

A6.4-SB007-AA-A01

Draft annual report of the Supervisory Body
to the CMA

DRAFT

Version 01.0



United Nations
Framework Convention on
Climate Change

COVER NOTE

1. Procedural background

1. In accordance with the rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement (A6.4 mechanism),¹ the Article 6.4 Supervisory Body (hereinafter referred to as the Supervisory Body) reports on its activities to the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) at each of its session. This document is a draft of the Supervisory Body's report to the CMA at its fifth session (CMA 5), pending the inclusion of outcomes from the seventh meeting of the Supervisory Body (SB 007).

2. Purpose

2. This report describes the work undertaken by the Supervisory Body from 7 November 2022 to 14 September 2023. It provides information on progress in implementing the A6.4 mechanism during its second year of operation and includes recommendations for consideration at CMA 5.
3. The report offers an opportunity for the Supervisory Body to make recommendations to and seek guidance from the CMA. Possible recommendations to the CMA still to be decided by the Supervisory Body have been reflected in this draft report with placeholders, as these will be considered through separate agenda items at the seventh meeting. Those recommendations agreed by the Supervisory Body at this meeting will be incorporated in this report after the meeting.

3. Impacts

4. The report describes the status of the A6.4 mechanism, highlights achievements relating to its operation, and provides information on the governance, management, and financial status of the mechanism. The report will constitute an important basis for Parties' negotiations under the CMA agenda item on guidance related to the A6.4 mechanism.

4. Subsequent work and timelines

5. The outcomes of SB 007 will be incorporated into this report by the secretariat after the meeting, in consultation with the Chair and Vice-Chair of the Supervisory Body. The report will then be formatted and edited as an official UNFCCC document for CMA 5.

5. Recommendations to the Supervisory Body

6. The secretariat recommends that the Supervisory Body:
 - (a) Consider and agree on the report, making any adjustments as necessary;
 - (b) Request the secretariat to finalize the report in consultation with the Chair and Vice-Chair of the Supervisory Body, reflecting the outcomes of SB 007.

¹ See Decision 3/CMA.3 annex, contained in document FCCC/PA/CMA/2021/10/Add.1 available at: <https://unfccc.int/documents/460950>. The annex to the decision begins on page 29 (English language version).

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1. Introduction

1.1. Mandate

1. In accordance with the rules, modalities and procedures (RMP) for the mechanism established by Article 6, paragraph 4, of the Paris Agreement (A6.4 mechanism),² the Supervisory Body is required to report annually to the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA). The CMA provides guidance to the Supervisory Body by taking decisions on, inter alia:

- (a) Recommendations made by the Supervisory Body relating to the RMP;
- (b) Matters relating to the operation of the A6.4 mechanism.

1.2. Scope of the report

2. This report covers the work carried out by the Article 6.4 Supervisory Body (hereinafter referred to as the Supervisory Body) from 7 November 2022 to 14 September 2023. This second annual report of the Supervisory Body provides information on progress in implementing the A6.4 mechanism during the reporting period and includes recommendations for consideration at CMA 5.

3. The report describes the status of the A6.4 mechanism, highlights achievements related to its implementation and provides information on the governance, management and financial status of the mechanism.

4. Further information is available on the A6.4 mechanism web pages,³ the central repository for all reports and other documentation relating to the mechanism and the Supervisory Body.

1.3. Action to be taken by the CMA

5. The CMA is recommended to take note of this report and that it considers the recommendations contained in it, as appropriate.

1.4. Recommendations for the CMA

6. The Supervisory Body recommends that the CMA:

- (a) Note the progress of the Supervisory Body with regard to the mandates in decisions 3/CMA.3 and 7/CMA.4 (see section 2.1 below);
- (b) Adopt the recommendations on activities involving removals, as contained in appendix 1 to this report (see paragraph 9 below); (Placeholder for SB 007)
- (c) Adopt the recommendations on the application of methodologies requirement, as contained in appendix 2 to this report (see paragraph 2.1.2 below); (Placeholder for SB 007)

² See Decision 3/CMA.3 annex, contained in document FCCC/PA/CMA/2021/10/Add.1 available at: <https://unfccc.int/documents/460950>. The annex to the decision begins on page 29 (English language version).

