluded from eligibility (as they are not held by the activity participants and have been transferred (via forwarding from the Pending Account) to the Reversal Risk Buffer Pool Account).</p> <p>This issue could create an avenue for minimizing or circumventing the contribution of AERs to the Reversal Risk Buffer Pool and any associated corresponding adjustment obligations</p>                                                                                            |

| Issue title                                                                                                                   | Relevant CMA guidance                                                                                                                                                                                                                                                                                                      | Summary of issue raised for the Reversal Risk Buffer Pool Account (explored in further detail in the sections that follow)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Holdings of Reversal Risk Buffer Pool Account affected by limited duration authorizations and changes to authorization</b> | <ul style="list-style-type: none"> <li>• 2/CMA.3 corresponding adjustments by calendar year rule</li> <li>• 2/CMA.3 final date for corresponding adjustments rule</li> <li>• 4/CMA.6 final first transfer for OIMP rule 4/CMA.6 duration of authorization rule</li> <li>• 4/CMA.6 change of authorization rules</li> </ul> | <p>The Reversal Risk Buffer Pool Account's holdings will be affected by changes to authorization, which could include removing the authorization of the A6.4ERs (the implication of limited duration authorizations for which the duration has expired) or changing the authorized uses of the A6.4ERs whereby the cancellation of the A6.4ER from the Reversal Risk Buffer Pool Account does not trigger a first transfer (explored below).</p> <p>This issue could create an avenue for minimizing or circumventing the contribution of AERs to the Reversal Risk Buffer Pool and any associated corresponding adjustment obligations. Additionally, where changes to authorizations are made to A6.4ERs held by the Reversal Risk Buffer Pool Account disproportionately to the A6.4ERs issued by the activity and available to the market, this will cause a misalignment between the Reversal Risk Buffer Pool Account's proportion of AERs and those in the market for which it is responsible for remediating</p>                                                                                                                                                                                                                                                                                                                               |
| <b>Inconsistent first transfer implications for cancellations from Reversal Risk Buffer Pool Account</b>                      | <ul style="list-style-type: none"> <li>• 2/CMA.3 corresponding adjustments by calendar year rule</li> <li>• 2/CMA.3 first transfer definition rule</li> <li>• 4/CMA.6 first transfer specification by the participating Party rule</li> <li>• 4/CMA.6 dual authorization first transfer rule</li> </ul>                    | <p>A6.4ERs authorized for NDC use only will never be first transferred, even when their cancellation from the Reversal Risk Buffer Pool account is before the final date for corresponding adjustments, as they are never "internationally transferred".</p> <p>Conversely, AERs in the Reversal Risk Buffer Pool Account that have been authorized for use towards OIMP with the definition of first transfer as their use or cancellation, when cancelled from the Reversal Risk Buffer Pool prior to their final date for corresponding adjustments, will be identified as first transferred as pursuant to CMA guidance and their cancellation will thereby constitute a first transfer. Additionally, where A6.4ERs from other activities are cancelled to remediate a reversal (where A6.4ERs from the activity experiencing the reversal are not available), and this cancellation triggers a first transfer, the corresponding adjustment must be undertaken by the first transferring Party (not the Party experiencing the reversal). This may be an unexpected liability to the host Party that must undertake a corresponding adjustment in respect of the cancellation. Further, this accounting implication which is unrelated to the reversal event may dilute the transparency of the accounting for activities involving removals</p> |

| Issue title                                                                                         | Relevant CMA guidance                                                                                                                                                                                                                                                                                                                                                                                                          | Summary of issue raised for the Reversal Risk Buffer Pool Account (explored in further detail in the sections that follow)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Replenishment of A6.4ERs to the Reversal Risk Buffer Pool Account following a reversal event</b> | <ul style="list-style-type: none"> <li>• 2/CMA.3 corresponding adjustments by calendar year rule</li> <li>• 2/CMA.3 final date for corresponding adjustments rule</li> <li>• 2/CMA.3 first transfer definition rule</li> <li>• 4/CMA.6 first transfer specification by the participating Party rule</li> <li>• 4/CMA.6 dual authorization first transfer rule</li> <li>• 4/CMA.6 final first transfer for OIMP rule</li> </ul> | <p>For avoidable reversals for which A6.4ERs have been cancelled from the Reversal Risk Buffer Pool Account, activity participants are liable for replenishing the Reversal Risk Buffer Pool Account by forwarding the equivalent amount and type (MCUs or AERs) of A6.4ERs to the Reversal Risk Buffer Pool Account within a timeframe to be specified by the Supervisory Body.</p> <p>There is potential for the differing accounting implications of AERs (i.e., whether they are already first transferred, and whether they are eligible for a first transfer upon cancellation from the Reversal Risk Buffer Pool Account, and the remaining years of their eligibility for first transfer) to be navigated to minimizing or circumventing the any accounting liabilities associated with the AERs contributed to the Reversal Risk Buffer Pool Account.</p> <p>Additionally, activity participants are required to replenish the Reversal Risk Buffer Pool Account by “forwarding” the necessary A6.4ERs. Pursuant to the Registry Procedure the term, “forward” refers to the movement of an A6.4ER from the pending account, which is only possible after issuance. This means the activity participants are only able to fulfil their replenishment obligations utilizing newly issued A6.4ERs. Depending on the number of issuances made following an avoidable reversal event, this may practically limit the activity participants’ ability to fulfil their replenishment obligations</p> |

