Designated Operational Entities and Independent Entities Association

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Subject: **Call for public inputs on the draft revised "Guidelines on the assessment of investment analysis"**

Date	Our Reference	Tel.	Email
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Honourable Members of the CDM Executive Board,

This input is made by the Designated Operational Entities and Independent Entities Association, a recently established organisation of independent auditing companies accredited under CDM and/or JI. Our members, which are by nature also members of the DOE/AE Forum confirmed to spend resources for proactively preparing suggestions and recommendations in order to provide fast and efficient input/feedback to our counterparts at the governance side. We welcome this opportunity to provide our initial feedback on the draft revised "Guidelines on the assessment of investment analysis ".

D.I.A. welcomes the further development made through this guidance document as it reduces the divergence in approaches on demonstrating financial additionality. We recognize that this divergence resulted quite frequently in requests for review and in reviews. Nonetheless we want to mention that the reference to internal and external financial benchmarks (although recommendable) is in many cases not fully applicable in developing countries and therefore delivers only a hypothetical basis for performing an assessment whether or not an investment would have happened without CDM. The guidance still sets high requirements for the documentation and therefore the assessment of financial parameters from the early beginning of investment planning, therefore handicapping activities in countries with lower standards, especially LDCs.

As the default values delivered under Appendix A are derived from data which are variable over time we recommend to include information on data vintage or update frequency, avoiding the need of requests for clarifications once the actual rating might deviate significantly from the given figures.

We would recommend that there remain some paragraphs of the draft guidance which would require further improvement in order to deliver clear and consistent guidance. In particular this refers to:

Paragraph 6:
This paragraph requires that input values used in all investment analysis should be valid and applicable at the time of the investment decision taken by the project participant. The DOE is therefore expected to validate the timing of the investment decision and the consistency and appropriateness of the input values with this timing. There are cases where project participants want to wait for the registration of the project before making an ultimate investment decision to the project

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and nothing has been invested at the time of validation. The draft gives no guidance from which point in time the data for investment analysis shall be taken when validating the input parameter. We recommend including such guidance in this revision, e.g. by referring to the period xx months before submitting for validation.

Paragraph 14:
There is a contradiction when on the one hand it is required to evidence company internal benchmarks by their historic application, while on the other hand the subjective profitability expectations or the risk profile of a particular project developer should not be included. In many cases internal benchmarks include and are based on both, the subjective profitability expectations or risk profile of individuals / companies. Requesting internal benchmarks and excluding individuality is therefore considered inconsistent and, quite probably, not feasible. We only see a need to exclude situations where CDM can be misused as competitive advantage with other investors not requesting CDM revenues. This could to be achieved through further elaboration in the guidance text and/or the additionality tool respectively.

Paragraph 16:
This paragraph provides guidance on how an internal benchmark should be calculated. An internal benchmark will always be calculated by a company using their specific assumptions and approach and will always be subjective. Hence, it will be very difficult for a DOE to validate the benchmark determination. What is important for the validation of an internal benchmark is not how it is calculated, but that the benchmark has been applied consistently in the past for other investment decisions. Introducing such guidance does not reflect most business decisions, which have been made till date. Requesting compliance will create difficulties for many projects, which are already developed or under validation.

Furthermore we want to mention that this guidance needs to be integrated in the update of the VVM. Especially it should be clarified to which extent DOE's can rely on statements of other Third Parties (e.g. accounting firms) which might have been engaged by project participants or whether they have to perform such a *"thorough assessment of the financial statements of the project developer"* (para 14). Including such clarification either in the guidance or within the updated VVM will help defining the scope of the required assessment work, once reference to internal or external benchmarks is made.

In case further development on this guidance document is intended, we offer our support by continuing this discussion.

Yours sincerely,

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