

5th February 2025

Subject: A6.4 Registry Mechanism: Implementing Financial Security Interests in A6.4ERs

Dear Members of the Article 6.4 Supervisory Body,

In response to your call for inputs for A6.4 - SBM015 – AA - A11 and A12, addressing implementation of Financial Security Interests, I would like to submit my thoughts and opinions.

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 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

At the onset, I wish to provide a high-level picture of how the securitization of A6.4ERs might look like, summarizing key steps critical in implementation of such a framework and then specifically zooming into the sections of A11 and A12 documents.

- A. Recognition of A6.4ERs as an Asset –
 - a. Host parties must implement regulatory and legal framework for recognition of Verified Carbon Credits (VCCs) including A6.4 Credits.
 - b. Project companies must be allowed to recognize these assets on financial statements appropriately in line with global financial reporting standards (GAAP / IFRS)
- B. Segregation of Carbon Project's business activity and Carbon Potential
 - a. Facilitation "Transfer" of A6.4ERs to 3rd Parties or Companies, allowing sale / purchase of asset like any other asset produced in normal course of business
- C. Encumbering Proprietary Rights over A6.4ERs from the bankruptcy estate of the project, allowing Banks and other Capital providers to liquidate the VCCs against Invested or Lent monies

A 11: Analysis of Pros and Cons related to Framing User's rights with regards to control versus confirming ownership of account holdings

Steps A and B above pertain to jurisdictional legal and regulatory framework and in my opinion needs to be an important responsibility of Host Parties.

Further, as stated in Section 5, I do note that UNFCCC secretariat's legal limitations and requirement to protect it from legal disputes.

One way to approach the issue might be to allow an entity outside UNFCCC secretariat – such as an exchange – to facilitate a Sale / Purchase or even a Secured Financing Transaction by holding A6.4 Credits on its own title within UNFCCC Registry and issuing a Warrant / Receipt of Title against it.

The Exchange could be incorporated in a favorable jurisdiction which allows for swift settlement of legal disputes.

Even though, this entity and its operations remain outside UNFCCC secretariat, the A6.4 Registry mechanism may be developed to facilitate entities providing such services, thereby distancing itself from any legal liabilities and acting merely as a facilitating agent.

Such 3rd Parties may be designated separately from Project Sponsors and A6.4 Buyers allowing Capital Providers to identify if the A6.4 Credits are held by such an Exchange and therefore are able to contact Exchange for further identification of true sub-ownership of such A6.4 Credits.

A12: Legal, Technical And Financial Implications of providing functionality for the treatment of financial security interests in A6.4 ERs within the mechanism registry

Step C may be implemented by Registry Mechanism, which is in a unique position of being a global registry of all account holders of A6.4ERs with verified audit trails of credits being generated, approved (incl. revoked approvals) and verified.

Efficiency in Securitized Financing transaction operations is critical to attracting Capital and requires **3 key pillars**

1. Security mechanism should ensure that it is the only global register with pledges on A6.4ERs at Account Level being recorded. These may be
2. Security mechanism must allow quick enforcement – This is important as Capital providers might look for buyers to immediately liquidate the asset. Even though A6.4ERs are not envisaged to have short expiries, Capital providers would like to find buyers quickly to not carry a defaulted obligation for too long
3. Security mechanism must allow self help remedies, which requires clean enforcement (Control of A6.4ERs by Capital providers) post fulfillment of pre-agreed conditions. Seeking approvals from other parties may be subject to delays

The pledge mechanism, fulfilling all 3 features, should therefore bring required comfort to the Capital providers.

Further, if the pledged A6.4 Credits are held in a **segregated sub-account**, specific to the pledge, which is enforced upon by Capital Provider, it will allow

- a. De-recognize A6.4 Credits from Project's balance sheet, and simultaneous recognition of financial consideration received against it via
 - Debit to Project Sponsor Account (consolidated into financial statements)
 - Credit to Sub-account (non-consolidated to Account holder but recognized as Collateral Account for Capital Provider)
- b. Non-commingling of the A6.4 Credits. This would mean a Capital provider who has been pledged specific Vintage remains segregated from other A6.4 credit of different vintage pledged to another Capital Provider. This segregation will be meaningful, as different vintages might carry different price in market.
- c. Allow re-pledging of A6.4 Credits further by Capital provider onwards, if required.

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.