## **5.2. Initial contribution of AERs and the inconsistent corresponding adjustment implications depending on authorized uses**

21. Pursuant to decision 2/CMA.3, annex, paragraph 2, the first transfer of a mitigation outcome is:
  - (a) For a mitigation outcome authorized by a participating Party for use towards the achievement of an NDC, the first international transfer of the mitigation outcome; or
  - (b) For a mitigation outcome authorized by a participating Party for use for other international mitigation purposes, (1) the authorization, (2) the issuance or (3) the use or cancellation of the mitigation outcome, as specified by the participating Party.
22. Pursuant to decision 4/CMA.6, paragraph 12, where a first transferring Party has authorized the use of the same mitigation outcome towards achievement of NDCs or towards other international mitigation purposes, the first transfer shall be recorded for the earlier of:
  - (a) The first international transfer of the mitigation outcome, pursuant to 2/CMA.3, annex, paragraph 2(a);
  - (b) The first transfer of the mitigation outcome, as specified by the first transferring Party, pursuant to decision 2/CMA.3, annex, paragraph 2(b).
23. Further, pursuant to decision 4/CMA.6, paragraph 15, each participating Party shall specify how it defines first transfer pursuant to decision 2/CMA.3, annex, paragraph 2(b), consistently for a given cooperative approach, while noting that it may choose to define “first transfer” differently for different cooperative approaches in which the Party participates.
24. The Removals Standard requires, where an activity is determined to have a risk of reversal, an amount of A6.4ERs proportionate to the issuing activity’s risk rating for both avoidable and unavoidable reversals to be forwarded to the Reversal Risk Buffer Pool Account.<sup>20</sup>
25. Applying the CMA guidance discussed in paragraphs 21 and 23, where an activity issued AERs authorized for use towards OIMP with the definition of first transfer as either authorization or issuance, those AERs will be identified as first transferred when they are issued in the mechanism registry. This means they will already be first transferred when they are forwarded to the Reversal Risk Buffer Pool Account. Further, where an activity issued AERs authorized for use towards NDC and/or authorized for use for OIMP with the first transfer definition as the use or cancellation of the mitigation outcome, the A6.4ERs would be authorized but not yet first transferred. Relevant to these AERs, the Reversals Standard providing that the contributions of AERs to the Reversal Risk Buffer Pool are to

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<sup>20</sup> Paragraph 39 of the “Standard: Requirements for activities involving removals under the Article 6.4 mechanism”, version 1.0.

be considered “forwarded” without effecting a first transfer pending a future decision by the Supervisory Body.<sup>21</sup>

26. This means the A6.4ERs being contributed to the Reversal Risk Buffer Pool Account do not have uniform corresponding adjustment implications, but rather the Reversal Risk Buffer Pool Account will be formed of a combination of AERs that have not been first transferred (contributing to the host’s NDC), and AERs that have been first transferred (adjusted from the host’s NDC).

