

**A6.4-SB008-A13**

## Draft Recommendation

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# Requirements for the development and assessment of Article 6.4 mechanism methodologies

Version 09.1

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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), at its third session, requested the Supervisory Body of the mechanism established by Article 6, paragraph 4, of the Paris Agreement (Article 6.4 mechanism) to elaborate and further develop recommendations on the application of the requirements referred to in chapter V.B (titled Methodologies) of the rules, modalities and procedures for the Article 6.4 mechanism (RMP)<sup>1</sup> for consideration and adoption by the CMA at its fourth session (November 2022).
2. The CMA, at its fourth session, requested the Supervisory Body to elaborate and further develop recommendations for consideration and adoption by the CMA at its fifth session (November–December 2023). It further requested the Supervisory Body, while developing the recommendations, to consider broader inputs from stakeholders provided in a structured public consultation process.<sup>2</sup>

## 2. Purpose

3. The purpose of this document is to finalize the work on the elaboration and further development of draft recommendations on the application of the requirements referred to in chapter V.B. (Methodologies) of the RMP, for recommendation by the Supervisory Body for consideration and adoption by the CMA at its fifth session.

## 3. Normative reference

4. The “shall” requirements in this document are those that the user of this document (i.e. activity participants, host Parties, stakeholders, or the Supervisory Body) is obliged to meet in order to claim conformance to this document. Other types of provisions in this document include recommendations (“should”), permissions (“may”), possibilities and capabilities (“can”). Besides prescriptive recommendations, explanatory information is also included in this document (e.g. summarizing the basis for or reasoning behind a requirement).
5. Reductions in emissions and increases in removals and mitigation co-benefits of adaptation actions and/or economic diversification plans are collectively referred to as ‘emission reductions or removals’ (6.4 ERs) in this document.
6. Mechanism projects, programmes of activities and component projects are collectively referred to as “activity” or “activities” in this document.
7. The terms “technologies”, “measures” and “practices” are interchangeably used in this document and refer to technologies, measures, and practices across all sectors.
8. The Supervisory Body may, at a future point in time, undertake consideration of eligibility of policy crediting to incentivize increased ambition and mitigation at a large scale, and

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<sup>1</sup> See decision 3/CMA.3, para. 6(d), for the request, and the annex to 3/CMA.3 for the RMPs, contained in document FCCC/PA/CMA/2021/10/Add.1, available at: <https://unfccc.int/documents/460950>.

<sup>2</sup> See decision 7/CMA.4, paras. 21 and 22, for the request, contained in document FCCC/PA/CMA/2022/10/Add.2, available at: <https://unfccc.int/documents/626570>.

improve understanding of policy crediting approaches, acknowledging that the approaches for crediting the introduction of policies is inherently different from crediting activities.

## 4. Methodology principles

9. Mechanism methodologies are intended to provide the basis for assessment of creditable emission reductions or removals, and whether activities satisfy additionality requirements.
10. Paragraph 33 of the RMP applies to methodologies, and it is relevant to baseline-setting, the avoidance of leakage, and the demonstration of additionality of activities.
11. Paragraph 34 of the RMP sets out additional requirements, including with respect to policies, national circumstances and reversals.
12. Paragraph 35 of the RMP frames the basic procedures for the development of methodologies by host Parties, the Supervisory Body and activity participants.
13. Paragraph 36 of the RMP provides a choice of approaches for the baseline-setting and requires the justification of the choice(s) made, including demonstration of consistency with paragraph 33 of the RMP.
14. Paragraph 37 provides for host Parties and the Supervisory Body to develop standardized baselines consistent with paragraph 33 of the RMP.
15. Paragraph 38 of the RMP applies to the demonstration of additionality of activities and identifies specific tests.
16. Where scientific information is relied upon for methodologies, IPCC publications should be used, when applicable.