³ Available at: <https://unfccc.int/process-and-meetings/the-paris-agreement/article-64-mechanism>.

- (d) Request the Supervisory Body to establish a DNA Forum of the Article 6.4 mechanism to facilitate the exchange of information and experiences among DNAs, including identifying common challenges at regional and sub-regional levels in the operationalization of the Article 6.4 mechanism.

2. Work in the reporting period

2.1. Mandates from the CMA

7. To provide an overview of the issues to be considered by the Body at each meeting during the year and to identify and plan concrete activities arising from the mandates from the CMA, the Supervisory Body approved its workplan for 2023 at SB 004.⁴
8. In its second year of operation, the Supervisory Body focused on those mandates that are to be delivered to the CMA at its fifth session. The following paragraphs (paragraphs 9 - 10) focus on progress made against these immediate mandates. Subsequent paragraphs in this subsection address the remaining mandates from the CMA and the progress made against these mandates.

2.1.1. Activities involving removals

9. Following the request of the CMA, in its decision 7/CMA.4, paragraphs 19 and 20, the Supervisory Body considered 289 inputs from Parties, observers, and stakeholders received through the structured public consultation process and work done by Supervisory Body members in an informal working group to elaborate and further develop recommendations to the CMA on activities involving removals, based on the RMPs. Taking into account inputs received and the mandate provided to the Supervisory Body in paragraph 24(a)(ix) of the RMPs, the Supervisory Body agreed to forward the recommendations contained in appendix 1 to this report for adoption by the CMA at its fifth session. (Placeholder for SB 007)

2.1.2. Application of the methodology requirements

10. Following the request of the CMA, through its decision 7/CMA.4 paragraphs 21 and 22, the Supervisory Body considered 34 inputs received from stakeholders through the structured public consultation process and work done by Supervisory Body members in an informal working group to elaborate and further develop the recommendation on to the CMA on the application of the requirements referred to in chapter V.B of the RMPs (Methodologies). Taking into account the mandate provided to the Supervisory Body, the Supervisory Body agreed to forward the draft recommendations contained in appendix 2 to this report for adoption by the CMA at its fifth session. (Placeholder for SB 007)

2.1.3. Transition of CDM activities

11. Significant progress was made regarding the transition of CDM activities to the Article 6.4 mechanism. In response to the CMA's request as outlined in decision 7/CMA.4 paragraph 23(a), the Supervisory Body agreed to begin receiving requests for the transition of clean development mechanism (CDM) activities to the Article 6.4 mechanism from their project participants starting 30 June 2023. Additionally, the Supervisory Body

⁴ The 2023 workplan is available at https://unfccc.int/sites/default/files/resource/a64-sb006-aa-a01_1.pdf.

adopted the standard⁵ and procedure⁶ for the transition process. In this regard, the Supervisory Body agreed to make them effective from 1 January 2024, subject to the availability of detailed regulatory elements to enable the operationalization of the transition process. These elements are to be developed by the Supervisory Body.

