

**OWNERSHIP OF
A6.4ERS IN THE PARIS
AGREEMENT CREDITING
MECHANISM REGISTRY**

INTRODUCTION AND OVERVIEW

IETA IS A NON-PROFIT BUSINESS ORGANISATION THAT IS COMMITTED TO ACHIEVING THE GOALS OF THE PARIS AGREEMENT. IT HAS A MEMBERSHIP OF OVER 300 LEADING INTERNATIONAL ORGANISATIONS 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 BUILD INTERNATIONAL POLICY AND MARKET FRAMEWORKS TO REDUCE GREENHOUSE GASES AT LOWEST COST, INCREASE AMBITION, AND BUILD A CREDIBLE PATH TO NET-ZERO EMISSIONS. WE PROVIDE THESE COMMENTS IN SUPPORT OF THE SECRETARIAT AND THE SBM IN ACHIEVING THEIR MANDATE AND GOALS UNDER ARTICLE 6 OF THE PARIS AGREEMENT.

This document sets out the issues relating to the potential ownership of the A6.4ERs that will be held in the Paris Agreement Crediting Mechanism (PACM) Registry (the Mechanism Registry). The preliminary elements of the Mechanism Registry have been determined by the CMA, the COP 29 Secretariat and the Supervisory Body for PACM (the SBM), with further elements and requirements of the Mechanism Registry to be finalized by the SBM, with the assistance of the Secretariat and other stakeholders. In summary, we understand that the Mechanism Registry will be required to:

- Effect the issuance, forwarding, first transfer, transfer, cancellation, voluntary cancellation, communication with the International Registry, and transparency for Paris Agreement compliance purposes (each, as applicable) for all A6.4ERs, including unauthorized A6.4ERs;
- Contain accounts for both member countries, and other authorized entities
- Be developed and operationalised to operate in accordance with cyber protections and other best practice standards for credit registries
- Be administered by the Secretariat, who will maintain and operate the Mechanism Registry under the supervision of the Supervisory Body.

The next meeting of the SBM will take place in February 2025. One of the key issues on the agenda will relate to the ownership of A6.4ERs that are held in the Mechanism Registry. An overview of this topic was in the subject of the concept note on the Terms and conditions for entities using the Mechanism Registry¹, which states: *“The CMA has not provided guidance on the recognition of ownership with regards to units held in the mechanism registry, nor how the registry may or may not recognise ownership, and/or financial security interests.”* Consequently, at its first meeting of 2025, the SBM will consider two options relating to the issue of ownership of credits and accounts held in the Mechanism Registry, and the related Registry Terms and Conditions:

Option 1:

Frame users’ rights with regard to control, with no acknowledgment of ownership; or

Option 2:

Confirm ownership, with authorized users’ and/or their focal points able to obtain proof of ownership documentation for their accounts and account holdings; with related Terms and Conditions specifying that (i) the transfer of units in the Mechanism Registry constitutes the transfer of ownership, and (ii) all disputes relating to ownership of units shall be left to either private dispute resolution if between account holders and/or third parties, or mediation and the United Nations Commission on International Trade Law (UNCITRAL) if involving the UNFCCC.



THE PRELIMINARY ELEMENTS OF THE MECHANISM REGISTRY HAVE BEEN DETERMINED BY THE CMA, THE COP 29 SECRETARIAT AND THE SUPERVISORY BODY FOR PACM

(1) Concept Note: Terms and conditions for entities using the mechanism registry. Version 01.0

IETA IS OF THE STRONG VIEW THAT THE GOALS OF THE PARIS AGREEMENT WILL BE BEST SERVED AND ACHIEVED THROUGH OPTION 2, AND WE URGE THE SBM TO CHOOSE AND IMPLEMENT THAT OPTION. THIS WILL ASSIST PARTIES AND THE SECRETARIAT IN REALISING THE NECESSARY FINANCE AND FINANCIAL FLOWS CONTEMPLATED AND AGREED UPON AT COP 29, AND HELP BUILD A STRONG FOUNDATION FOR A TRANSPARENT, AND ORDERLY PARIS AGREEMENT MARKET. OPTION 1 IS LIKELY TO FALL WELL SHORT OF THESE GOALS AND HINDER PARTIES AND THE SECRETARIAT IN THEIR IMPLEMENTATION OF ARTICLE 6.4 AND IMPEDE THE FUNCTIONING OF THE PACM.

