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Operations of the clean development mechanism registry beyond the end of the second commitment period of the Kyoto Protocol

Technical paper by the secretariat

Summary

This technical paper identifies areas where guidance is required from the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol in relation to the necessary operations of the clean development mechanism registry beyond the end of the second commitment period of the Kyoto Protocol, including on the handling of units remaining in the registry that are not being transferred to the registry for the mechanism established by Article 6, paragraph 4, of the Paris Agreement.



Abbreviations and acronyms

AAU	assigned amount unit
Article 6.4 mechanism	mechanism established by Article 6, paragraph 4, of the Paris Agreement
CDM	clean development mechanism
CER	certified emission reduction
CMP	Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol
ERU	emission reduction unit
ITL	international transaction log
ICER	long-term certified emission reduction
SBSTA	Subsidiary Body for Scientific and Technological Advice
tCER	temporary certified emission reduction

I. Introduction

A. Mandate

1. CMP 18 requested¹ the secretariat to prepare a technical paper on the necessary operations of the CDM registry, taking into account the deadlines for submissions and operations under CDM processes proposed in the technical paper by the secretariat on the functioning and operation of the processes and institutions under the CDM in the future,² for consideration at SBSTA 60, covering:

(a) The handling of CERs that may remain in the CDM registry, including CERs in the Adaptation Fund account;

(b) The length of time during which CDM project participants may process CDM registry transactions;

(c) The treatment of CERs held in the CDM registry for projects for which CER issuance was requested prior to 1 January 2018 and for which the share of proceeds for administration has not been paid;

(d) The linkage between CDM registry operations and the CDM information system and the ITL, including an analysis of options for future CDM registry operations that takes into account the operations of the CDM registry if and when Parties decide to disconnect it from the ITL and its implications.

B. Scope

2. This technical paper provides information on the context and current status of the CDM registry and presents options for the necessary operations of the CDM registry taking into account the deadlines referred to in paragraph 1 above.

C. Possible action by the Subsidiary Body for Scientific and Technological Advice

3. SBSTA 60 may wish to take note of the information herein in considering matters relating to the CDM with a view to recommending a draft decision thereon for consideration and adoption at CMP 19.

II. Clean development mechanism registry

A. Context

4. There are two types of registries operating under the Kyoto Protocol:

(a) The national registries of the 38 Parties included in Annex I with commitments inscribed in the third column of Annex B in the Doha Amendment to the Kyoto Protocol, which contain accounts that hold Kyoto Protocol units in the name of the national Government or the legal entities authorized by the Government to hold and trade units;

(b) The CDM registry, administered by the secretariat under the authority of the CDM Executive Board for issuing CERs and cancelling them or distributing them to national registries. Accounts are held only by CDM project participants in the CDM registry, which does not permit emissions trading between accounts.

¹ Decision 1/CMP.18, para. 11.

² FCCC/TP/2023/3.

5. Each registry operates via a link, put in place and administered by the secretariat, established with the ITL, which verifies registry transactions in real time to ensure that they are consistent with rules agreed under the Kyoto Protocol; otherwise, the ITL requires registries to terminate the proposed transactions. In undertaking such verification, the ITL independently checks that holdings of Kyoto Protocol units are being recorded accurately in registries.

6. The ITL validates all transactions involving Kyoto Protocol units proposed by the CDM registry, including issuance, internal and external transfer, forwarding and cancellation, to ensure compliance with relevant CMP decisions.

7. The CDM registry is connected to the CDM information system³ for the purpose of issuing Kyoto Protocol units: the information system forwards instructions to the CDM registry, which communicates the serial numbers for issued units to the information system.

8. The CDM registry supports the issuance of CERs, including ICERs and tCERs, in its pending account on the instruction of the CDM Executive Board. These CERs are then distributed or cancelled as per the instruction of CDM project participants according to their requests for forwarding (within the CDM registry to permanent holding accounts or outside the CDM registry to accounts of project participants in national registries) or voluntary cancellation. The CDM registry also supports the online purchase and voluntary cancellation of CERs through the United Nations carbon offset platform.