### 4.1. Encouraging ambition over time

17. Paragraph 33 of the RMP states that “Mechanism methodologies shall encourage ambition over time (...)”.
18. Mechanism methodologies shall contain provisions to ensure that total creditable amount of emission reductions are progressively reduced to encourage ambition of activities over time, while taking into account host country circumstances and creditable amount of emission reductions required to remove barriers to the deployment of technologies **as described paragraph 19 below.**
19. **Mechanism methodologies shall contain provisions to safeguard against creating barriers to deployment of technologies, or measures that are not widely used or available in specific locations, to facilitate knowledge transfers and to encourage deployment of technologies and measures that reduce the cost of decarbonization and unlock investment in low-carbon solutions.**
20. **Mechanism methodologies may contain provisions to enable inclusion of progressively more efficient and less greenhouse gas (GHG)-intensive technologies, thereby supporting replicable and scalable mitigation activities, an expanded user base, broader geographic coverage, and greater penetration of low-carbon solutions after initial deployment.**

~~21. Mechanism methodologies shall ensure consistency with the element “encourage ambition over time” of paragraph 33 of the RMP through the application of a method detailed in section 4.7 below.~~

#### **4.2. Being real, transparent, conservative, credible**

22. Paragraph 33 of the RMP states that “Mechanism methodologies shall (...) be real, transparent, conservative, credible (...)”.
23. Mechanism methodologies shall contain credible methods for estimating emission reductions or removals to ensure that the results of Article 6.4 activities represent actual tonnes of GHG emissions reduced or removed. Such estimation should be based on up-to-date scientific information and reliable data, excluding extraneous cofactors affecting emission reductions or removals.
24. Mechanism methodologies shall contain provisions to require transparent descriptions of the source of the data used, the assumptions made, the references used and the steps followed in the estimation of the results of Article 6.4 activities, including equations where necessary.
25. Mechanism methodologies shall contain provisions aimed at the conservative estimation of emission reductions or removals from the measures applied, options chosen, or assumptions made, and shall not overestimate the emission reductions or removals from Article 6.4 activities.
26. Mechanism methodologies shall contain provisions to require Article 6.4 activities to have a robust monitoring and data capture system as well as a reporting system. Where secondary data is used, the mechanism methodologies shall contain provisions to require activity participants to provide justification that it is an appropriate and conservative source of data.
27. Mechanism methodologies shall contain provisions to ensure that emission reductions or removals are real, transparent, conservative and credible by:
- (a) Including robust, transparent and user-friendly measurement, reporting and verification systems;
  - (b) Requiring the use of technical performance standards that are data driven;
  - (c) Including requirements to demonstrate changes in GHG emissions that transparently shows each step in the calculations and the results, and ensure that the calculated emissions reductions or removals are uniquely achieved by and attributable to the activity;
  - (d) Adopting life cycle approaches and considering embodied emissions of materials and products, where relevant;
  - (e) Choosing the most conservative emissions baseline when multiple sources of data and parameters are available to set the baseline;

#### **4.3. Establishing that the selected baseline is below business-as-usual**

28. Paragraph 33 of the RMP states that “Mechanism methodologies shall (...) be below ‘business as usual’ (...)”.

29. Mechanism methodologies shall contain provisions to require that the baseline selected for an emission reduction activity shall be demonstrated as being below 'business-as-usual' (BAU). BAU emissions are plausible reference benchmarks or scenarios for GHG emissions prior to or in the absence of the implementation of the activity. For that purpose, mechanism methodologies shall require the identification of the BAU scenario or reference benchmark emissions and provide an approach for their estimation.
30. Mechanism methodologies shall contain provisions to require activity participants to calculate the difference between the baseline emissions estimated as per the requirements in section 4.6 below and BAU emissions estimated as per paragraph 29 above as a total amount in respect of the crediting period, which shall be demonstrated in the project design document and at each renewal of the crediting period.

