

IETA Input to the Article 6.4 Supervisory Body

Structured Public Consultation on Modalities for Operation of the Article 6.4 Mechanism Registry

September 2023

INTRODUCTION

IETA supports the efforts made by the Article 6.4 Supervisory Body (SB) and the Secretariat to advance work to operationalise the Article 6.4 mechanism registry, and notes the progress made so far through deliberations. We welcome the opportunity to provide input into this process and would like to provide the following comments in response to the issues and options for the registry business model presented by the secretariat at the 6th meeting of the SB.

REGISTRY ACCOUNTS

In terms of the issues and options related to the registry accounts, more specifically on how to report A6.4ERs transferred to the account for cancellation of A6.4ERs for other international mitigation purposes (OIMPs), IETA would like to express support for a clear distinction between account types recording cancellations for use for OIMPs and account types that recording voluntary cancellations for other purposes. This would allow to track more clearly the use of each unit. Moreover, we note that separate accounts for each international mitigation purpose would be complementary to this approach and would simplify the tracking and reporting of use of A6.4ERs.

When it comes to whether temporal conditions need to apply to the mechanism's accounts, we do not see the need of linking accounts to NDC periods as vintage-based accounting can already indicate the NDC period the A6.4 ERs refer to and simplify account management.

TRANSACTION PROCEDURES

When it comes to whether A6.4ERs can be transferred to holding accounts other than the ones of Parties and activity participants involved in the activity that generates the A6.4ERs, we strongly oppose unnecessary restrictions to transfers of units as they would stifle trading between Parties and authorised entities, discouraging the use of the mechanism and the development of a liquid market for A6.4ERs. Similarly, mechanism participants should be able to transfer MCUs to accounts associated with a Party other than the host Party to avoid restricting the flow of results-based financing from foreign/international agents through the mechanism. IETA believes that the CMA reached an agreement on this matter at COP27 (Decision 7/CMA.4) and it would be beyond the mandate of the SB to renegotiate this decision and impose restrictions on the international trade of MCUs.

TRANSACTION PROCEDURES FOR CERS

Regarding how to handle CERs after the end of the 1st NDC or 1st updated NDC period, IETA believes it is important to provide clear guidance on this issue in a way that would allow market participants holding such assets to make informed decisions. The lack of advance notice and clear communication on the how CERs stored in national registries would be considered by the A6.4 mechanism after the end of the True-Up period caused significant confusion and uncertainty and a repeat of similar incidents may undermine confidence in the mechanism. IETA believes that CERs should continue to be available to their beneficial owners after the end of the 1st NDC or 1st updated NDC period as they may continue to be used for voluntary purposes.

TRANSACTION DETAILS

On the issue of how to inform transaction details and provide descriptions necessary for reporting purposes and/or serve as a reference for the parties to the transaction, IETA believes that text field options for mandatory purposes risk causing an unnecessary burden on market participants and administrators, making reporting less intuitive and tracking more complex. We therefore recommend that a solution for tracking cancellation for international mitigation purposes consider drop-down menus, multiple choice fields, or other similar approaches to facilitate the process of filling out such mandatory details. This may require further thinking about how the mechanism registry should connect and exchange information with registries related to OIMPs (i.e., CORSIA).

ROLE OF THE MECHANISM ADMINISTRATOR

Due to dependency on future decisions, IETA supports a flexible approach to the development of the technical design of the mechanism registry, its functional features and the role of the administrator. However, we would like to emphasise the importance of having guidelines based on international standards (i.e., ISO) for information management and security standards to reduce to a minimum the risk of data leakage and security breaches.

REPORTING

As the Article 6.4 mechanism will compete with other crediting mechanisms, IETA believes that standard reports generated by its registry should have a level of aggregation and frequency of reporting that is both suitable to the needs of Parties and aligned with common practices in carbon markets. For this purpose, IETA recommends the Secretariat to collect input from DNAs in order to develop efficient reporting procedures consistent with market demands.

Furthermore, we would like to highlight the importance of clearly differentiating transfers from transactions in the mechanism registry. IETA believes that the trading element in the mechanism registry would require more frequent access to public and disaggregated information on transactions to allow both Parties and authorised entities build more efficient climate strategies and increase overall climate ambition.

ADDITIONAL REGISTRY SERVICES

IETA encourages the Secretariat and the SB to explore registry features and services that could increase the robustness and attractiveness of the A6.4 mechanism. Additional services should be rolled out only when robust market demand has been demonstrated and a cost-benefit analysis is carried out. These principles should also apply in the case of the connection between the mechanism registry and national registries.

IETA strongly supports linking the mechanism registry with exchanges. We note that the CDM registry entered into partnerships with several exchanges to act as custodians and hold CERS on behalf of clients. We believe that regulated exchanges and financial market infrastructures are better placed to facilitate trading, settlement and safeguarding of assets, while registries should play the important functions of recording issuance, transfers of ownerships, cancellation and/or retirement. Exchanges can facilitate real-time settlements for trading without the need for the traders to operate their own holding accounts at the mechanism registry. They are typically required by regulations to keep proper books and records, perform frequent reconciliation against the records in the mechanism registry, and audit their records. We do not believe that a simple e-commerce platform could perform the same functions effectively and robustly.

IETA also supports the linking of the mechanism registry with the Climate Action Data Trust (CAD Trust),¹ a decentralised metadata platform that links, aggregates and harmonises all major carbon credit registry data to enhance transparent accounting. As several national and independent registries are connecting with the CAD Trust, the participation of the mechanism registry will minimise the risk of all forms of double counting, increase trust in carbon credit data and build confidence in carbon markets through improved transparency.

ABOUT IETA

IETA is a non-profit business organisation with a membership of over 300 companies operating in compliance and voluntary carbon markets. Since its foundation in 1999, IETA has been the leading voice of business on market-based ambitious solutions to climate change. We are a trusted adviser to governments to support them in building international policy and market frameworks to reduce greenhouse gases at lowest cost, increase ambition, and build a credible path to net-zero emissions. See www.ieta.org for more information.

IETA and its members look forward to further engaging with the Article 6.4 Supervisory Body. Do not hesitate to contact Pedro Venzon (venzon@ieta.org) or Andrea Bonzanni (bonzanni@ieta.org) for any questions.

¹ <https://climateactiondata.org/>