Option 2 is also consistent with the registry models used to facilitate investment and trading by regulators and standards around the world. It is most likely to facilitate the necessary financial flows by non-state actors contemplated in the Baku Decisions including investment banks and other financial market participants.

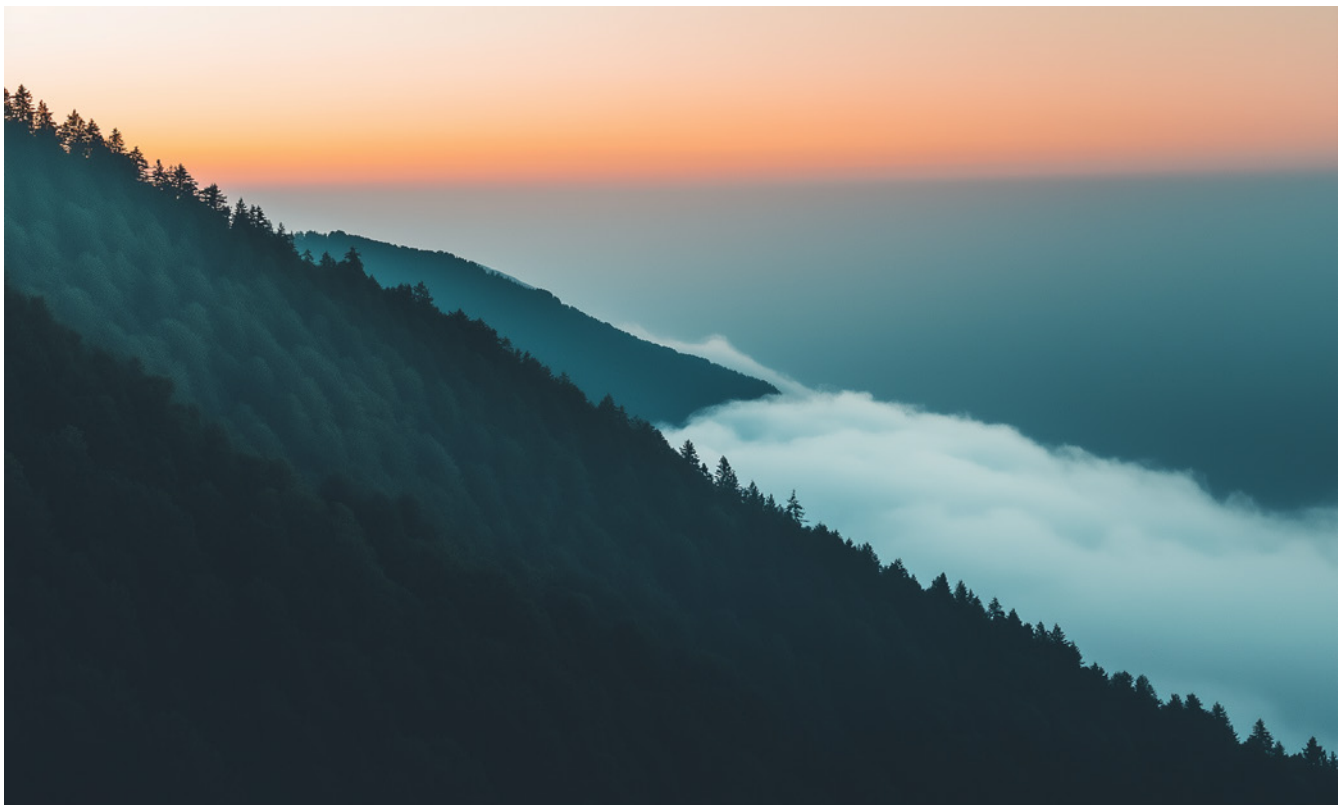
Option 2 supports the purpose and intended outcomes of Article 6.4 and the related Article 6.2 markets by:

- (i) enabling core market activities necessary for finance to flow, including the transparent and consistent transfer of ownership for the sale and purchase of units
- (ii) facilitating the scaling of finance by enabling security arrangements in and around A6.4ERs and Mechanism Registry accounts; and
- (iii) facilitating stable market infrastructure necessary for Paris Agreement compliance and increased market transparency consistent with regulatory requirements and custody traditions around the world.