#### 4.4. Contributing to the equitable sharing of mitigation benefits between participating Parties

31. Paragraph 33 of the RMP states that "Mechanism methodologies shall...contribute to the equitable sharing of mitigation benefits between the participating Parties...".
32. Mechanism methodologies shall contain provisions for contributing to the equitable sharing of mitigation benefits between participating Parties. These shall include one or more of the provisions below:
- (a) Conditions to ensure that the total length of crediting period(s) of activities is shorter than the lifetime of the technology implemented where there is high confidence no doubt that emission reductions from the technology continue to be achieved beyond the end of crediting period(s);
  - (b) The application of conditions specified by the designated national authorities (DNAs) that ensure host Party benefits are retained.
33. The Supervisory Body will communicate with host Parties and establish a process to with a view to facilitate host Parties' operationalisation of paragraph 32 above.
34. The Supervisory Body may prepare recommendation guidance for host Parties to assist them in consideration of co-benefits in mechanism methodologies, including in relation to the equitable sharing of mitigation benefits between participating Parties.
35. Mechanism methodologies shall ensure consistency with the element "equitable sharing of mitigation benefits between participating Parties" of paragraph 33 of the RMP through the application of the requirements as per section 4.6 and the method detailed in section 4.7 below.
36. Mechanism methodologies shall require estimation of the mitigation benefits to the host Party, taking into account the relevant provisions in paragraph 32 above.

#### 4.5. Aligning with the NDC of each participating Party, if applicable, its LT-LEDs, if it has submitted one, the long-term temperature goal of the Paris Agreement and the long-term goals of the Paris Agreement

37. Paragraph 33 of the RMP states that "Mechanism methodologies shall (...) in respect of each participating Party, contribute to reducing emission levels in the host Party, and align

with its NDC, if applicable, its long-term low GHG emission development strategy, if it has submitted one, and the long-term goals of the Paris Agreement”.

38. Paragraph 33 of the RMP states that “Mechanism methodologies shall (...) align with the long-term temperature goal of the Paris Agreement (...)”.
39. Mechanism methodologies shall require demonstration that the activity, does not constrain, but aligns with the policies, options and implementation plans of the host Party with regard to the latest nationally determined contribution (NDC) of the host Party, if applicable, its long-term low greenhouse gas emission development strategies (LT-LEDs), if it has submitted one, and the long-term temperature goals and long-term goals of the Paris Agreement.

~~40. Mechanism methodologies shall ensure consistency with the element “align with the long-term temperature goal of the Paris Agreement” of paragraph 33 of the RMP through the application of the method detailed in section 4.7 below.~~

#### **4.6. Approaches to set the baseline**

41. Paragraph 36 of the RMP states that:
- “Each mechanism methodology shall require the application of one of the approach(es) below to setting the baseline, while taking into account any guidance by the Supervisory Body, and with justification for the appropriateness of the choices, including information on how the proposed baseline approach is consistent with paragraphs 33 and 35 in the RMP and recognizing that a host Party may determine a more ambitious level at its discretion:
- A performance-based approach, taking into account:
- (i) Best available technologies that represent an economically feasible and environmentally sound course of action, where appropriate;
  - (ii) An ambitious benchmark approach where the baseline is set at least at the average emission level of the best performing comparable activities providing similar outputs and services in a defined scope in similar social, economic, environmental and technological circumstances;
  - (iii) An approach based on existing actual or historical emissions, adjusted downwards to ensure alignment with paragraph 33 of the RMP.”
42. Paragraph 27 of the RMP states that “A host Party may specify to the Supervisory Body, prior to participating in the mechanism: (a) Baseline approaches and other methodological requirements... ”.
43. Mechanism methodologies shall contain provisions that require justification of the appropriateness of the choice of approach(es) identified in paragraph 36 of the RMP for setting the baseline, with reference to the requirements of paragraphs 33 and 35 of the RMP.
44. With regard to setting the baseline for emission reduction activities, factors affecting the appropriateness of the choice shall include:

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- (a) Similarity or variability of emission sources with respect to technologies and measures applied, or sectors covered by the methodology; and
  - (b) Availability of data required for a conservative and reliable estimation of the baseline.
45. For the approaches identified in paragraph 36 of the RMP, mechanism methodologies shall contain provisions to apply the method detailed in section 4.7 below to adjust the baseline emissions downwards and to ensure consistency with paragraph 33 of the RMP.
46. A host Party may determine a more ambitious baseline requirement at its discretion and specify it to the Supervisory Body for approval.
47. The Supervisory Body will develop tool(s) for baseline setting (baseline tools). Mechanism methodologies may contain provisions that require the application of the baseline tool(s).

