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Article 6.4 Supervisory Body
Via email (A6.4mechanism-info@unfccc.int)

2 May 2025

Dear Sir or Madam,

Re: Kita comment on SBM016 annotated agenda and related annexes

With reference to the call for input on the issues included in the annotated agenda and related annexes of the sixteenth meeting of the Article 6.4 Supervisory Body ("SBM") from 12-16 May 2025 in Bonn, Germany, we are pleased to provide our input on agenda items 3.3.

Kita Earth Limited ("Kita") is a UK carbon insurance company and Lloyd's of London Coverholder. Kita's mission is to enable carbon projects to scale by offering a suite of insurance policies and active risk monitoring services to the carbon markets. Reducing risks in carbon transactions increases confidence for those engaged with these projects and thus unlocks greater flows of capital, allowing carbon projects and their positive climate impacts to scale.

This submission will focus on application of the risk assessment for addressing non-permanence. It specifically addresses avoiding conflicts of interest, utilising sophisticated risk modelling, supporting examples, and potential implications on buffer pool mechanisms.

We trust that this input will be deemed relevant and taken into consideration by the SBM.

Yours sincerely,

Kita Earth Limited

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Agenda Item 3.3: Activity Cycle

Kita's input is in relation to the revision of activity standard for projects and programmes of activities. The related regulatory documents being the draft standard [“Article 6.4 activity standard for projects”] and the draft standard [“Article 6.4 activity standard for programmes of activities”]. Within both documents for the section on ‘Addressing Non-Permanence' (sections 6.5.6 and 7.5.6 respectively), there is reference to a risk assessment as such:

> *The risk assessment shall include:*
> *(e) A risk mitigation plan using the reversal risk assessment tool to be developed by the Supervisory Body to identify, assess and mitigate reversal risks; and*
> *(f) The calculation of an overall percentage-based risk rating (hereinafter referred to as risk rating) that accounts for both avoidable and unavoidable reversals, taking into account, inter alia, the nature, magnitude, likelihood and duration of the risks.*

Like all carbon standards, inclusion of a risk assessment is critical for understanding the expected performance of a carbon project. Kita supports the risk assessment proposal including its proposed scope of coverage and requirement to renew at least every five (5) years.

However, depending on the extent of the application of the results of the risk assessment, we caution against following the traditional approach of the activity participant conducting the risk assessment followed by review and approval of the designated operational entities (DOEs). Even with external review and verification, self-assessment opportunities may encourage activity participants to underreport their risk exposure, which may or may not be caught by the DOEs. If not caught by the DOE and corrected, this could create negative consequences for anyone using the results of the risk assessment. For example, a carbon project financier may use this information as part of their decision-making process for investing in a project. Inaccurate risk assessment results could materially impact their decision to provide financing or not. Another example, if these risk assessment results are used towards buffer pool contributions, as stated in the [“Standard: Requirements for activities involving removals under the Article 6.4 mechanism”], the buffer pool could be ill-equipped for addressing the real risk of reversal as the risk would be under reported.

Kita proposes instead the risk assessments be conducted via a third-party management organization separate from the activity participants, DOEs and the Paris Agreement Crediting Mechanism (PACM). Use of a third-party organization can increase integrity of the risk assessments while reducing conflicts of interest. This type of approach is already widely used within financial markets and is starting to be used within carbon markets.

One example of this approach within the carbon markets is the International Carbon Registry (ICR). ICR operates two buffer pools, one for permanence and another for performance[1]. All projects need to assess their risk of non-performance and non-permanence to determine their contribution to each buffer pool. Currently all projects undergo a standardized assessment by a third-party organization[2] separate from the project proponent and Validation & Verification Body. This ensures no conflict of interest and an entity with appropriate knowledge and experience of carbon project performance and permanence risk is completing the assessments.

A second example within the carbon markets is the Gold Standard. Gold Standard is working on its process to allow the use of insurance for reconciliation of double claimed units for purposes of compliance with the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). Eligible insurance providers for this use case must be reviewed first. Gold Standard appointed an independent insurance broker to review and approve eligible insurance providers thus ensuring no conflict of interest and an entity with appropriate knowledge and experience of carbon insurance is completing the reviews.

Returning to the text within the draft standard "Article 6.4 activity standard for projects" and the draft standard "Article 6.4 activity standard for programmes of activities", Kita takes notice none of the text directly references the risk assessment as the tool that will determine buffer pool contributions. Kita presumes this is the same risk assessment as referenced in the "Standard: Requirements for activities involving removals under the Article 6.4 mechanism". If that is the case, Kita also recommends structuring the risk assessment tool in a manner that also accounts for the structure of the buffer pool. A buffer pool is a portfolio of carbon credits across a variety of carbon projects. That means it is equally important to understand the risk exposure for each project completing the risk assessment as it is to understand the buffer pools aggregate risk exposure.

It is in the Supervisory Body's best interest to regularly stress test the buffer pool and assess its resilience to the range of reversal risk scenarios proposed within the project assessment. It is also important to regularly report on the outputs of the stress testing, to provide transparency and enable trust within the market. Active buffer pool management helps reduce the risk of the PACM buffer becoming unable to perform as intended while increasing operational efficiency. This would be an ongoing specialised task for the Supervisory Body which could also be managed by a qualified third party.

If the Supervisory Body wishes to read more about Kita's perspective on reversal risk management for Article 6.4, please consider this blog.

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[1] ICR Process Requirements v6 'Adjustments' - https://documentation.carbonregistry.com/documentation/icr-program/project-development/procedural/icr-process-requirements-v6.1/version-history/icr-process-requirements-v6.0#toc179717155

[2] Disclosure – Kita is the third-party organization conducting the standard risk assessments.