We ask that the SBM and the Secretariat elaborate upon Option 2, critically to ensure that transparency is achieved without compromising the requisite confidentiality of commercially sensitive information, in a manner that is consistent with UNFCCC practices. This will provide balance between the transparency to allow for necessary market oversight, while preserving the confidentiality necessary to ensure that anti-trust and intellectual property laws are duly respected, and innovation, competitive strategy, and sensitive information are not compromised.

The following document sets out in further detail IETA's rationale for the preferred Option 2, and focusses on the central issue of ownership of A6.4ERs in the Mechanism Registry. This document also addresses the issues around the balance between market transparency and the requirements for confidentiality of commercially sensitive information.

This document does not address additional subtleties of the legal nature of Article 6 units under various legal systems including security or collateral arrangements, legal enforcement and related regulatory matters, which are ideally the subject of further elucidation by other UN bodies including UNIDROIT and UNCITRAL.



RATIONALE UNDERLYING IETA'S SUPPORT FOR OPTION 2

We understand that non-state actors may be authorized to use and participate in the Mechanism Registry and the finance goals of the Paris Agreement are, in part, contingent on significant non-state actor participation and funding. The Mechanism Registry must therefore recognize the ownership of A6.4ERs and Mechanism Registry accounts. This will enable finance to flow through standard and known financial practices and allow for funding to scale rapidly in line with the timelines contemplated in the Paris Agreement and the IPCC.

Specifically Option 2

- a. Provides greater certainty of ownership to support financial flows through the Mechanism Registry. We expect that straightforward sales transactions will be settled by the selling entity instructing the Secretariat acting (directly or through delegation) as the Registry Operator (“RO”) to transfer A6.4ERs from the Seller’s account to the Buyer’s account, as shown in Figure 1. In such a transaction the buyer would have certainty that the formalities required to transfer ownership in the subject A6.4ERs have been completed. Mechanism Registry rules (and confirmation by the RO) provides the requisite certainty to support the completion of the transaction. Similarly, the certainty of ownership becomes even more integral in more complex transactions. In circumstances where the transaction or the units are the subject of an insolvency or are otherwise disputed, clear ownership rules and requirements are integral to avoiding confusion and supporting investment. IETA acknowledges that the Mechanism Registry is likely to provide for such rules and requirements, without liability for the Mechanism Registry and that the RO will not act as a decision-maker should an ownership related dispute arise. Nonetheless, Option 2 and its clear ownership rules will assist with the avoidance, and timely and efficient resolution, of disputes.
- b. Enables Parties and non-state actors to use their A6.4ERs held in the Mechanism Registry as collateral, or security, to facilitate the development, construction and finance of GHG emission reducing and removing projects.
 - i. Many investors in carbon projects provide financing to project developers before the project has been developed and credits have been issued. This allows beneficial GHG emission reducing/removing projects to be developed and implemented. Once the project is up and running, the investors are repaid for their early, higher risk investments in projects through the transfer of a portion of the resulting verified and issued carbon credits to the investor. Investors in projects created under the PACM may not be project proponents and would therefore not be the first recipient of the issued A6.4ERs. The investor may therefore wish to take (and enforce if needed) a security interest² over the Mechanism Registry account and/or the A6.4ERs once issued. To facilitate these arrangements, the project proponent must have a recognisable ownership to transfer to the investor under the security agreements.
- c. Support Transparency and Good Practices
 - i. In the transaction example described in paragraph 2.a above, both parties to the transaction must have a registry account. Each account application and relevant Know-Your-Customer (KYC) checks and vetting procedures are conducted by the RO. Additionally, any oversight of transaction activities must also be done by the RO. An alternative option is to allow for a sub-custodial model where Regulated Financial Undertakings (RFUs) – such as banks and credit institutions – are permitted to hold sub accounts.
 - ii. In this model, the RFU would hold an account at the registry, and for the purposes of the RO, would own all the A6.4ERs in its account. The RO would follow instructions from the RFU to transfer A6.4ERs between accounts of other RFUs or other direct account holders. However, in this model, the RFU may also hold ownership of A6.4ERs in its account as a custodian for sub-account holders, as shown in Figure 2. An RFU acting as a custodian for sub-accounts would have existing facilities to manage many sub-accounts and to perform additional services, such as the recognition and implementation of financial security interests as described in paragraph 2.b.i. Enabling sub-custody accounts would materially improve liquidity in the market as RFUs are well placed to facilitate access to the market and assist sub-account holders to manage their risk, thereby freeing up trading capital. These types of arrangements would also alleviate the RO from the burdens of performing these additional services itself. But to perform these sub-custodial services the RFU must be able to hold express ownership of A6.4ERs in its account so it can hold those as custodian for sub-accounts.
 - iii. Providing access to RFUs would have the additional advantage that they are already required to implement stringent KYC and Anti-Bribery & Corruption (ABC) checks, along with sanctions protocols and on-going monitoring of transactions through their accounts. Providing the framework where RFUs may provide sub-custodial services would add a layer of integrity into the market and leverage the existing high standards of regulated oversight already in place. The RO would not be delegating its obligations for onboarding protocols as it would still be obliged to conduct all relevant procedures in respect of parties that have an account with the Registry, but it would not need to conduct such processes in respect of parties that have sub-accounts with an RFU that has an account with the Registry.