### **5.3. Issues related to A6.4ER type (MCU and AER) and the holdings of the Reversal Risk Buffer Pool Account**

#### **5.3.1. Holdings of the Reversal Risk Buffer Pool Account affected by final date for accounting**

27. Pursuant to decision 2/CMA.3, annex, paragraphs 8, 9 and 10, each participating Party must apply corresponding adjustments, by adding the quantity of ITMOs authorized and first transferred, for the calendar year in which the mitigation outcomes occurred.
28. Pursuant to decision 2/CMA.3, annex, paragraph 12, additions and subtractions for an NDC implementation period shall be considered final, prior to the initiation of the review of the first BTR that contains information on the end year or end of the period of the NDC, by a date to be determined by the CMA. Pursuant to paragraph 14 of decision 4/CMA.6, where a mitigation outcome has been authorized for use for OIMP pursuant to decision 2/CMA.3, annex, paragraph 2(b), the first transfer for the mitigation outcome shall be recorded no later than 31 December of the year prior to the submission of the BTR referred to in decision 2/CMA.3, annex, paragraph 12, for the NDC period in which the mitigation outcome occurred.
29. As noted in paragraph 26 above, the holdings of the Reversal Risk Buffer Pool will include a combination of AERs that have not been first transferred and AERs that have been first transferred.
30. The first transfer of an A6.4ER can only be undertaken prior to the final date for accounting, which depending on the authorization of the A6.4ER, will either be prior to the initiation of the review of the first BTR that contains information on the end year or end of the period of the NDC, by a date determined by the CMA, or 31 December the year prior to the submission of that BTR. After this final date, the authorization of A6.4ERs that undertook to complete a corresponding adjustment upon first transfer is no longer applicable as the corresponding adjustment to the calendar year in respect of which the A6.4ER was issued is no longer possible.
31. The Registry Procedure reflects this accounting limitation by providing that after the applicable final date for first transfer, each AER that has not been first transferred will be updated to be an MCU.
32. This affects the Reversal Risk Buffer Pool as all AERs that have not already been first transferred will be updated to be MCUs after their final date for first transfer has passed. While the final date for first transfer will vary by authorized uses and by Party depending

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<sup>21</sup> Footnotes 3 and 24 of the “Standard: Addressing non-permanence and reversals in mechanism methodologies”.

on when they submit the respective BTR, this date is likely to apply widely in the early years of each new NDC period. Consequently, the Reversal Risk Buffer Pool account is likely to experience a significant update to its holdings in these early years of each NDC period with all AERs that have not been first transferred being converted to MCUs. As a result, the Reversal Risk Buffer Pool is unable to retain the necessary liquidity to remediate for reversal events of AERs over multiple NDC periods.

### **5.3.2. Holdings of the Reversal Risk Buffer Pool Account unaffected by post-issuance authorizations**

33. Pursuant to decision 6/CMA.6, paragraphs 10– 14, each Article 6.4 activity host Party must provide to the Supervisory Body a statement of authorization for Article 6.4 emission reductions for their authorization status to be assigned upon issuance. This statement may provide for the issuance of MCUs that the host Party may authorize at a later stage, provided the affected Article 6.4 emission reductions are still held by the mitigation activity participants, have not been transferred in or out of the mechanism registry, and applying corresponding adjustments in respect of the Article 6.4 emission reductions already forwarded for the share of proceeds 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, and provided the statement of authorization is provided within the timeframe specified by the Supervisory Body, if applicable.
34. As discussed in paragraph 24 above, pursuant to the Removals Standard, contributions to the Reversal Risk Buffer Pool Account are to be made upon issuance, informed by the percentage-based risk-rating calculation. The regulatory documents relating to the Reversal Risk Buffer Pool Account do not address authorization type in relation to the contributions to the account. Presumably, the percentage-based risk-rating calculation is to apply to each type of A6.4ER from each issuance batch.
35. As discussed in paragraph 33 above, host Parties have the ability to issue MCUs and later determine them authorized; and pursuant to CMA guidance, where a host Party provides a post-issuance authorization, it must apply to those A6.4ERs which were already contributed as levies to the Adaptation Fund account and cancelled towards OMGE. This CMA guidance addressing of the Adaptation Fund account and cancellation for OMGE account ensures that A6.4ERs subject to post-issuance authorization are treated equivalent to A6.4ERs authorized at issuance in respect of corresponding adjustment obligations for the levy contributions. There is no similar equivalence obligation for post-issuance authorizations in respect of contributions to the Reversal Risk Buffer Pool Account.
36. Applying the CMA requirement that MCUs must be held by activity participants and not transferred in or out of the mechanism registry to be eligible for a post-issuance authorization,<sup>22</sup> those which were contributed to the Reversal Risk Buffer Pool Account are excluded from eligibility (as they are not held by the activity participants and have been transferred (via forwarding from the Pending Account) to the Reversal Risk Buffer Pool Account).
37. This means that, unlike in respect of the Adaptation Fund account and the cancellation for OMGE account, a misalignment arises where post-issuance authorizations are made in

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<sup>22</sup> Paragraph 14 of decision 6/CMA.6 “Further guidance on the mechanism established by Article 6, paragraph 4, of the Paris Agreement”.

respect of an activity subject to reversal risk obligations. In such circumstances, contributions of the activity to the Reversal Risk Buffer Pool are not subject to the post-issuance authorization as though the authorization had been provided upon issuance. This difference in treatment could potentially create an avenue for deferring the applicability of authorizations to the Reversal Risk Buffer Pool contributions and therefore warrants further consideration by the Supervisory Body.

