

A6.4-SB010-AA-A06

Concept Note

Operation of the Article 6.4 mechanism registry

Version 01.1



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TABLE OF CONTENTS	Page
1. INTRODUCTION	3
2. OBJECTIVE	3
3. SCOPE	3
4. CONTEXTUAL BACKGROUND	4
4.1. Mechanism registry overview.....	4
4.2. Units managed in the mechanism registry.....	4
4.3. Accounts.....	5
4.4. Transactions.....	6
4.5. Reports.....	6
4.6. Fees.....	6
5. KEY ISSUES AND PROPOSED SOLUTIONS	6
5.1. Whether entities authorized by a Party to open an account in the mechanism registry may receive A6.4ERs generated for an activity in which the entity is not an official participant.....	7
5.2. Whether secondary transfers between accounts in the mechanism registry (i.e., “trading”) are allowed	8
5.3. Whether fees should be charged for using the mechanism registry and what these fees should be	8
5.4. If the mechanism registry should include additional services for the purpose of voluntary cancellation	9
5.5. The type of information that shall be made available and the appropriate levels of aggregation at which data may be disclosed to different stakeholders and publicly.....	10
5.6. Whether an interim solution should be offered to enable issuance of units until the mechanism registry is fully operational	11
6. SUBSEQUENT WORK AND TIMELINES.....	11
7. BUDGET AND COSTS	11
8. RECOMMENDATIONS TO THE SUPERVISORY BODY.....	11

1. Introduction

1. The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), at its third session, adopted the rules, modalities and procedures (RMPs) for the mechanism established by Article 6, paragraph 4, of the Paris Agreement (the Article 6.4 mechanism)¹ and requested the Supervisory Body of the Article 6.4 mechanism to develop provisions for the development of the mechanism registry. Chapter VI of the RMPs contains minimum specifications and responsibilities for the maintenance and operation of the mechanism registry.
2. The CMA, at its fourth session, elaborated some elements of the RMPs relating to the operation of the activity cycle of the Article 6.4 mechanism, including those on the mechanism registry.² Chapter IV of this elaboration contains specifications for the mechanism registry, including on the functions, the transaction procedure, the management of information and the connection with the international registry.
3. The Supervisory Body, as its sixth meeting (SB 006), considered the modalities for the operation of the mechanism registry and requested the secretariat to develop a concept note on the mechanism registry that covers the overview of the registry's general functional aspects and issues that require decisions by the Supervisory Body, taking into account inputs provided by the Supervisory Body and any further matters identified by the secretariat relevant for consideration by the Supervisory Body.
4. The Supervisory Body also requested the secretariat to launch a call for public inputs on issues related to account holders and services needed for these holders.³ This call for input was held from 1 to 15 September 2023. A summary of this call for input will be provided at SB 011 alongside the draft procedure for the operation of the mechanism registry.

2. Objective

5. The objective of this document is to provide an overview of the mechanism registry business model, requirements and processes and seek the Supervisory Body's guidance on outstanding issues which must be resolved to enable the secretariat to prepare the draft procedure for the operation of the mechanism registry.

3. Scope

6. This document provides:
 - (a) An overview of the mechanism registry, including units, accounts, transactions, reports and fees;

¹ Decision 3/CMA.3, annex. Available at: https://unfccc.int/sites/default/files/resource/cma2021_10_add1_adv.pdf#page=25.

² Decision 7/CMA.4, annex I, chapter IV. Available at: https://unfccc.int/sites/default/files/resource/cma2022_10a02_adv.pdf#page=33.

³ Paragraphs 25 and 26 of the SB 006 meeting report. Available at: https://unfccc.int/sites/default/files/resource/a64-sb006_0.pdf.

- (b) An analysis of and proposed solutions to the key outstanding issues which require Supervisory Body guidance to inform the draft procedure for the operation of the mechanism registry.

