6th July 2024

Subject: A6.4 Options to revise the recommendation on the activities involving removals under the Article 6.4 mechanism

Dear Members of the Article 6.4 Supervisory Body,

In response to your call for inputs for A6.4-SBM013-AA-A12 Options to revise the recommendation on the activities involving removals under the Article 6.4 mechanism, I would like to submit my thoughts.

My focus in the enclosed submissions, addresses only the view of a financial market participant (efficient allocation of capital), and therefore centered on creation of conducive environment to attract Private Capital (Looking for risk adjusted returns) and Capital Commitments of Early buyers (as opposed to only off-take agreements) into Article 6.4 projects

My most humble and sincere thanks for offering the opportunity to make these submissions to the esteemed body and hope to contribute a financial markets' perspective towards operationalizing Article 6.4.

Kind regards
Rahul Goela

rahul.goela@gmail.com
+971 56 3436365

Submissions have been made in personal capacity only

Sections 4.5 Addressing Reversals

Need for addressing Avoidable Reversals through Buffer Pools

I wish to make a case for Supervisory Body to implement mechanism to ensure project proponents are forced to contribute to Buffer Pools to address avoidable reversals, which fall outside the criteria of Para 52 – which address unavoidable reversals and avoidable reversals in specific conditions.

Attracting real money to A6.4 activities will require institutionalizing risk management against avoidable reversals for following reasons:

a. Last 2 years of exponential work towards bringing strong integrity to Carbon markets has been instrumental in attracting Institutional Private Capital to this market. Risk of Avoidable reversals, if not addressed, could potentially disrupt that progress significantly. Historically, regulators by several mechanism such as haircuts, ratings, insurance coverage etc. forced market to address potential risks at onset for Investor's capital. This is extremely important to maintain integrity of A6.4 ER market.

b. Principles of selection of A6.4 credits from similar or higher durability seem to be applicable for avoidable reversals too.

c. Central registry mechanism of use of A6.4 credits for avoidable reversals will ensure investors are able to review past performance of project proponents ensuring stricter compliance to governance frameworks

d. Capital supporting Early Carbon Credit buyers Investment to support projects which deliver Future A6.4ERs will find support from A6.4 Mechanism extremely relevant.

e. Further, security interest on Future A6.4ERs should also include interest over any buffer pool contributions for both unavoidable & avoidable – under specific conditions as well as Avoidable – other than specific conditions – to be included in the security package.

Proposed Mechanism for Avoidable Reversals via uncorrelated Buffer Pools or Private Insurance

a. Each Mitigation Activity may be required to do estimate potential avoidable reversals based on risk assessment of the project.

b. The project sponsors will then be required to work with
   I. Private Insurance companies or
   II. contribute to a6.4 Master Buffer Pool based on the risk assessment

c. A6.4SB may be allocated Commingled Buffer Pool (CBP) A6.4ERs from a Master Buffer pool allocated under B.II for avoidable reversals. This implies that client gets allocation of A6.4ERs of similar projects, vintage or better durability than own A6.4ERs

d. These CBP A6.4ERs should be in a different account, and rights / obligations held with title holder of the A6.4 Activity Account. This account may be referred to as "Avoidable Reversal Buffer Pool Account (AR- BP)"

e. If project sponsors wish to purchase Insurance, Insurance purchased under B.I shall be issued with beneficiary as AR – BP account and therefore the title of the A6.4 account shall be the beneficiary of the insurance proceeds in case of any reversals.

f. A Governance framework may be developed with panel of both Private Carbon Insurance companies as well as Ratings companies, which do take into account risk of avoidable reversals while rating the project.

g. All activities into and out of AR-BP account should be available in Mitigation activity records for investors analysis.

The above will force mitigation activities to address avoidable reversals either by allocating credits to A6.4SB Master Buffer Pool OR Purchasing a Private Insurance.

Thank you very much once again for allowing me to present the above thoughts and opinions and my most sincere wishes to Article 6.4 Supervisory Board members for success in their endeavors.