#### 4.7. Method to address elements of paragraph 33 and paragraph 36 of the RMP

48. Mechanism methodologies shall address consistency with the requirements of paragraphs 33 and 36 of the RMP through the application of downward adjustment.
49. For baseline approaches using paragraph 36 (i) and (ii) of the RMP, downward adjustment shall use BAU scenarios or reference benchmarks estimated in accordance with the provisions of section 4.3 above, as a starting point.
50. Downward adjustment shall be:
- (a) included in the project design document and updated at each renewal of the crediting period;
  - (b) based on an estimation of actual or projected emissions reductions or removals informed by NDCs, LT-LEDs;
  - (c) based on an estimation of actual emissions trajectories to achieve the long-term temperature goal of the Paris Agreement;
  - (d) differentiated by technology/sector or country/region, considering socio-economic conditions and accommodating different circumstances of the host Parties.
51. These elements may be operationalized through:
- (a) Activity-level guidance provided by the Supervisory Body regarding the development and application of factors; or
  - (b) Development of factors, jointly by the Supervisory Body and the host Party, with the provision for the host Party to make a request to the Supervisory Body to initiate the development of the factor. The procedures for the standardized baselines may be used for this purpose; or
  - (c) Development of factors by the host Party that are specified to the Supervisory Body for approval. The procedures for the standardized baselines may be used for this purpose.
52. The Supervisory Body will develop standards, tools and guidance to inform the implementation of paragraphs 48-51 above.



53. The Supervisory Body **may**, for the purpose of calculating baseline emissions and/or removals and for assessing additionality, **develop further guidance** for the identification, treatment, and promotion of activities that are transformative and enable deep decarbonization.

#### **4.8. Encouraging broad participation**

54. Paragraph 33 of the RMP states that “Mechanism methodologies shall (...) encourage broad participation (...)”.

55. The Supervisory Body shall encourage development of methodologies covering a wide range of emission reduction and removal activities with broad sectoral and geographic coverage.

56. The Supervisory Body shall encourage participation of a broad range of stakeholders during the methodology development process by enabling informed consultation as described in the “Procedure: Development, revision and clarification of baseline and monitoring methodologies and methodological tools”.

57. Mechanism methodologies shall:

(a) Where relevant for the sectoral and/or geographical coverage of the methodology, contain provisions that balance stringency and maximum participation by being accurate, simple, clear, and avoiding complexity such that a wide range of activity participants and host Parties can apply methodology requirements irrespective of the scientific infrastructure, financial resources available to them, and their national circumstances;

(b) Where relevant for the sectoral and/or geographical coverage of the methodology, particularly in least developed countries and small island developing States, contain provisions that take into account the context on the ground in Host Parties, including institutional arrangements, and provide options to facilitate meeting of requirements, such as permitting the use of multiple data sources to address data gaps, and the use of conservative default values and/or use of benchmarked data from comparable regions to the extent they can be applicable;

(c) Use language that is easy to understand, inclusive, gender-sensitive and accessible to a wide range of stakeholders, including local communities and Indigenous Peoples.

58. The Supervisory Body and its support structure should ensure that, if it is necessary to invoke a requirement in a methodology that appears elsewhere in another methodology, this should be done by reference and not by repetition. If a test method or a procedure is, or is likely to be, applicable to two or more methodologies, a tool should be prepared on the method/procedure itself, and each methodology shall refer to it to prevent potential deviations.

#### **4.9. Including data sources, accounting for uncertainty and monitoring requirements**

59. Paragraph 34 of the RMP states that “Mechanism methodologies shall include relevant assumptions, parameters, data sources and key factors (...)”.

60. The Supervisory Body shall ensure that mechanism methodologies are transparent and comprehensible with respect to included assumptions, parameters, data sources and key factors.
61. Mechanism methodologies shall contain provisions to require the accounting of uncertainty associated with emission factors, activity data and other estimation parameters applied in the calculations of emissions reductions or removals.
62. Mechanism methodologies shall contain provisions requiring a listing of data parameters that need to be monitored throughout the crediting period. This may include the data that is directly measured where necessary on a sample basis, and the data that are collected from other sources such as official statistics, expert judgment, IPCC guidelines, and scientific literature. In this regard, methodologies shall contain provisions on monitoring plans related to the collection and storing of all relevant data needed to estimate baseline, project and leakage emissions, including provisions related to quality assurance and quality control.