4. Contextual background

4.1. Mechanism registry overview

7. The mechanism registry will be a standardized electronic database that ensures the accurate tracking of the issuance, holding and acquisition of Article 6.4 emission reductions (A6.4ERs), and certified emission reductions (CERs) transferred to the mechanism from the clean development mechanism (CDM) of the Kyoto Protocol.
8. The mechanism registry tracks mitigation outcomes using the concept of units. A unit is a standardized minimum indivisible amount of mitigation outcomes in the unit's respective metric. For the greenhouse gases (GHG) metric, the standard unit is one metric tonne of carbon dioxide equivalent.
9. The registry's scope of operations is unit tracking from issuance to use. The business model of a registry system is built upon three fundamental elements: the units it tracks; the accounts it uses to track these units; and the transaction procedures that govern their interactions. Information on activities that lead to the generation of units in the mechanism registry will be tracked in the mechanism information system.
10. There are three tiers of governance for the mechanism registry:
 - (a) The CMA gives guidance on the accounting framework and key design elements of the mechanism registry.
 - (b) The Supervisory Body will approve the mechanism registry procedure and is in charge of overall oversight and reporting to the CMA;
 - (c) The secretariat will act as the mechanism registry administrator by implementing the registry software and procedure and managing the day-to-day operations.
11. The mechanism registry operations and reporting will be performed according to a registry procedure, and the registry development will follow the secretariat's standards and procedures for software development and best practice standards for registries.
12. The secretariat will implement the mechanism registry to align with existing and developing Article 6 infrastructure (such as the mechanism information system, the centralized accounting and reporting platform, the Article 6 database, and the international registry), so to ensure the systems are fully mutually consistent to:
 - (a) Simplify operations and ensure reporting consistency;
 - (b) Enable immediate interoperability between the international registry and the mechanism registry, subject to further guidance by CMA6;
 - (c) Minimize implementation costs;
 - (d) Provide access for all Parties and promote regional distribution and availability of Article 6 infrastructure.

4.2. Units managed in the mechanism registry

13. The mechanism registry system manages units of the following three types:

- (a) Non-authorized A6.4ERs, which are referred to as mitigation contribution units (MCUs);
 - (b) Authorized A6.4ERs
 - (c) Eligible CERs.⁴
14. MCUs and A6.4ERs are issued in the mechanism registry. CERs are transitioned to the registry from the CDM registry.

4.3. Accounts

15. Accounts serve as the framework through which the units are tracked and managed within the registry system.
16. Accounts differ in the functionality and transaction types they support. Some accounts are used for the issuance of A6.4ERs, other accounts are transitional accounts that support inward and outward transfer, and some accounts only support inward transfer and constitute the final destination for the units that are being cancelled or used. The mechanism registry should include the following types of accounts:
- (a) Pending account for the issuance of all A6.4ERs. These will be transitory accounts from which the share of proceeds (SOP) and overall mitigation of global emissions (OMGE) contributions would be first transferred, and from which the A6.4ERs would be forwarded or first transferred to the relevant account nominated by the activity participant, per paragraph 132(c) of the “Procedure: Article6.4 activity cycle procedure for projects” (ACP);
 - (b) Holding accounts which may acquire A6.4ERs and CERs tracked in the mechanism registry;
 - (c) SOP for adaptation account, which shall acquire A6.4ERs in accordance with the RMPs;
 - (d) Account for the mandatory cancellation of A6.4ERs for OMGE in accordance with the RMPs;
 - (e) Account for the voluntary cancellation of A6.4ERs for OMGE in accordance with the RMPs;
 - (f) Account for the retirement of A6.4ERs and CERs for nationally determined contribution (NDC) use (per Party);
 - (g) Accounts for cancellation of A6.4ERs for other international mitigation purposes (OIMPs);
 - (h) Account(s) for voluntary cancellation of A6.4ERs for other purposes, which are accounts designed for voluntary cancellations that serve purposes other than NDC or OIMPs use;
 - (i) Account for administrative cancellation of A6.4ERs and CERs tracked in the mechanism registry for corrective actions and other purposes, as necessary.

⁴ Per section XI of decision 3/CMA.3, annex and sections II and IV of subsequent decision 7/CMA.4 annex I.