(2) A secured creditor takes a security interest to enforce its rights against collateral in case the debtor defaults on its repayment obligation. In this case the collateral would be the A6.4ERs in an account.

Figure 1: All parties entering transactions have an account at the Registry

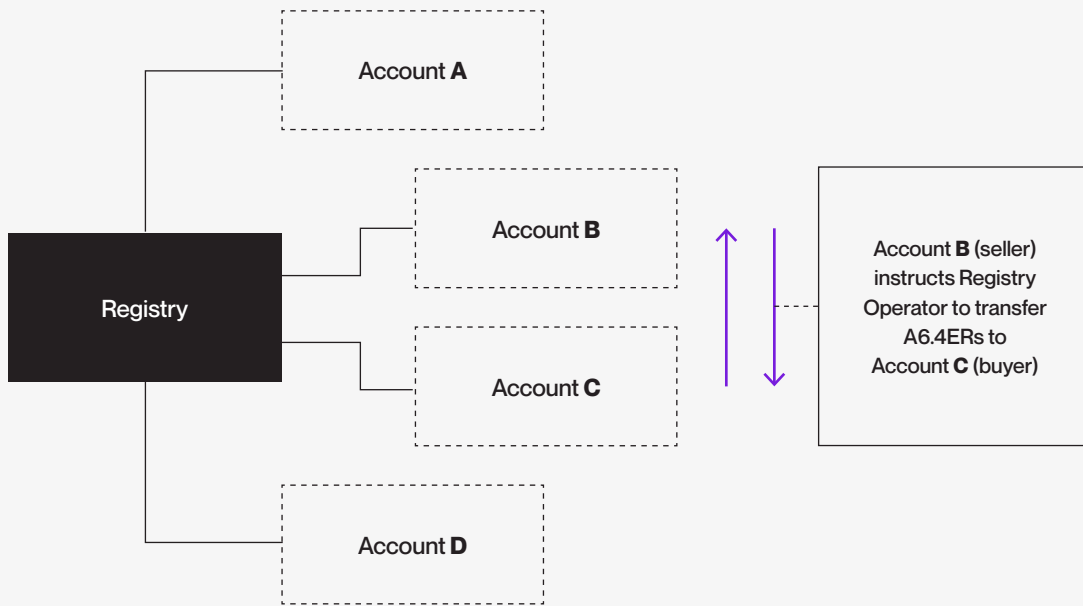
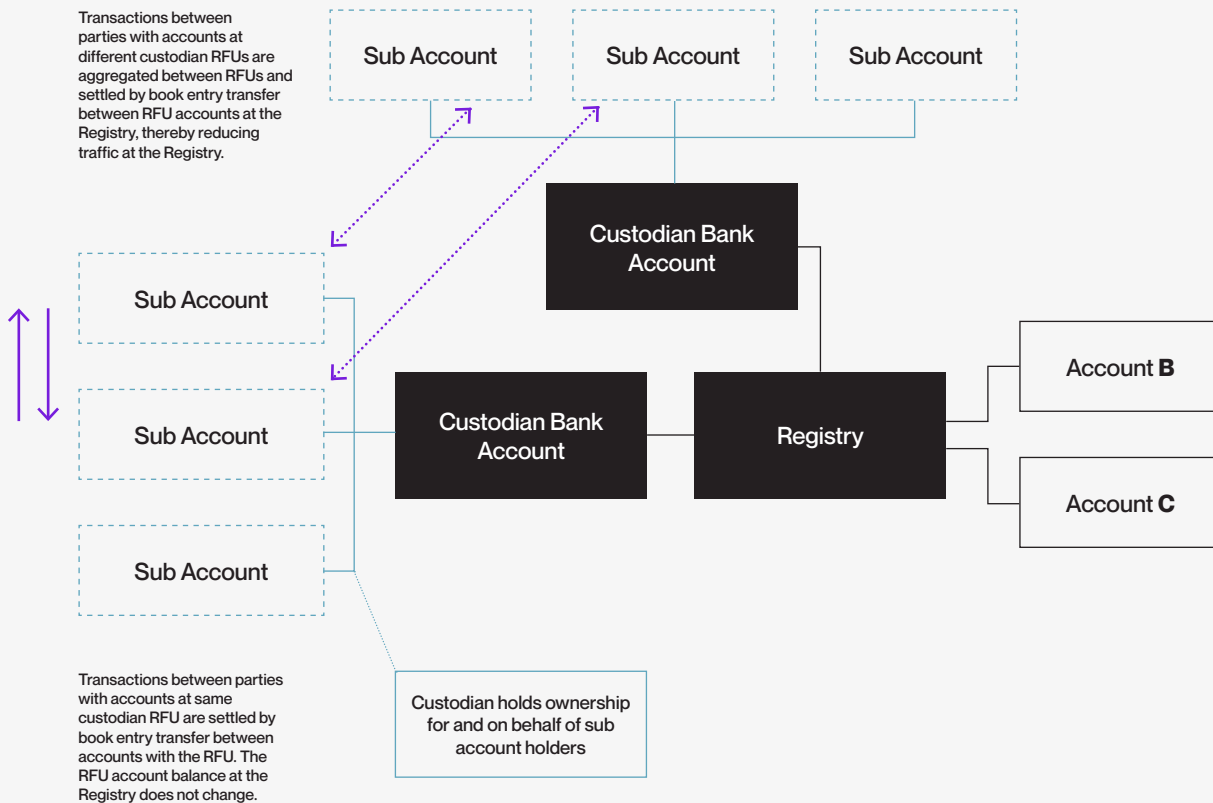


Figure 2: Arrangements to allow RFUs to conduct custody and security services for sub account holders



CONFIDENTIALITY AND TRANSPARENCY

- a. The balance between market transparency and confidentiality of commercially sensitive information is critical in maintaining trust, efficiency, and fairness in markets. While transparency is essential for fair and efficient markets, confidentiality ensures that innovation, competitive strategies, and sensitive information are not compromised. Striking the right balance requires clear guidelines and rules.
- b. Transparency enables stakeholders to make informed decisions, fosters fair competition, and reduces the risk of fraud and manipulation. In the context of carbon markets, it is valuable and possibly essential, for aggregated and anonymized market and project data to be transparent, in addition to data on what units have been retired and for what purpose. Whereas it is also essential to maintain confidentiality around proprietary or sensitive business data that, if disclosed, could harm a party's competitive position or violate contractual or legal obligations. Such confidential information would include specific account holdings and commercial terms of transactions including pricing and volumes.

OPTION 2 WILL ENABLE FINANCE TO FLOW THROUGH STANDARD AND KNOWN FINANCIAL PRACTICES AND ALLOW FOR FUNDING TO SCALE RAPIDLY IN LINE WITH THE TIMELINES CONTEMPLATED IN THE PARIS AGREEMENT AND THE IPCC.



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