#### **4.10. Recognizing suppressed demand**

63. Paragraph 33 of the RMP states that “Mechanism methodologies shall (...) recognize suppressed demand (...)”.
64. Suppressed demand in the context of an Article 6.4 activity is a situation where services provided to a population are insufficient to meet the basic human needs such as minimum amount of electricity for lighting, heating or cooling due to barriers, including low income or lack of infrastructure, and where the growth of emissions resulting from meeting such needs requires special consideration in the assessment of Article 6.4 baseline scenarios.
65. The Supervisory Body will recognize suppressed demand under a situation where the BAU cannot realistically provide the level of service required of the Article 6.4 activity by considering that the baseline scenario is not set based on the historical and continuation of the current condition, but rather based on an alternative that provides a level of service comparable to that provided by the Article 6.4 activity.
66. The Supervisory Body will recognize suppressed demand by including benchmarks and default factors in specific methodologies that may not be below BAU. The Supervisory Body will assess, on an activity-by-activity basis, whether suppressed demand is a plausible situation in a given context.
67. The Supervisory Body will develop a tool to provide guidance on how to determine suppressed demand and the minimum level of service that may be considered as a reference level to determine the baseline.

#### **4.11. Taking into account policies and measures and relevant circumstances**

68. Paragraph 34 of the RMP states that “Mechanism methodologies shall (...) take into account (...) policies and measures, and relevant circumstances, including national, regional or local, social, economic, environmental and technological circumstances (...)”.
69. Mechanism methodologies shall contain provisions to take into account relevant circumstances, including national, regional or local, social, economic, environmental and technological, based on robust data and verifiable information. In this regard, the type of data and information that would be necessary to meet the above provisions shall be

specified in the methodologies, particularly with regard to eligibility conditions, setting the baseline, and demonstrating additionality.

70. The Supervisory Body will develop further guidance on how mechanism methodologies shall take into account policies and measures and relevant circumstances.

#### **4.12. Standardized baselines**

71. Paragraph 37 of the RMP states that “Standardized baselines may be developed by the Supervisory Body at the request of the host Party or may be developed by the host Party and approved by the Supervisory Body. Standardized baselines shall be established at the highest possible level of aggregation in the relevant sector of the host Party and be consistent with paragraph 33 of the RMP.”
72. A standardized baseline is a baseline developed at the request of or by a host Party or a group of host Parties on a subnational, national or group-of-Parties basis rather than on an activity basis to facilitate the determination of the baseline, calculation of the GHG emission reductions or removals and/or the determination of additionality for Article 6.4 activities, while ensuring environmental integrity within the scope of the standardized baseline.
73. The application of standardized baselines is not mandatory unless explicitly stated in an approved standardized baseline or in another standard approved by the Supervisory Body. When application of a standardized baseline is not mandatory, activity participants may establish additionality or baseline emissions for their activity using other approved approaches as an alternative to applying a standardized baseline.
74. A host Party may specify the application of a standardized baseline as a mandatory requirement for the activities implemented in the host Party. The Supervisory Body may also specify the application of a standardized baseline as a mandatory requirement for certain cases such as when the standardized baseline is being used to address leakage emissions of an activity, as further detailed in this document. The provisions in this paragraph may also apply to standardized baselines developed by or for a group of host Parties.
75. The approaches for setting the baselines referred to in section **4.6 above** shall also be applied for the development of standardized baselines.
76. The host Party and the Supervisory Body should determine the level of aggregation taking into account the following:
- (a) A default level of aggregation shall comprise the facilities or equipment producing a similar type of output within the geographical boundaries of one Party or a specific subregion determined by the Party. The level of aggregation may be expanded to a group of Parties with similar circumstances relating to the output;
  - (b) A default group of facilities should be disaggregated when significant dissimilarities exist in the performance of facilities or groups of facilities in the country/region. In this case, the disaggregation shall be carried out according to relevant criteria, such as scale of production, installed capacity or age of the facilities. Standardized baseline values should be determined for each group of similar facilities in this case;