4.4. Transactions

17. The registry system conducts two basic transactions to facilitate the movement and authorization of A6.4ERs and CERs:
 - (a) Issuance: The process of generating A6.4ERs for accounts based on predefined criteria.⁵
 - (b) Transfer: The movement of A6.4ERs and CERs from one account to another⁶, often involving a change in ownership or custody.
18. Authorization⁷ affects the functioning of the business rules which regulate the transaction process of the mechanism registry. For example, A6.4ERs authorized for use towards NDCs only are unable to be transferred to an account for OIMP cancellation.

4.5. Reports

19. The mechanism registry will produce regular reports for designated national authorities (DNAs), and the public, and any other reports, in accordance with Supervisory Body guidance. It is important that these reports balance transparency with necessary confidentiality/privacy in accordance with standard practice, which means some information within the reports will need to be disaggregated.
20. The Supervisory Body may want to consider providing high-level guidance on the type of information that shall be made available and the appropriate levels of aggregation at which data may be disclosed to different stakeholders and publicly. This issue is dealt with in section 5.6 below.

4.6. Fees

21. The Supervisory Body may wish to consider charging fees for the opening and maintenance of holding accounts. Charging fees is common practice of registry operators to cover costs of opening an account and ongoing maintenance and transactions. Notably, the CDM did not charge an additional fee above the administrative SOP, although the CDM registry did not allow for emissions trading within the registry, which limited the registry operating expenses and allowed these administrative costs to be covered by the SOP for administration.
22. If the Supervisory Body decides to charge a fee to cover the administrative expenses of operating the mechanism registry, it will need to provide guidance as to the applicability of the fee. This includes, for example, whether the fee would apply to all account holders, and thereby be additional to the fees charged to the activity participant per the ACP and the administrative SOP. This issue is addressed in section 5 below.

5. Key issues and proposed solutions

23. For the development of the mechanism registry procedure, the Supervisory Body will need to consider and address the following open matters:

⁵ Units shall be issued into a pending account, and then forwarded or transferred into the relevant holding account(s) per the instructions received in the request for issuance.

⁶ Once interoperability arrangements are in place, transfer from one account to another may include transfer to a Party registry.

⁷ Per decision 7/CMA.4

- (a) Whether entities authorized by a Party to open an account in the mechanism registry may receive A6.4ERs generated for an activity in which the entity is not an official participant;
- (b) Whether secondary transfers between accounts in the mechanism registry (i.e., “trading”) are allowed;
- (c) Whether fees should be charged for using the mechanism registry and what these fees should be;
- (d) If the mechanism registry should include additional services, such as the possibility of selling A6.4ERs for the purpose of voluntary cancellation through commercial platforms;
- (e) What type of information that shall be made available and the appropriate levels of aggregation at which data may be disclosed to different stakeholders and publicly;
- (f) Whether an interim solution should be offered to enable issuance of A6.4ERs until the mechanism registry is fully operational.

5.1. Whether entities authorized by a Party to open an account in the mechanism registry may receive A6.4ERs generated for an activity in which the entity is not an official participant

- 24. Who can receive A6.4ERs, and from whom, determines the procedures for how A6.4ERs shall be transacted between accounts for different purposes. For example, allowing various entities to receive A6.4ERs with limited restrictions would enable ease of trading within the mechanism market, however, this would have significant resource implications on the secretariat to open and manage accounts.
- 25. The Supervisory Body may wish to consider the options provided in table 1 below.

Table 1. Who can receive units in the mechanism registry

Option	Justification / explanation	Recommendation
Option 1: Allow any account holding entity authorized by a Party to receive units from any activity, regardless of whether they were an activity participant.	This would increase the attractiveness of the mechanism and allow for potential trading between accounts. Note that this links to the consideration of secondary transfers and fees, as discussed below in section 5.2 and 5.3 respectively.	Option 1, with the appropriate design of the fee structure so that entities that are not activity participants pay their share in covering the operational burden of running the registry
Option 2: Only allow account holding entities to receive A6.4ERs from activities in which they are an activity participant, thereby limiting the use of the mechanism registry to just activity participants only.	This would limit the use of the mechanism, including by preventing trading between accounts and direct access to A6.4ERs by a wide range of potentially interested entities. Note that this option would also restrict who may receive CERs in the registry to only those who are activity participants in Article 6.4 mechanism activities.	

