



UNFCCC ART. 6.2 SUBMISSION

Views on elements referred to in paragraph 10 of decision 2/CMA.3 for consideration by the SBSTA

AUGUST 2022

IETA welcomes the opportunity to submit further views on the topic of infrastructure referred to in chapter VI of the Annex to Decision 2/CMA.3. Our comments build on the views expressed in our submission made earlier this year, to which we refer.

IETA supports the bottom-up and decentralised architecture of the Paris Agreement and welcomes the flexibility in the design and implementation of cooperative approaches provided by Article 6.2 and further guidance to be elaborated. We acknowledge the diverse needs and preferences of Parties and believe infrastructure requirements and rules should accommodate such diversity.

IETA shares a common goal with Parties of ensuring infrastructure is developed that facilitates effective international cooperation on climate action and underpins robust accounting for Article 6 and nationally developed contributions (NDCs). Sound infrastructure should take into account the needs of the private sector, as its participation is fundamental to mobilising capital and developing mitigation activities at scale. Private capital is unlikely to commit to transactions without sufficient assurance that title over mitigation outcomes will be safeguarded and the integrity of the system will be protected.

Against this backdrop, the key priorities for the private sector are:

1. **Clear identification of mitigation outcomes and their attributes** – Unique identifiers should provide an unequivocal record of ownership of ITMOs at issuance or project level, as elements such as activity type, location and vintage may be crucial in determining the value of an asset.
2. **Information security** – Information stored in registries must be immutable and protected against hacks, thefts and tampering. Lack of security could become a real obstacle to investment.
3. **Traceability** – Transfers between registries should be fully tracked. In addition, specific authorisations for transfer and ultimately corresponding adjustments should always be identifiable. This is particularly important as there is a significant time lag between the issuance of an authorised ITMO and its accounting in the UNFCCC system through the biennial transparency reports (BTRs).



A model based on real-time communication and linking between different national and independent mechanism registries, the international registry, the Article 6.4 mechanism registry, and the Article 6 database is IETA's preferred outcome, but we accept it would be technically challenging to implement and has currently limited support among Parties.

IETA considers that the discussion on registries and its different functions would benefit from a clearer separation between two layers that make up robust accounting:

1. **Mechanism registries that hold mitigation outcomes issued as units and track transactions.** Mechanisms include cooperative approaches implemented by Parties under Article 6.2, the Article 6.4 crediting mechanism, and independent crediting programmes. These registries are established under the rules of those mechanisms and issue tradable units in the form of emission allowances or carbon credits. Transactions at this unit level include issuance; transfers between entities, both within and potentially between countries and mechanisms; surrender or retirement to demonstrate use of a unit towards a specific regulatory or voluntary emission target; and cancellation without such use.
2. **Accounting registries¹ that track the accounting implications of Article 6 activities.** These registries are those referred to in para. 29 of the annex to decision 2/CMA.3. They are needed to centralise a Party's information on internationally transferred mitigation outcomes (ITMOs), largely by drawing information on relevant transactions from mechanism registries to determine what corresponding adjustments are required. To do this, accounting registries need to record the para. 29 information with accounting implications: authorization, first transfers, transfers, acquisitions, use and cancellation. Some Parties may wish to track an ITMO for each relevant transaction on a mechanism registry, although Parties may find it easier to aggregate relevant transactions into larger ITMOs and corresponding adjustments.

This distinction between mechanism registries and accounting registries is important because it is the rules and registries of specific mechanisms that provide the clear basis for private sector and other entities to engage in international cooperation under Article 6. A Party may engage in multiple mechanisms and will need to clarify under which mechanisms and activities it wishes to provide Article 6 authorisation (ideally at an early stage, prior to any transactions, to facilitate market transparency and certainty). Accounting registries will need to monitor all relevant mechanism registries to centralise the Article 6 accounting information they require. For example, a Party's accounting registry may draw information from its ETS registry, the Article 6.4 registry, and the registries of independent crediting programmes.

¹ What we define 'accounting registry' in this submission is often referred to as 'national registry'. The Informal Report published by the SBSTA Chair on 30 May 2022 uses the phrase "nationally designated registry" to identify a registry performing these functions. We find this phrase imprecise as the use of a registry might not require designation in the normal use of the term. The Article 6.2 guidance (para. 29 of the Annex to Decision 2/CMA.3) only states that Paris must have a registry or access to a registry, with no reference to formal designation.