- (c) Disaggregation should not result in standardized baselines with overlapping applicability.
- 77. Standardized baselines may include a default validity period of three years, starting from the date of approval by the Supervisory Body. A host Party may propose a shorter or longer validity period, taking into account the specificity of sectors in which activities are undertaken, and by providing justification for the consideration of the Supervisory Body.
- 78. After the validity of a standardized baseline has expired, the updated standardized baseline shall be considered by the Supervisory Body for approval subject to the host Party making a request for the update. The updated standardized baseline shall not impact already registered activities up to the end of their first crediting period.
- 79. Standardized baselines may be developed by the host Party and approved by the Supervisory Body following an assessment against the “Procedure: Development, revision, clarification and update of standardized baselines”.
- 80. The Supervisory Body will develop and approve separate guidance on standardized baselines, including guidance on standardized baselines for a group of Parties.

## 5. Additionality demonstration

- 81. Paragraph 38 of the RMP states that “Each mechanism methodology shall specify the approach to demonstrating the additionality of the activity. Additionality shall be demonstrated using a robust assessment that shows the activity would not have occurred in the absence of the incentives from the mechanism, taking into account all relevant national policies, including legislation, and representing mitigation that exceeds any mitigation that is required by law or regulation, and taking a conservative approach that avoids locking in levels of emissions, technologies or carbon-intensive practices incompatible with paragraph 33 of the RMP”.
- 82. Paragraph 39 of the RMP states that “The Supervisory Body may apply simplified approaches for demonstration of additionality for any least developed country or small island developing State at the request of that Party, in accordance with requirements developed by the Supervisory Body”.
- 83. Mechanism methodologies shall contain provisions to require demonstration of additionality through the following elements:
  - (a) Demonstration that the proposed activity would not have occurred in the absence of the incentives from the mechanism through an investment analysis (default approach);
  - (b) An assessment of barriers to the implementation of the activity, such as the financial, technological, institutional barriers, taking into account all relevant national policies, including legislation and current practices within the activity sector and geographic area of the host Party, may be undertaken to complement the investment analysis referred above. ~~Standalone barrier analysis as an alternative to the default investment analysis may be undertaken, only in cases where existence of barriers and corresponding incentives from the mechanism that help overcome those barriers can be evidenced, including through the monitoring of related parameters; If project participants want to use barriers to demonstrate additionality, they shall:~~

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- (i) Describe the barriers, including the reasons why investment analysis is not suitable;
  - (ii) Provide evidence of the barriers and how the mechanism will help overcome the barriers;
  - (iii) Include monitoring how the barriers are overcome in the monitoring plan.
- (c) The proposed activity represents mitigation that exceeds any mitigation that is required by law or regulation, through a regulatory analysis conducted to assess whether the activity is mandated or triggered by applicable law or regulation. For this purpose, law or regulation applicable to the proposed activity that may require a certain technological, performance or management action shall be considered;
- (d) The proposed activity takes a conservative approach that avoids locking in levels of emissions, technologies or carbon-intensive practices incompatible with paragraph 33 of the RMP, including through identification of activities that are transformative and enable deep decarbonization and an assessment of the scale, crediting period, lifetime, and emissions intensity of the activity.
84. When formulating an approach to the demonstration of additionality, mechanism methodologies should consider the relevant circumstances, including national, regional or local, social, economic, environmental and technological circumstances, in line with paragraphs 68–70 above.
85. The Supervisory Body will develop further guidance and tools for the demonstration of additionality, including through a stepwise procedure to address the elements in paragraph 83 above; the development of positive lists; potential standardized performance-based approaches for determining additionality for application in methodologies that take into account best available technologies or an ambitious benchmark approach. Mechanism methodologies may contain provisions that require the application of these procedures and approaches.
86. Simplified approaches for demonstration of additionality for least developed countries or small island developing States will be developed by the Supervisory Body when a request is made by a least developed country or small island developing State.