5.2. Whether secondary transfers between accounts in the mechanism registry (i.e., “trading”) are allowed

- 26. This issue determines whether the mechanism registry will enable secondary transfer of A6.4ERs (i.e., “trading”) between accounts once A6.4ERs have been issued and distributed by the mechanism registry administrator.
- 27. In the CDM registry, trading between accounts was not allowed, as only CDM project participants held accounts. CERs could only be traded outside of the CDM registry (i.e., after a CER was purchased in the CDM market, it was cancelled or transferred from the CDM registry, and tracked through national registries under the Kyoto Protocol).
- 28. This issue is closely related to the issue in section 5.1 above, as secondary transfers would be limited to those whom the Supervisory Body determine can receive A6.4ERs.
- 29. Noting this connection with section 5.1 with regard to who can hold accounts in the mechanism registry, and section 5.4 with regard to the administrative costs of secondary transfers and possible fee structures, the Supervisory Body may wish to consider the options provided in table 2 below.

Table 2. Whether secondary transfers are allowed in the mechanism registry

Option	Justification / explanation	Recommendation
Option 1: Allow secondary transfers in the mechanism registry	This would increase the attractiveness of the mechanism and allow for potential trading between accounts. Note that this links to the consideration of who can hold accounts in the mechanism, and fees, as discussed in section 5.1 above and section 5.3 below.	Option 1, with due reflection in the mechanism registry fee structure.
Option 2: do not allow secondary transfers in the mechanism registry	This would limit the use of the mechanism, including by preventing trading between accounts. Note, CMA guidance states that account holders can request transfer of A6.4ERs and CERs in accordance with relevant guidance and procedures adopted by the Supervisory Body. ⁸ This option could be considered inconsistent with the suggestions in that guidance.	

5.3. Whether fees should be charged for using the mechanism registry and what these fees should be

- 30. As discussed in section 4.6 above, the Supervisory Body may require those who use the mechanism registry to pay a fee. Given the potential broader applicability of these fees than those charged during the activity cycle and as part of the SOP for administrative expenses, these registry fees could be charged various ways.
- 31. The Supervisory Body may wish to consider the options provided in table 3 below.

⁸ Paragraph 42, Annex I: Elaboration of the processes defined in the rules, modalities and procedures for the mechanism.

Table 3. How shall fees be charged for using the mechanism registry

Option	Justification / explanation	Recommendation
Option 1: Charge account opening and maintenance fees to all entities.	This would provide a reliable source of funding to cover the administrative costs of the mechanism registry. Activity participants may consider this burdensome given the fees they are already required to pay as part of the activity cycle. Parties may consider this burdensome as they have a right of access to the mechanism registry, and also provide the UNFCCC with funding.	Option 2 without additional trading fees
Option 2: Charge account opening and maintenance fees to all entities that are not activity participants or Parties.	This would provide a reliable source of funding to cover the administrative costs of the mechanism registry, while avoiding overburdening the activity participants and Parties.	
Option 3: Charge secondary transfer (i.e., “trading”) fees for transfers between holding accounts. Note: this option may be combined with options 1, 2 and 4.	This would provide a source of funding to cover administrative costs of the mechanism registry, however it is less reliable and more difficult to administer than a standard opening and maintenance fee given the lack of predictability and transaction volumes. Activity participants may consider this burdensome given the fees they are already required to pay as part of the activity cycle. Parties may consider this burdensome as they have a right of access to the mechanism registry, and also provide the UNFCCC with funding.	
Option 4: Exempt Party accounts from registry fees Note: this option may be combined with options 1 and 3.	Parties may consider this burdensome as they have a right of access to the mechanism registry, and also provide the UNFCCC with funding. This could be combined with options 1 or 2 to avoid overburdening Parties.	

32. The Supervisory Body may wish to determine the level of these fees as part of the A6.4 mechanism registry procedure, or at a later date. The secretariat, upon request by the Supervisory Body, may provide information on possible levels of these fees alongside the draft procedure for the Article 6.4 mechanism registry at SB 011.