2.1.4. Development of regulations and processes for the implementation of the mechanism

12. The work on regulatory documents related to projects continues to progress. Following the request of the CMA, through its decision 3/CMA.3, paragraph 5(a), the Supervisory Body has considered the activity standard, validation and verification standard, and activity cycle procedure for projects and agreed to have a focused and inclusive stakeholder interaction on them. Based on the draft activity cycle procedure, the development of the necessary IT infrastructure to support the activity cycle procedure will begin.
13. Similarly, following the request of the CMA, through its decision 3/CMA.3, paragraph 5 (a), as well as the provisions in paragraph 35 of the RMPs, the Supervisory Body adopted the procedures on the “Development, revision and clarification of methodologies and methodological tools” and the “Development, revision, clarification and update of standardized baselines”. Necessary arrangements to operationalize these procedures are being prepared with the aim to operationalize such arrangements during the first quarter of 2024.
14. To fulfil the request of the CMA, through its decision 3/CMA.3, paragraph 5 (b), the Supervisory Body has initiated the work in reviewing the baseline and monitoring methodologies in use for the CDM with a view to applying them with revisions as appropriate for the activities under the Article 6.4 mechanism.
15. Regarding the sustainable development tool, the Supervisory Body decided that the use of such tool is mandatory in the Article 6.4 mechanism. Further, following the request of the CMA, through its decision 3/CMA.3, paragraph 5 (c), the Supervisory Body has been reviewing the sustainable development tool in use for the clean development mechanism and other tools and safeguard systems in use in existing market-based mechanisms to promote sustainable development with a view to developing similar tool for the Article 6.4 mechanism by the end of 2023. (Placeholder for SB 007)
16. Following the request of the CMA, through its decision 3/CMA.3, paragraph 5 (d) and (e), the Supervisory Body has been reviewing the accreditation standard and procedure of the CDM with a view to applying them with revisions, as appropriate, for the mechanism by the end of 2023 and to approve the standard and procedure to be able to expeditiously accredit operational entities as designated operational entities (DOEs). (Placeholder for SB 007)
17. Once the accreditation standard and procedure are approved, the Supervisory Body aims for the transition of CDM DOEs to the Article 6.4 mechanism (at least for verification of transition activities) by the second quarter of 2024, following the request of the CMA, through its decision 3/CMA.3 annex, paragraph 24 (b). (Placeholder for SB 007)

⁵ Standard for the transition of CDM activities to the Article 6.4 mechanism is available at <https://unfccc.int/sites/default/files/resource/a64-sb006-a01.pdf>.

⁶ Procedure for the transition of CDM activities to the Article 6.4 mechanism is available at <https://unfccc.int/sites/default/files/resource/a64-sb006-a02.pdf>.

2.1.5. Capacity-building programme

18. Progress has been made in designing and implementing a capacity-building programme to assist Parties wishing to voluntarily participate in the Article 6.4 mechanism. Following the request of the CMA, through its decision 3/CMA.3, paragraph 14, the secretariat, in consultation with the Supervisory Body, has started to implement a five-year capacity-building work programme through the secretariat's regional collaboration centres.⁷

2.1.6. Article 6.4 mechanism registry

19. Following the request of the CMA, through its decision 3/CMA.3 annex, paragraphs 55, 58–61, 63–65, the Supervisory Body considered the modalities for operation of the Article 6.4 mechanism registry and will continue to consider functional aspects and issues that require decision by the Supervisory Body. In parallel, work on developing the requirements for the mechanism registry has advanced. The procurement process for the registry software was launched.

2.1.7. Other considerations by the Supervisory Body

20. Following the request of the CMA, through its decision 3/CMA.3, paragraph 5 (f), the Supervisory Body ensured that special circumstances of least developed countries (LDCs) and small island developing States (SIDS) may be recognized in further decisions of the CMA relating to the Article 6.4 mechanism RMPs. (Placeholder for SB 007)
21. The Supervisory Body agreed to consider, on a case-by-case basis, the inclusion of provisions that specifically address small-scale and micro-scale activities as a means of supporting these businesses in the development of methodologies, including inter alia, simplified additionality, baselines, monitoring, calculations, and validation and verification, following the request of the CMA through its decision 3/CMA.3, paragraph 5 (g).
22. The Supervisory Body also considered matters related to Indigenous Peoples and local communities in the work of the Supervisory Body and the operations of the Article 6.4 mechanism. Following the request of the CMA, through its decision 3/CMA.3, paragraph 5 (h), the Supervisory Body considered opportunities to engage with the Local Communities and Indigenous Peoples Platform and its Facilitative Working Group.
23. Further, following the request of the CMA, through its decision 3/CMA.3, paragraph 5 (i), the Supervisory Body considered the gender action plan and incorporating relevant actions into the work of the Supervisory Body and the operations of the Article 6.4 mechanism.
24. Lastly, following the request of the CMA, through its decision 3/CMA.3 annex, paragraph 21, the Supervisory Body agreed on the decision and documentation framework.

2.2. Communications and outreach

25. The Supervisory Body continued to emphasize the importance of strategic communications in implementing the Article 6.4 mechanism.