## 6. Leakage

87. Paragraph 33 of the RMP states that “Mechanism methodologies shall (...) avoid leakage, where applicable (...)”.
88. Leakage refers to anthropogenic emissions by sources of GHGs that occur outside the activity boundary which are attributable to the Article 6.4 activity.
89. Mechanism methodologies shall contain provisions to:
- (a) Ensure that the potential sources of leakage in activities covered by the Article 6.4 mechanism methodology are identified, including, but not limited to, any sources referred to in paragraph 90 below;

- (b) Require activities to avoid or minimize all sources of leakage as far as possible, and where necessary, to address remaining leakage by discounting credited volumes as described in paragraph 91 below;
  - (c) Require that activity participants list all the potential sources of leakage that may reasonably be attributable to the activity and describe how each one is being addressed. If the activity participant excludes any of the sources of leakage from consideration, they shall justify its exclusion;
  - (d) Include, where necessary, provisions for robust monitoring, reporting and verification systems that encompass specific sources of potential leakage identified;
  - (e) Include, where necessary, life cycle analysis of the products or material in relation to source indicated in paragraph 90(d) below;
  - (f) Require the activity participant to take into account relevant information from the DNA of the host Party on leakage, where available and per the application of the tool referred to in paragraph 92 below.
90. Leakage may occur due to, inter alia:
- (a) Continued use of baseline equipment being transferred beyond the activity boundary or baseline equipment from outside of the activity boundary transferred into the boundary for continued use;
  - (b) Use of resources that have competing uses from activities outside the activity boundary that lead to a net change in emissions outside the boundary or shifts of pre-project activities that lead to a net change in emissions outside the boundary;
  - (c) Diversion of existing production processes or services accounted for in the baseline, inter alia through relocation and continuation of baseline activities outside the activity boundary;
  - (d) Impacts on upstream and downstream processes associated with the materials and services used by the activity, and/or products or services provided by the activity, relative to the baseline, unless they are accounted as activity emissions.
91. Leakage may be avoided, minimized, or addressed by, inter alia:
- (a) **Discounting credited volumes:** deducting emission reductions from credited volumes taking into account equipment lifetime, where applicable;
  - (b) **Scrapping of baseline equipment:** undertaking and evidencing the destruction/decommissioning/disposal of baseline equipment;
  - (c) **Application of higher-level elements:** applying a standardized baseline at a higher level of aggregation (or equivalent) that is regularly updated and any associated higher-level monitoring information and/or system;
  - (d) **Nesting:** Aligning relevant aspects of activity design and implementing activities together with an existing higher-level crediting programme;
  - (e) **Upscaling implementation:** implementing activities at a higher level (e.g. sectoral, subnational, or national).

92. The Supervisory Body will develop a methodological tool for the implementation of paragraph 89 above.
93. For some types of activities, monitoring at jurisdictional level and use of a standardized baseline (or equivalent) is necessary to quantify and account for leakage. In addition, further work will be undertaken by the Supervisory Body to assess the implications of activities implemented outside national borders and transboundary activities.

## 7. Non-permanence and reversals

94. Paragraph 34 of the RMP states that “Mechanism methodologies shall (...) address reversals, where applicable”.
95. Mechanism methodologies shall address reversals of removals and emission reductions using an approach consistent with the guidance on activities involving removals.
96. The Supervisory Body will develop further guidance regarding the applicability of that guidance to activities involving emissions reductions.

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### Document information

<i>Version</i>	<i>Date</i>	<i>Description</i>
09.1	7 November 2023	Editorial revisions to include the addition of coloured highlights and corrections to cross-references within the document.
09.0	2 November 2023	Published as an annex to the meeting report of SB 008. This version is a work in progress and will be used to make further improvements based on guidance provided by the Supervisory Body at SB 009.
08.1	19 October 2023	Minor editorial revisions included in yellow highlights.
08.0	16 October 2023	Published as an annex to the annotated agenda of SB 008. This version takes into account guidance from the Supervisory Body at SB 007 (SB 007 meeting report, paras. 23-25).
07.0	14 September 2023	Published as an annex to the meeting report of SB 007. This version is a work-in-progress and will be used to make further improvements based on guidance provided by the Supervisory Body at SB 007.
06.0	1 September 2023	Published as a late annex to the annotated agenda of SB 007. This version takes into account guidance from the Supervisory Body at SB 006 (SB 006 meeting report, para. 18).
05.0	03 August 2023	Published for the <a href="#">structured call for public inputs</a> (open from 3 to 16 August 2023) launched between SB 006 and SB 007