### **5.3.3. Holdings of Reversal Risk Buffer Pool Account affected by limited duration authorizations and changes to authorization**

38. Pursuant to CMA guidance pertaining to the authorization of A6.4ERs, host Parties may:
  - (a) Provide an authorization of an AER that is limited in duration (determining a shorter time period for which a first transfer may occur than the accounting rules already impose);
  - (b) Change the authorization of AERs that have not been first transferred; and
  - (c) Where an AER has been first transferred but the authorization provided circumstances in which changes to authorization may occur and a description of the processes for managing the changes in a way that avoids double counting, change the authorization of the AER.
39. In respect of the Reversal Risk Buffer Pool, its holdings may be affected by such changes to authorization, which could include, removing the authorization of the A6.4ERs or changing the authorized uses of the A6.4ERs whereby the cancellation of the A6.4ER from the Reversal Risk Buffer Pool Account does not trigger a first transfer (explored in 5.4.1 below).
40. Such changes to authorization could be used as an avenue for evading the contribution of AERs to the Reversal Risk Buffer Pool account and/or avoiding any associated corresponding adjustment obligations.
41. Further, where changes to authorizations are made to A6.4ERs held by the Reversal Risk Buffer Pool Account disproportionately to the A6.4ERs issued by the activity and available to the market, this would cause a misalignment between the Reversal Risk Buffer Pool Account's proportion of AERs and those in the market for which the account is responsible for remediating. This could undermine the Reversal Risk Buffer Pool account's ability to maintain liquidity in its holdings proportionate to the A6.4ER types it proposes to remediate.

## **5.4. Issues related to A6.4ER type (MCU and AER) and cancellations from the Reversal Risk Buffer Pool Account**

### **5.4.1. Inconsistent first transfer implications for cancellations from the Reversal Risk Buffer Pool Account**

42. As discussed in paragraph 27 above, pursuant to decision 2/CMA.3, annex, paragraphs 8, 9 and 10, each participating Party must apply corresponding adjustments by adding the quantity of ITMOs authorized and first transferred, for the calendar year in which the

mitigation outcomes occurred. Further, as discussed in paragraph 21 above, pursuant to decision 2/CMA.3, annex, paragraph 2, the first transfer of a mitigation outcome is:

- (a) For a mitigation outcome authorized by a participating Party for use towards the achievement of an NDC, the first international transfer of the mitigation outcome; or
  - (b) For a mitigation outcome authorized by a participating Party for use for other international mitigation purposes, (1) the authorization, (2) the issuance or (3) the use or cancellation of the mitigation outcome, as specified by the participating Party.
43. Further, as discussed in paragraph 23 above, pursuant to decision 4/CMA.6, paragraph 15, each participating Party shall specify how it defines first transfer pursuant to decision 2/CMA.3, annex, paragraph 2(b), consistently for a given cooperative approach, while noting that it may choose to define “first transfer” differently for different cooperative approaches in which the Party participates.
44. Additionally, as discussed in 22 above, pursuant to decision 4/CMA.6, paragraph 12, where a first transferring Party has authorized the use of the same mitigation outcome towards achievement of NDCs or towards OIMP, the first transfer shall be recorded for the earlier of:
- (a) The first international transfer of the mitigation outcome, pursuant to 2/CMA.3, annex, paragraph 2(a);
  - (b) The first transfer of the mitigation outcome, as specified by the first transferring Party, pursuant to decision 2/CMA.3, annex, paragraph 2(b).
45. As noted in paragraph 26 above, current guidance pertaining to the Reversal Risk Buffer Pool Account determines that a combination of AERs will be contributed to the Reversal Risk Buffer Pool Account, some that have been first transferred and some that have not. As also explored above, those that have not yet been first transferred may only be first transferred up until their applicable final date for first transfer, after which all non-first transferred AERs will become MCUs (reflecting their inability to be correspondingly adjusted).
46. Pursuant to 2/CMA.3’s guidance on triggers for first transfer (as above in paragraph 42), AERs that have been authorized for use towards NDC only will only be first transferred upon international transfer. Unless their cancellation from the Reversal Risk Buffer Pool Account were determined to constitute an international transfer (similar to the CMA’s determination of those cancelled for OMGE triggering a first transfer), these AERs authorized for use towards NDC only will never be first transferred, even when their cancellation from the Reversal Risk Buffer Pool account is before the final date for corresponding adjustments, as they are never “internationally transferred”.
47. Conversely, pursuant to 2/CMA.3’s guidance on triggers for first transfer (as above in paragraph 42), AERs in the Reversal Risk Buffer Pool Account that have been authorized for use towards OIMP with the definition of first transfer as their use or cancellation, when cancelled from the Reversal Risk Buffer Pool prior to their final date for corresponding adjustments, will be identified as first transferred.