5.4. If the mechanism registry should include additional services for the purpose of voluntary cancellation

33. The mechanism registry could provide online platform services to allow account holders to offer the voluntary cancellation of their held A6.4ERs to the public. Setting up a centrally managed system for voluntary cancellation (known as a voluntary cancellation platform (VCP)), could enable members of the public, including participants in the voluntary carbon market, to engage with the Article 6.4 mechanism in a simple and transparent way.

34. The United Nations online platform for voluntary cancellation of CERs (CDM VCP) was launched in 2015 and allowed project participants to offer their CERs to members of the public at a price they determined. This platform could be navigated according to project type, country, or other criteria to enable purchasers to buy CERs which supported their preferences. Upon purchase, the CDM registry administrator would issue an attestation of cancellation.

35. The secretariat is preparing a concept note on VCPs and possible options for the Supervisory Body's consideration for SB 012.

5.5. The type of information that shall be made available and the appropriate levels of aggregation at which data may be disclosed to different stakeholders and publicly

36. As discussed in section 4.5 above, the mechanism registry will produce regular reports, and the Supervisory Body may wish to provide guidance as to the type, frequency, and the level of disaggregation of data in these reports.

37. The secretariat recommends preparing the following reports, based on existing practices in and experience with the CDM registry:

(a) Reports to DNAs:

(i) Monthly reports detailing the disaggregated transactions;

(ii) Holdings reports for accounts associated with a Party, including quantitative information requirements pursuant to chapter IV (Reporting) of the annex to decision 2/CMA.3 in relation to authorized A6.4ERs, and CERs;

(b) Public reports: Monthly for all reports other than annual for retirement (annual);

(i) Disaggregated: Issuance, mandatory and voluntary cancellation broken down by cancellation type and purpose, and retirement;

(ii) Aggregated: Holdings per A6.4ER and CER type and vintage;

(c) Other reports or information, including:

(i) Input to annual report of the Supervisory Body to the CMA;

(ii) Input to the annual report on infrastructure as per decision 2/CMA.6, annex, paragraph 36 (c).

38. The proposed reporting scheme is consistent with common reporting practice of registries, including under the Kyoto Protocol and the voluntary market.

39. The Supervisory Body may wish to mandate the secretariat, as the mechanism registry administrator, to prepare the proposed reports detailed in paragraph 37 above.

40. The Supervisory Body may wish to provide any additional reporting guidance for the mechanism registry; the secretariat could provide a further elaboration of options, upon request.

5.6. Whether an interim solution should be offered to enable issuance of units until the mechanism registry is fully operational

- 41. When this issue was first presented to the Supervisory Body at SB 008, the secretariat proposed an interim solution to enable activity participants to receive issued units prior to the launch of the fully operational mechanism registry.
- 42. According to the Supervisory Body workplan for 2024, the first version of the mechanism registry is planned to be launched in September. In the light of the proximity of launching the mechanism registry, the Supervisory Body may consider that it is no longer be a valuable use of resources to arrange for an interim solution.
- 43. Accordingly, the Supervisory Body may wish to consider the options provided in Table 4 below.

Table 4. Shall there be an interim solution for the issuance of units prior to the launch of the mechanism registry

Options	Justification / explanation	Recommendation
Option 1: Forgo the development of an interim solution.	This would allow resources to be directed towards the launch of the mechanism registry	Option 1
Option 2: Direct the secretariat to develop an interim solution.	As discussed above, this is unlikely to be operational prior to the planned launch date of the first version of mechanism registry. This would also limit the resources made available towards the implementation of the mechanism registry.	

6. Subsequent work and timelines

- 44. Pending guidance from the Supervisory Body on the outstanding issues and proposed solutions detailed in section 5 above, the secretariat will prepare a draft procedure for the operation of the mechanism registry for consideration at SB 012.

7. Budget and costs

- 45. Registry development and maintenance costs are being managed and shall be reflected in the Article 6.4 Mechanism Resource Allocation Plan 2024. These costs include other aspects such as the finalization of the procurement process, the development of the mechanism registry procedure, and the projection of time frames for CER transition and A6.4ER issuance.

8. Recommendations to the Supervisory Body

- 46. The secretariat recommends that the Supervisory Body provide guidance on the issues detailed in section 5 to enable the preparation of the draft procedure for the operation of the mechanism registry for consideration at SB 012.

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