<i>Version</i>	<i>Date</i>	<i>Description</i>
04.0	28 June 2023	Published as a late annex to the annotated agenda of SB 006. This version takes into account guidance from the Supervisory Body at SB 005 (SB 005 meeting report, para. 17 & 18).
03.0	21 February 2023	Published as an annex to the annotated agenda of SB 004. This document integrates: <a href="#">A6.4-SB003-A04</a> – Information note: Status of current work on the application of the requirements referred to in chapter V B (Methodologies) of the rules, modalities and procedures (version 1.0, 07 November 2022). <a href="#">A6.4-SB003-AA-A05</a> – Draft recommendation: Requirements for the development and assessment of mechanism methodologies (version 2.0, 25 October 2022). This version incorporates comments from the Supervisory Body at SB 003 (SB 003 meeting report, para. 15).
02.0	25 October 2022	Published as an annex to the annotated agenda of SB 003. This version incorporates comments from the Supervisory Body at SB 002 (SB 002 meeting report, para. 14).
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**Related documents:**

14 September 2023	<a href="#">A6.4-SB007-A06</a> – Draft recommendation: Requirements for the development and assessment of mechanism methodologies (version 07.0)
1 September 2023	<a href="#">A6.4-SB007-AA-A12</a> – Draft recommendation: Requirements for the development and assessment of mechanism methodologies (version 06.0)
3 August 2023	<a href="#">A6.4-SB007-AA-A##</a> - Draft recommendation: Requirements for the development and assessment of mechanism methodologies (version 05.0) This version was published for the structured call for public inputs (open from 3 to 16 August 2023) launched between SB 006 and SB 007
28 June 2023	<a href="#">A6.4-SB006-AA-A08</a> – Draft recommendation: Requirements for the development and assessment of mechanism methodologies (version 4.0)
28 June 2023	<a href="#">A6.4-SB006-AA-A07</a> - Concept note: Proposals and options to operationalize baseline contraction factor, 'lock-in levels of emissions' and leakage in the draft recommendation on requirements for the development and assessment of mechanism methodologies (version 01.0)



17 May 2023	<p><a href="#">A6.4-SB005-AA-A07</a> - Information note: Draft elements for the recommendation on requirements for the development and assessment of mechanism methodologies (version 01.0)</p> <p><a href="#">A6.4-SB005-AA-A08</a> - Information note: Compilation of inputs in response to the “public consultation: Requirements for the development and assessment of mechanism methodologies” and related literature (version 01.0)</p>
21 February 2023	<p><a href="#">A6.4-SB004-AA-A10</a> - Draft recommendation: Requirements for the development and assessment of mechanism methodologies (version 03.0) (Zip file: <a href="#">Appendices 1 - 4 to Annex 10</a>)</p>
07 November 2022	<p><a href="#">A6.4-SB003-A04</a> - Information note: Status of current work on the application of the requirements referred to in chapter V B (Methodologies) of the rules, modalities and procedures (version 01.0)</p>
25 October 2022	<p><a href="#">A6.4-SB003-AA-A05</a> - Draft recommendation: Requirements for the development and assessment of mechanism methodologies (version 02.0)</p> <p><a href="#">A6.4-SB003-AA-A06</a> - <i>Information note</i>: Requirements for the development and assessment of mechanism methodologies (version 02.0)</p>
12 September 2022	<p><a href="#">A6.4-SB002-AA-A07</a> - Draft recommendation: Requirements for the development and assessment of mechanism methodologies (version 01.0)</p> <p><a href="#">A6.4-SB002-AA-A08</a> - <i>Information note</i>: Requirements for the development and assessment of mechanism methodologies (version 01.0)</p>
08 July 2022	<p><a href="#">A6.4-SB001-AA-A06</a> - <i>Concept note</i>: Guidelines for implementation of methodological principles, approaches, and methods for the establishment of baseline and additionality (version 01.0)</p>