⁷ The progress report on the implementation of the capacity-building programme is available at <https://unfccc.int/sites/default/files/resource/a64-sb005-aa-a11.pdf>

3. Governance and management

26. After the adoption of the Rules of Procedure of the Supervisory Body by the CMA at its fourth session, the Supervisory Body applied its Rules of Procedure. In this regard, members and alternate members signed their oath of service, made their curriculum vitae publicly available, and provided statements of conflict of interests for each meeting.
27. The first members and alternate members of the Supervisory Body were initially elected by the CMA at its third session. As this was the initial election, half of the members and their alternate members were elected for a term of three years and the other half for a term of two years. In this regard, twelve members and alternate members' term will come to an end at the first meeting in 2024 and will be replaced by members and alternate members elected by the CMA at its fifth session.
28. At its fourth meeting, the Supervisory Body welcomed Daegyun Oh, a member nominated by the Asia-Pacific regional group, elected by the CMA at its third session to replace the outgoing member Rajasree Ray. The composition of the Supervisory Body in 2023 is presented in table 1.
29. During the reporting period, Maia Tskhvaradze resigned as alternate member of the Supervisory Body. At its seventh meeting, the Supervisory Body decided to appoint a replacement alternate member from the same constituency to serve the remainder of the term on the basis of a nomination from the relevant constituency. (Placeholder for SB 007)

Table 1. Members and alternate members of the Supervisory Body in 2023

<i>Member</i>	<i>Alternate member</i>	<i>Group/constituency</i>
Benedict Chia ^(a)	Kristin Qui ^(a)	Small island developing States
Felipe De León Denegri ^(b)	Eduardo Calvo ^(b)	Latin American and Caribbean States
El Hadji Mbaye Diagne ^(a)	Tirivanhu Muhwati ^(b)	African States
Piotr Dombrowicki ^(b)	Imre Bányász ^(b)	Eastern Europe States
Olga Gassan-zade ^(a)	Maia Tskhvaradze ^(a) (resigned)	Eastern Europe States
Charles Hamilton ^(a)	Derrick Oderson ^(a)	Latin American and Caribbean States
Martin Hession ^(a)	Emily Mathias ^(a)	Western European and other States
Gebru Jember ^(b)	Manjeet Dhakal ^(b)	Least developed countries
Duan Maosheng ^(a)	Maria AlJishi ^(a)	Asia-Pacific States
Daegyun Oh ^(b)	Kazuhisa Koakutsu ^(b)	Asia-Pacific States
Molly Peters-Stanley ^(b)	Simon Fellermeier ^(b)	Western European and other States
Mkhuthazi Steleki ^(b)	Alick Muvundika ^(b)	African States

Article I. Two-year term, ending prior to the first meeting in 2024.

Article II. Three-years term, ending prior to the first meeting in 2025.

30. At its first meeting in 2023, the Supervisory Body elected Olga Gassan-zade and El Hadji Mbaye Diagne as Chair and Vice-Chair, respectively. Their tenures in these roles will end just before the first meeting of the Supervisory Body in 2024.

31. During the reporting period, the Supervisory Body held four meetings (see table 2). The annotated agendas for the meetings, information under consideration, on-demand webcasts, and reports containing all agreements adopted are publicly available on the Supervisory Body’s web page.⁸

Table 2. Meetings of the Supervisory Body in 2023

<i>Meeting</i>	<i>Date</i>	<i>Location</i>
SB 004	7–10 March	Bonn
SB 005	31 May to 3 June	Bonn
SB 006	10–13 July	Bonn
SB 007	10–14 September	Singapore
SB 008	30 October to 2 November	Bonn

32. In accordance with decision 3/CMA.3, during the reporting period, 52 Parties designated and communicated their national authority for the Article 6.4 mechanism to the secretariat.⁹
33. During the reporting period, a webinar took place with the designated national authorities to discuss their views on matters referred to in paragraph 10 above.