9. Currently the CDM registry supports the following types of transaction: issuance of CERs, forwarding of CERs to national registries upon request by CDM project participants, and voluntary and administrative cancellation of CERs. It also supports several types of internal transaction, such as transfer of the 2 per cent levy upon issuance of CERs to the dedicated account for the Adaptation Fund and transfers from the pending account to permanent holding accounts.

10. The CDM registry can also host accounts for national registries, for units originating from the first international transfers of AAUs for the second commitment period of the Kyoto Protocol and from the issuance of ERUs for the second commitment period. Furthermore, the CDM registry may receive cancelled or replaced units as a result of expiry of tCERs or ICERs, net reversal of storage for a CDM project activity (including carbon dioxide capture and storage), non-submission of a certification report, excess issuance of CERs and changes to their expiry date; some of these processes may involve transfer of units from national registries to the CDM registry, depending on the location of the original units and the nature of the process.⁴

B. Kyoto Protocol unit holdings and ongoing operations

11. As at 31 March 2024, the total Kyoto Protocol units held in pending and holding accounts within the CDM registry for both the first and second commitment periods were as follows: 458,804,786 CERs, 1,956,871 tCERs, 475,741 ICERs and 46,802,179 AAUs.⁵

12. The table below indicates the numbers of transactions that have taken place in the CDM registry annually since the end of the second commitment period.

³ The CDM information system is a tool through which the secretariat manages the implementation of the CDM. It provides public access to project information, documentation and status updates, thereby ensuring transparency.

⁴ See decisions 3/CMP.1, annex, para. 22; 5/CMP.1, annex, paras. 41–56; and 10/CMP.7, chapter K.

⁵ CMP 8 decided that the Adaptation Fund should receive an additional 2 per cent share of the proceeds levied on the first international transfers of AAUs and the issuance of ERUs for projects under Article 6 of the Kyoto Protocol immediately upon the conversion to ERUs of AAUs or RMUs previously held by Parties (decision 1/CMP.8, para. 21). The AAUs were received via an account in the CDM registry administered by the trustee of the Adaptation Fund.

Numbers of transactions in the clean development mechanism registry since the end of the second commitment period of the Kyoto Protocol

<i>Transaction</i>	<i>2021</i>	<i>2022</i>	<i>2023</i>	<i>2024 (as at March)</i>
Issuance of CERs for first commitment period	6	45	61	3
Issuance of CERs for second commitment period	461	526	296	24
Forwarding of CERs to national registry	525	389	155	7
Voluntary cancellation of CERs	3 967	4 176	4 644	1 011
All other internal transactions	481	624	406	33

III. Options for the necessary operations of the clean development mechanism registry

A. Handling of certified emission reductions, including in the Adaptation Fund account, remaining in the clean development mechanism registry

13. Although the additional period for fulfilling commitments for the second commitment period ended on 9 September 2023, the CDM registry has continued to operate and support transactions as usual. However, once the CMP has mandated the implementation of a process to end operations of the CDM registry, it will be imperative to manage any units remaining in the registry, and for which no requests for cancellation or forwarding have been received, once the operations of the information and registry system under the Kyoto Protocol have ceased.

14. Parties may wish to consider the following for handling any CERs or AAUs remaining in the CDM registry at that time:

- (a) Option 1: administrative cancellation of the units;
- (b) Option 2: transferring the units to a registry not under the Kyoto Protocol;

1. Administrative cancellation of units on a specified date

15. Parties may wish to consider whether the CDM registry administrator should be mandated to administratively cancel any units remaining in the CDM registry after providing notice thereof to all CDM project participants and the trustee of the Adaptation Fund allowing due time for them to request forwarding or voluntary cancellation of their units. However, the cancellation of CERs could signal a lack of regulatory certainty regarding units under UNFCCC instruments and weaken confidence in the financial security of investments in future units under Article 6.

2. Transferring the units to a registry not under the Kyoto Protocol

16. Parties may wish to consider whether the CDM registry administrator should be mandated to transfer any remaining units (e.g. units that are ineligible for transfer to the mechanism registry, units for which no transfer request was received or units for which the request for transfer may not have been approved) to another registry.

