

Improving the application of materiality

1. Introduction

1.1. Background

1. At its sixty-ninth meeting, the Executive Board of the clean development mechanism (hereinafter referred to as the Board) adopted the “Guideline on the application of materiality in verifications” (the Guideline) in response to the decision by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) at its seventh session on the “Materiality standard under the clean development mechanism” (decision 9/CMP.7). The CMP at its eighth session, through decision 5/CMP.8, encouraged the Board to improve the Guideline based on the experience gained through the implementation of the Guideline.
2. At its seventy-fifth meeting, the Board considered the concept note on the improvement of the Guideline and requested the secretariat to:
 - (a) Update the “CDM validation and verification standard” (VVS) to reflect requirements related to materiality (early to mid-2014);
 - (b) Update the Guideline to remove the requirements moved to the VVS and enhance the listing of examples in the guideline (early to mid-2014);
 - (c) Calibrate designated operational entities (DOEs) on the application of materiality to facilitate a more uniform understanding and application of the concept in verifications (throughout 2014);
 - (d) Monitor the impacts of (a)–(c) above to determine whether the consistency in the application of materiality by DOEs in verifications has improved and whether any follow-up actions are needed.
3. The CMP at its ninth session, through decision 3/CMP.9, requested the Board to “review the concept of materiality in the verification process and, if applicable, how it can be further applied in the clean development mechanism, based on the experience gained through the application of materiality, as defined decision 9/CMP.7, and in consultation with the Designated Operational Entity/Accredited Independent Entities Coordination Forum.”

2. Key issues and proposed options

4. The concept of materiality has been introduced in the clean development mechanism (CDM) to enhance the cost effectiveness and streamline the verification process while ensuring environmental integrity. Since the end of the sixty-ninth meeting of the Board (September 2013), the Guideline has been available to DOEs. However, at its seventy-fifth meeting, the Board noted the inconsistent application of materiality by DOEs and requested the secretariat to calibrate DOEs on the application of materiality to facilitate a



more uniform understanding and application of the concept in verifications as referred to in paragraph 2(c) above.

5. In order to address the lack of common understanding of materiality among DOEs in the verification process, the secretariat proposes to review DOE verification reports and verification protocols to find out how the application of materiality by DOEs has evolved and to consult with the DOE/AIE Coordination Forum to learn the experience of DOEs in the application of materiality in verifications and to develop best practice examples for fostering the common understanding of materiality.
6. Furthermore, the secretariat proposes to:
 - (a) Identify similar measuring, reporting and verification (MRV) instruments from other programmes, such as the European Union Emission Trading System (EU-ETS), Verified Carbon Standard (VCS), California Action Reserve (CAR) and other relevant governmental schemes that allow the use of materiality in greenhouse gas (GHG) mitigation projects;
 - (b) Review where and how the concept of materiality has been applied by these MRV instruments;
 - (c) Propose options for the further application of materiality¹ in the CDM and the possible implications;
 - (d) For each option, provide an example on how the concept of materiality could be applied effectively (an example of application that streamline the process, makes it simpler while ensuring environmental integrity);
 - (e) Revise the Guideline accordingly, where relevant, by developing, as necessary,² thresholds (qualitative and quantitative) and good practices for expanding the application of materiality to other areas in the CDM (e.g. validation, programmes of activities, etc.).

3. Impacts

7. The correct application of materiality would allow DOEs to streamline the verification process, and consequently improve the cost effectiveness of the verification process, which would be beneficial for DOEs without compromising environmental integrity, considering the current situation of the CDM market.
8. The further application of materiality without compromising environmental integrity will further enhance the cost effectiveness of the CDM project cycle

¹ ISO-14064-3 allows the application of materiality for both Validation and Verification level. (i.e. designing the validation or verification and sampling plans).

² Considering that a higher agreed level of assurance generally implies a lower materiality (Ref. ISO 14964-3. Section A.2.3.8)