3.1. Transparency and interaction with stakeholders

34. The Supervisory Body allowed registered observers to follow the proceedings of the meetings in person or virtually and held interactions with registered observers (in person and virtually) at the end of each of its meetings. The Supervisory Body agreed to keep this practice under review.
35. There was continued interest by registered observers in the meetings of the Supervisory Body. An average of 25 observers have been registered for each meeting. A detailed list of registered observers has been made publicly available as part of the meeting documentation for each meeting.
36. The Supervisory Body considered public inputs received on matters on the agenda for its meetings held during the reporting period. In addition to these inputs, the Supervisory Body opened calls for inputs from stakeholders on specific topics or issues, which helped the Body in its considerations.¹⁰ The Supervisory Body received more than 300 inputs on various topics during the reporting period.
37. At its fourth meeting, the Supervisory Body adopted a procedure, entitled “Procedure: Consideration of unsolicited letters to the Supervisory Body” that sets out the modalities by which the Body considers and processes unsolicited letters sent by the stakeholders.

⁸ Available at: <https://unfccc.int/process-and-meetings/bodies/constituted-bodies/article-64-supervisory-body/meetings-of-the-article-64-supervisory-body>.

⁹ See <https://unfccc.int/process-and-meetings/the-paris-agreement/article-64-mechanism/national-authorities>.

¹⁰ See <https://unfccc.int/process-and-meetings/the-paris-agreement/article-64-mechanism/calls-for-input>

38. Further, with a view to enhancing the engagement and interaction of stakeholders, the Supervisory Body held two webinars prior to its sixth meeting, which were highly attended by a broad range of stakeholders.
39. On 9 November 2022, the Supervisory Body held a side event entitled “Transparency and Expectations from our Stakeholders” on the margins of COP 27.¹¹ In addition, on 10 June 2023, the Supervisory Body held a side event entitled “Status of implementation of the Article 6.4 mechanism” on the margins of the fifty-eighth session of the Subsidiary Bodies. Preparations are currently underway for a side event to be held at COP 28.¹²

3.2. Financial status of the mechanism

40. To streamline its financial arrangements and expedite the implementation of the Article 6.4 mechanism, the Supervisory Body agreed on a two-year business and resource allocation plan. This plan outlines the strategic vision and goals for 2024-2025, expected activities to operationalize the mechanism, and the related resources required. (Placeholder for SB 007)
41. During the reporting period, the Supervisory Body did not engage in any income-generating activities. Table 3 presents the Supervisory Body’s incurred expenses of USD 718,375 in the seven-month period from 1 January to 31 July 2023. Information on incurred expenses for the reporting period in 2022 are included in table 4 below.

Table 3. Expenditure of the Supervisory Body in the period to 1 January to 31 July 2023

<i>Item</i>	<i>Amount (USD)</i>
Staff and other personnel costs	272 810
Contractual services	83 564
Travel	161 190
Operating and other direct costs	119 236
UN programme support costs	81 575
Total	718 375

42. Table 4 displays the expected balance on 31 December 2023. The projected 2023 expenses of USD 2 million will be fully met from the existing balance. Yet, the year-end projected balance will not be sufficient to cover the estimated resource needs for 2024-2025. The Supervisory Body invites the CMA to assist in fundraising and to request the CMP for additional fund allocations from the Trust Fund for the Clean Development Mechanism, tapping into any available surpluses.

¹¹ <https://seors.unfccc.int/seors/reports/archive.html>.

¹² See paragraph x of the 7th meeting report available at: <https://xx>. (Placeholder for SB 007)

Table 4. Projected balance as of 31 December 2023

Item	2022 (Amount in USD)	2023 (Amount in USD)
Carry-over from previous year	30 000 000	29 569 386
Add: Income	—	—
Less: Expenses	430 614	2 000 000^(a)
Total: previous year's carry-over plus income and less expenses	29 569 386	27 569 386

^(a) Projected

4. Abbreviations and acronyms

Table 5. Abbreviations and acronyms

A6.4ER	Article 6, paragraph 4, emission reduction
Article 6.4 mechanism	Mechanism established by Article 6, paragraph 4, of the Paris Agreement
CDM	Clean Development Mechanism
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
CO ₂ eq	carbon dioxide equivalent
DOE	Designated Operating Entities

Appendix 1. Draft recommendations on activities involving removals

Appendix 2. Draft recommendations on application of the methodologies requirements

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