48. This means the accounting implications on the holdings of AERs in the Reversal Risk Buffer Pool Account differ depending on:
- (a) Whether the AER was first transferred prior to entering the Reversal Risk Buffer Pool Account;
  - (b) Where the AER was not first transferred prior to entering the Reversal Risk Buffer Pool Account:
    - (i) Whether the AER is cancelled prior to its applicable final date for first transfer; and
    - (ii) The authorized use of the AER.
49. Lastly, according to the Reversals Information note, in the event of a reversal, A6.4ERs from other activities may be cancelled where A6.4ERs from the activity experiencing the reversal are not available. The Supervisory Body should note that where AERs from another activity are cancelled to remediate for a reversal and that cancellation triggers a first transfer, the corresponding adjustment must be undertaken by the first transferring Party. This means the first transfer will only be undertaken by the Party experiencing the reversal, if the A6.4ER which is cancelled was from an activity also hosted by the same host Party (meaning it is the same first transferring Party). If it is not the same Party, this cancellation and any corresponding accounting liability may be an unexpected obligation for this different Party which is not associated to the reversal event.

## **5.5. Issues related to A6.4ER type (MCU and AER) and replenishment of the Reversal Risk Buffer Pool Account following a reversal event**

### **5.5.1. Inconsistent accounting implications of AERs creating an avenue for avoiding accounting liabilities in respect of replenishment obligations**

50. As discussed in 27 and 42 above, pursuant to decision 2/CMA.3, annex, paragraph 8, 9 and 10, each participating Party must apply corresponding adjustments by adding the quantity of ITMOs authorized and first transferred, for the calendar year in which the mitigation outcomes occurred. Further, as discussed in 21 above, pursuant to decision 2/CMA.3, annex, paragraph 2, the first transfer of a mitigation outcome is:
- (a) For a mitigation outcome authorized by a participating Party for use towards the achievement of an NDC, the first international transfer of the mitigation outcome; or
  - (b) For a mitigation outcome authorized by a participating Party for use for other international mitigation purposes, (1) the authorization, (2) the issuance or (3) the use or cancellation of the mitigation outcome, as specified by the participating Party.
51. Further, as discussed in paragraphs 23 and 43 above, pursuant to decision 4/CMA.6, paragraph 15, each participating Party shall specify how it defines first transfer pursuant to decision 2/CMA.3, annex, paragraph 2(b), consistently for a given cooperative approach, while noting that it may choose to define “first transfer” differently for different cooperative approaches in which the Party participates.

52. Additionally, as discussed in paragraphs 22 and 44 above, pursuant to decision 4/CMA.6, paragraph 12, where a first transferring Party has authorized the use of the same mitigation outcome towards achievement of NDCs or towards OIMP, the first transfer shall be recorded for the earlier of:
  - (a) The first international transfer of the mitigation outcome, pursuant to 2/CMA.3, annex, paragraph 2(a);
  - (b) The first transfer of the mitigation outcome, as specified by the first transferring Party, pursuant to decision 2/CMA.3, annex, paragraph 2(b).
53. As discussed in paragraphs 27 and 28 above, pursuant to decision 2/CMA.3, paragraphs 8 – 10 and 12, each participating Party must apply corresponding adjustments by adding the quantity of ITMOs authorized and first transferred, for the calendar year in which the mitigation outcomes occurred, and additions and subtractions for an NDC implementation period shall be considered final, prior to the initiation of the review of the first BTR that contains information on the end year or end of the period of the NDC, by a date to be determined by the CMA. Further, as discussed in paragraph 23, pursuant to decision 4/CMA.6, where a mitigation outcome has been authorized for use for OIMP, the first transfer for the mitigation outcome shall be recorded no later than 31 December of the year prior to the submission of the aforementioned BTR.
54. Pursuant to the Removals Standard, for avoidable reversals for which A6.4ERs have been cancelled from the Reversal Risk Buffer Pool Account, activity participants are liable for replenishing the Reversal Risk Buffer Pool Account by forwarding the equivalent amount and type (MCU and AER) of A6.4ERs to the Reversal Risk Buffer Pool Account within a timeframe to be specified by the Supervisory Body.<sup>23</sup>
55. Where activity participants are liable for replenishing AERs, the differing accounting implications, depending on whether a first transfer is applicable to the AERs, are particularly relevant as they may be navigated as to evade accounting liabilities associated with the contributions.
56. For example, it is possible to:
  - (a) Source AERs for their replenishment obligations which are authorized for NDC use only, meaning that regardless of when they may be cancelled from the Reversal Risk Buffer Pool Account, these will never implicate the host Party with a corresponding adjustment liability;
  - (b) Source AERs for which there is a very limited time period remaining prior to the final date for first transfer, and even where their cancellation from the Reversal Risk Buffer Pool Account would have corresponding adjustment implications, there is a very slim likelihood of their cancellation from the Reversal Risk Buffer Pool Account prior to the final date for their first transfer and their update to MCUs is imminent; or
  - (c) Source AERs for their replenishment obligations from an activity from another host Party so as to shift any corresponding adjustment liability from their own host Party.