The distinction is also important because it clarifies that a Party's accounting registry, in the sense of para 29, does not need to perform all the unit-level functions performed by mechanism registries. This frees up each mechanism registry to be appropriately tailored and governed in accordance with rules of each mechanism. Parties will need to submit information on mechanism registries when they describe how their cooperative approaches (including any reliance on independent crediting programmes) ensure environmental integrity (para 18(h), annex, decision 2/CMA.3).

In this context, traceability must be ensured between the authorizations, ITMOs and corresponding adjustments recorded on accounting registries and the underlying transactions and mitigation activities recorded on mechanism registries. This is essential in ensuring the transparency and credibility of Article 6 accounting. It is especially important as it will be challenging to include comprehensive traceability information in biennial transparency reports (BTRs).

We believe this model, with its clear conceptual separation between units (owned by public or private sector entities) and their accounting implications for Article 6 and NDCs, is the most suitable architecture for enabling both layers of carbon accounting and reconciling the diverse positions and needs of Parties and stakeholders. UN oversight would focus on accounting, while units would be subject to rules enshrined in programme regulations and national legislation. We consider this matches Model 2, as described in the Informal Report published by the SBSTA Chair on 30 May 2022 (hereafter referred to as the "Informal Report"), as units may continue to be held in mechanism registries, while accounting national registries would track ITMOs and the accounting implications of the underlying transactions.

We do not view this approach as incompatible with Model 1, as described in the Informal Report. A registry could be built to integrate both mechanism-specific and accounting functions, but the differences in functions remain important. In these instances, individual Parties may decide to generate and hold "native" carbon units in their accounting registries (Model 1a) or acquire and adjust units from recognised mechanism registries (Model 1b). However, this should not be a requirement for all Parties.

While implementing and maintaining registries bring considerable challenges, it is important these be kept in perspective, as Parties facing limited capacity or resources may – if they wish – rely on:

1. Mechanism registries already established by independent crediting programs or the future Article 6.4 registry. "Simple Excel-based tracking" (para. 27(a)(ii) of the Informal Report) would not provide sufficient assurance to private sector investment for these purposes;
2. Functions of accounting registries provided by the international registry to be implemented by the UNFCCC Secretariat. We therefore support the Secretariat's efforts to promote capacity building in this area and move forward with the implementation of a fit-for-purpose international registry for Parties who may wish to use it.

This approach means the CMA guidance on infrastructure would not need to go deeply into requirements for mechanism registries. This would be consistent with the approach taken in Article 6.2 and its rules of leaving these implementation details to Parties and requiring only transparent reporting. Nevertheless, the SBSTA and CMA could consider including a paragraph calling on interested Parties and independent



registry providers to collaborate in developing a data model to drive alignment between different registries and crediting mechanisms and to accelerate carbon market development based on comprehensive, common-format data. They should also encourage engagement by the UNFCCC and Parties with existing public-private dialogues such as the Climate Warehouse initiative² which aims to establish a common data model and a connected real-time reporting infrastructure for mechanism and accounting registries willing to share their information in a global metadata layer.

ABOUT IETA

The International Emissions Trading Association (IETA) is a Switzerland-registered not-profit entity dedicated to the objectives of the United Nations Framework Convention on Climate Change. It was created in June 1999 to establish a functional international framework for trading in greenhouse gas emission reductions. Today, IETA is the leading voice of the business community on carbon markets and market-based solutions to climate challenges. Our objective is to build international policy and market frameworks to reduce greenhouse gases at lowest cost, increase ambition, and build a credible path to net-zero emissions. To produce meaningful carbon prices that drive change, we support market-based policies with effective emissions targets, clear rules, and flexible compliance choices. IETA's 250+ member companies include some of the world's leading corporations in the energy, utility, cement, aluminium, chemical, paper, agri-food, transport and technology sectors, as well as leading firms in the data verification and certification, brokering and trading, legal, finance, and consulting industries.

² <https://www.theclimatewarehouse.org/>