B. Length of time project participants may process transactions in the clean development mechanism registry

17. In the technical paper referred to in paragraph 1 above deadlines are proposed for various processes under the CDM. Taking into consideration the process deadlines of [31 December 2025] [or any other later date] mentioned in the technical paper, Parties may wish to consider whether CDM project participants, Parties and the trustee of the Adaptation Fund

shall request forwarding or voluntary cancellation of CERs [within one year] [or by any other given deadline] after issuance has taken place.

18. Should CERs or AAUs remain in accounts held by the Adaptation Fund, the secretariat shall remind the trustee of the Adaptation Fund of the deadline and request that all units be voluntarily cancelled.

19. For CDM projects for which the share of proceeds has not been paid, options for handling them are proposed in chapter III.C below.

C. Treatment of certified emission reductions held in the pending account because the share of proceeds has not been paid

20. Up until 1 January 2018, the share of proceeds to cover administrative costs was charged after issuance of CERs, which resulted in a significant number of CDM project participants not paying the fee. To address this, the CDM Executive Board changed the process for the payment of the share of proceeds, requiring payment in full prior to the commencement of a completeness check of requests for issuance.

21. Shares of proceeds under the pre-2018 process remain unpaid for: 75,887,758 CERs issued for the first commitment period, 135,828,755 CERs issued for the second commitment period and 26,043,469 CERs issued for projects that straddle both commitment periods.

22. For the above-mentioned CERs that have already been issued, project participants do not have the security code that will allow them to request forwarding or voluntary cancellation because it is sent to project participants upon payment of the share of proceeds.

23. Parties may wish to consider the following for handling the above-mentioned CERs in the CDM registry:

- (a) Option 1: maintaining status quo until CDM registry operations have ceased;
- (b) Option 2: administrative cancellation of the units.

1. Status quo

24. It might be beneficial for Parties to hold such CERs in the CDM registry indefinitely, until the infrastructure under the Kyoto Protocol ceases to exist. This non-disruptive approach requires no immediate action and imposes no consequences for any involved party. However, a significant number of CERs remaining indefinitely could accumulate in the CDM registry until Parties decide on the handling of CERs as referred to in chapter III.A above.

2. Administrative cancellation

25. Parties may wish to consider whether the secretariat should be requested to notify participants in CDM projects for which the share of proceeds has not been paid, requesting that the fee be paid within six months of the notification. Should payment not be received by the deadline, the associated CERs would be administratively cancelled by the CDM registry administrator. Notification of the deadline shall be communicated to the project participants and account holders using the contact details they have provided in the modalities of communication documentation or on the account opening form.

26. Unpaid debt may be written off as uncollectible if further attempts to seek payment are deemed unfeasible.

D. Linkage between the clean development mechanism registry and the rest of the Kyoto Protocol infrastructure, including the international transaction log

27. As long as CDM registry operations continue, connection to the CDM information system is required for the purposes of processing issuance, forwarding and voluntary cancellation requests.

28. The CDM registry and the ITL are interconnected systems designed to ensure the accurate tracking and reporting of CERs. Breaking the connection between the CDM registry and the ITL has significant implications, including related to:

(a) Forwarding of units to national registries: the possibility of forwarding CERs to national registries still exists and such forwarding transactions constitute inter-registry transfers that, under the existing infrastructure of the Kyoto Protocol, are facilitated via the ITL;

(b) Issuance and voluntary cancellation of CERs: these processes currently require interaction with the ITL, but in the absence of inter-registry transfers they will not be essential to ensure the integrity of accounting;

(c) System architecture: some reconfiguration to the architecture will be necessary, including testing to identify and resolve any technical issues before disconnecting the two systems;

(d) Data management: appropriate and robust plans for managing data integrity will be needed, including plans to maintain the accuracy and integrity of transaction records to avoid discrepancies. Additionally, measures to protect sensitive data and ensure that all transaction data are accurately maintained and managed will also be needed;

(e) Conformity with existing mandates: the ITL is a key component of the compliance mechanisms under the Kyoto Protocol; as such, new or amended mandates will be required.