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<sup>23</sup> Paragraph 58, “Standard: Requirements for activities involving removals under the Article 6.4 mechanism”, version 01.0.

## 5.5.2. Ability to fulfil replenishment obligations limited to newly issued A6.4ERs

57. Notably, in regards to this obligation to replenish the Reversal Risk Buffer Pool account, as discussed in paragraph 54 above, the language used requires the activity participant to “forward” the necessary A6.4ERs. Pursuant to the Registry Procedure, the term “forward” refers to the movement of an A6.4ER from the pending account, which is only possible after issuance. This means the activity participants are only able to fulfil their replenishment obligations utilizing newly issued A6.4ERs. Depending on the number of issuances made following an avoidable reversal event, this may practically limit the activity participant’s ability to fulfil its replenishment obligations.

## 6. Solutions

58. Noting the issues raised by the CMA accounting guidance in respect of the operation of the Reversal Risk Buffer pool, the Supervisory Body has two possible approaches, as follows:

- (a) Approach A: The Supervisory Body may wish to maintain the Reversal Risk Buffer Pool account approach to addressing reversals for all A6.4ERs. Where this is the case, the Supervisory Body has the following options:
  - (i) Option 1: Keep the status quo while acknowledging the inconsistent accounting implications of the Reversal Risk Buffer Pool approach to addressing reversals and how this may limit the effective remediation of reversals in respect of A6.4ER type; or
  - (ii) Option 2: Further develop the guidance pertaining to the Reversal Risk Buffer Pool approach to addressing reversals so as to ensure consistent accounting implications for host Parties. There are two sub-options for this:
    - a. Option 2.1: Reconsider A6.4ER type as the key fungibility aspect and determine that all Buffer A6.4ERs shall be accounted for as MCUs (note, CMA guidance required to implement this option);
    - b. Option 2.2: Maintain A6.4ER type as the key fungibility aspect and determine that contributing AERs trigger a first transfer (note, CMA guidance required to implement this option);
- (b) Approach B: The Supervisory Body may wish to develop an alternative solution for remediating reversals that aligns with the accounting context of Article 6.

59. These approaches are explored in turn below.

### 6.1. Approach A: Maintain Reversal Risk Buffer Pool account approach to addressing reversals for all A6.4ERs

#### 6.1.1. Option 1: Keep the status quo while acknowledging the inconsistent accounting implications of the Reversal Risk Buffer Pool approach to addressing reversals and how this may limit the effective remediation of reversals in respect of A6.4ER type

60. The Supervisory Body may wish to take note of the issues raised in this concept note and proceed with the development of the Reversal Risk Buffer Pool approach taking no action to address these issues.

**6.1.2. Option 2: Further develop the guidance pertaining to the Reversal Risk Buffer Pool approach for addressing reversals as to ensure consistent accounting implications for host Parties**

**6.1.2.1. Option 2.1: Reconsider authorization as the key fungibility aspect of the Reversal Risk Buffer Pool Account with all Buffer A6.4ERs treated as MCUs**

61. As discussed above, the Supervisory Body has determined the A6.4ER type (MCU or AER) as the key fungibility aspect of the A6.4ERs in the buffer pool.
62. As also discussed, reliance on type of A6.4ER (MCU and AER) in respect fungibility for the operation of the buffer pool creates inconsistent accounting implications which do not necessarily represent the Buffer A6.4ERs market equivalent. Notably, there are other aspects of A6.4ERs which remain consistent with their market equivalents throughout their potential lifetime in the Reversal Risk Buffer Pool – for example, the representation of each A6.4ER as representing 1 tonne of CO<sub>2</sub> equivalent.
63. If the Supervisory Body wished to ensure consistent accounting implications in respect of the operation of the Reversal Risk Buffer Pool, one solution would be determining the representation of each A6.4ER as 1 tonne of CO<sub>2</sub> equivalent as the key fungibility aspect in respect of A6.4ERs in the buffer pool, with all Buffer A6.4ERs treated as MCUs so as to ensure consistent accounting implications.
64. The Supervisory Body would need to seek CMA guidance to enable this approach as the A6.4ERs determined for contribution to the buffer pool would require special treatment as compared to their market equivalents in respect of any necessary exemption from authorization and its implications. For example, where a host Party provided authorization for all A6.4ERs to be issued from an activity, pursuant to current CMA guidance, A6.4ERs from that activity are to be issued as AERs and upon their first transfer the host Party is required to undertake a corresponding adjustment in their respect. Where that activity participant was required to make a contribution to the buffer pool (either on initial issuance or after a reversal event), the CMA would need to recognize that the portion of A6.4ERs determined for contribution to the buffer pool would need to be issued as MCUs, or for the point of transfer to the reversal risk buffer pool, any previously applicable authorization is to be treated as not applicable (in the case of AERs contributed after a remediation event).
65. Taking this approach, the Supervisory Body could avoid inconsistent accounting implications resulting from the Reversal Risk Buffer Pool which may or may not represent the accounting implications of the Buffer A6.4ERs market equivalents. However, taking this approach whereby Buffer A6.4ERs are all MCUs would mean there is no accounting-equivalent permanence mechanism for AERs.
66. If the Supervisory Body wished to pursue this option, it would need to seek such CMA guidance via a recommendation in its annual report.

**6.1.2.2. Option 2.2: Maintain A6.4ER type as key the fungibility aspect with first transfer triggered on contribution to Reversal Risk Buffer Pool account**

67. If the Supervisory Body wished to maintain A6.4ER type (MCU or AER) as the key fungible aspect in respect of the buffer pool's operation, the inconsistent accounting implications resulting from the authorized uses, the final date for first transfer, and the cancellation from

the buffer pool could be made consistent if all AERs were to be determined first transferred upon their contribution to the Reversal Risk Buffer Pool.<sup>24</sup> This would:

- (a) Ensure that host Parties are able to fulfil their commitment to undertake a corresponding adjustment in respect of Buffer AERs, as the first transfer event would occur before the final date for a corresponding adjustment regardless of the authorized uses,<sup>25</sup> thereby ensuring that the Buffer AERs represent the same NDC impact commitment as the market use of AERs they underpin; and
  - (b) Provide better liquidity to the Reversal Risk Buffer Pool Account as the AERs held would be unaffected by the end of the NDC period since they have already been first transferred (meaning no shortage occurring at the end/start of each NDC period).
68. The Supervisory Body would also need to seek CMA guidance in respect of this solution as A6.4ERs contributed to the buffer pool would require special treatment as compared to their market equivalents whereby their transfer to the Reversal Risk Buffer Pool would need to be determined a trigger for first transfer (even where it would not have otherwise have been; for example, if the AER was authorized for use towards NDC and technically no international transfer has been made). The CMA guidance required would be similar to the treatment of AERs contributed to the Adaptation Fund whereby regardless of the authorized uses of the AER, if not already first transferred, the AER would be first transferred upon its contribution to the Reversal Risk Buffer Pool.
69. If the Supervisory Body wished to seek such CMA guidance, it may consider making such a recommendation in its annual report to the CMA.
70. Notably, this solution had been considered previously by the Supervisory Body, where concerns were raised that host Parties would be faced with a double burden in their accounting. This concern is valid only where the host Party's inventory is granular enough to capture the reversal, which is included in their NDC and not accounted separately. This concern is based on the fact that when a reversal occurs in respect of an activity that has issued AERs that have been first transferred, depending on the granularity of the inventory accounting, the host Party may be faced with the reversed emissions in its inventory, and they will have already committed to undertake a corresponding adjustment in respect of any first transferred AERs contributed to the Reversal Risk Buffer Pool account. This corresponding adjustment would result in a net increase to the host Party's balance (on top of the emissions from the reversal).
71. This risk of a net-increase to their emissions balance would be an important factor for host Parties to consider in respect of activities at risk of reversal. Notably, the mechanism's methodological and activity registration requirements enable host Parties to manage the likelihood of such a scenario occurring. This includes requiring reversal risk assessments for all activities involving a risk of reversal (thereby providing a detailed analysis of the

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<sup>24</sup> Where the AER is not already first transferred.

<sup>25</sup> Except those authorized for OIMP only and issued between 31 December of the year prior to the submission of the final BTR for the NDC period and the submission of the final BTR for the NDC period, to which the final date for corresponding adjustment will apply retroactively and require remediation by any Parties involved as to avoid double counting. Note, this issue requires wider consideration by the CMA as there are equivalent implications on the Adaptation Fund and Overall Mitigation of Global Emissions Cancellation account which also need addressing.

likelihood of reversal events) and host Parties maintaining ultimate authority for approving all activities operating in their jurisdiction via the host Party approval process.

## **6.2. Approach B: Develop an alternative solution for remediating reversals that aligns with the accounting context of Article 6**

72. Where the Supervisory Body was not satisfied with the accounting implications of the Reversal Risk Buffer Pool approach to addressing reversals, nor the two options explored in Approach A to ensure consistent accounting with the approach, the Supervisory Body may wish to consider developing an alternative solution to addressing reversals of AERs that aligns with the accounting context of Article 6.
73. By way of context, as explored above, the voluntary carbon market developed buffer pool mechanisms to address reversals. The Article 6 market differs notably from the voluntary carbon market as it is inherently based on Party accounting obligations which were absent in the voluntary carbon market. Pursuant to the Paris Agreement, Parties must maintain NDCs that they intend to achieve. Where a Party hosts an Article 6.4 activity that experiences a reversal, provided the reversal is reflected in that Party's inventory and NDC accounting, the obligation to remediate the reversal is already reflected in the increased mitigation obligation on the host Party in order to achieve its NDC. By nature, this means that any permanence mechanism introduced by the Supervisory Body is, at framework level,<sup>26</sup> in addition to this accounting mechanism already inherent in the Paris Agreement framework.
74. Reflecting on this markedly different setting of the Article 6 market as compared to the voluntary market which developed buffer pool mechanisms, the Supervisory Body could explore the development of an alternative solution for remediating reversals that aligns with the accounting context of Article 6 (noting such a solution may require CMA guidance). There are a number of scenarios the Supervisory Body would need to consider due to inconsistencies identified in the concept note between Article 6 and NDC accounting (including NDC coverage), the inventory reporting methodologies and activity level removal calculations.
75. If the Supervisory Body wished to pursue this option, it may wish to task further work on the exploration of a solution for remediating reversals that aligned with the Article 6 accounting context to either the secretariat or the MEP, with consideration of all relevant CMA guidance and the issues raised in this concept note.
76. Depending on the alternative solution explored by the Supervisory Body, this could be considered as a solution for addressing reversals for all A6.4ERs, or as a solution in parallel to a Reversal Risk Buffer Pool approach. This would need to be considered by the Supervisory Body once the concept of an alternative solution was further developed.

## **7. Impacts**

77. The Article 6.4 mechanism's system for addressing reversals is critical for ensuring the ongoing environmental integrity of the mechanism. Decisions by the Supervisory Body in respect of remediation of reversals will have direct impacts on the integrity of the

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<sup>26</sup> As the reflection of any emission or emission reduction or removal in Party accounting depends on the granularity and scope of that Party's accounting.

mechanism in respect of activities involving risk of reversals, and accordingly, the mechanism's reputation and market uptake.

## 8. Subsequent work and timelines

78. Depending on the Supervisory Body's chosen course of action regarding the issues and options explored in this concept note, it may wish to consider:
- (a) Recommending action by the CMA via the Supervisory Body's annual report (under consideration at this meeting);
  - (b) Mandating further work by either the secretariat or the MEP; or
  - (c) A combination of the above.
79. Where the Supervisory Body needs to update the regulatory documents pertaining to activities involving removals, it may wish to consider mandating a concept note on the updates necessary and timelines for delivering such updates pursuant to the Supervisory Body's development of its workplan for 2027.

## 9. Recommendations to the Supervisory Body

80. The secretariat recommends that the Supervisory Body consider the issues raised by the Reversal Risk Buffer Pool approach to addressing reversals in respect of the Article 6 accounting guidance, and provide guidance pursuant to the solutions described in section 6.

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### Document information

| <i>Version</i>                                                                                                                                                                                    | <i>Date</i>       | <i>Description</i>                                        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-----------------------------------------------------------|
| 01.0                                                                                                                                                                                              | 21 September 2026 | Published as an annex to the annotated agenda of SBM 023. |
| Decision Class: Regulatory<br>Document Type: Information note<br>Business Function: Governance, Registry<br>Keywords: A6.4 mechanism, A6.4ERs, NDC, registry accounts, reversals, risk assessment |                   |                                                           |