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### Call for Public Input

Standard on the use of the concept of materiality and level of assurance in the CDM

Dear Chair and Honourable Members of the CDM Executive Board,

TÜV NORD welcomes the decision of the EB to introduce the concept of materiality in GHG auditing. TÜV NORD would like to contribute to this discussion as per the following input.

Yours sincerely,

Rainer Winter

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**Call for Public Input**

**Paragraph in Draft Document**

5. For the purpose of this standard the definition of materiality as proposed by the International Accounting Standards Board (IASB) is used: “An information is **material** if its omission or misstatement could **influence** the economic **decision** of users taken on the basis of financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have to be useful.” It has qualitative and quantitative aspects.

Note 1: Based on that definition, an information provided by an entity X and verified by a third party Y is material with respect to a decision that is to be taken by an entity Z.

Note 2: In the context of CDM, the information referred to in paragraph 5 could apply to non-compliance by a project with prescriptive or non-prescriptive CDM requirements or any other information relevant to the estimation of greenhouse gas (GHG) emission reduction achieved by the project. The verifier is a DOE. The decision maker is the Board and the decision to be made is “to register or not the submitted project” or “to issue or not the CERs claimed”. The DOE shall consider the information as material if it could change the decision of the Board to register the project or to issue the CERs.

**Comment by TÜV Nord Cert**

1. The quoted definition of materiality does not define a level of materiality but rather leaves its determination up to the auditor. The wording “An information is **material** if its omission or misstatement could **influence** the economic **decision** of users taken on the basis of financial statements.” provides guidance for financial auditors in order to determine an appropriate materiality level. TÜV Nord understands that the EB’s intention is different. Rather than leaving the materiality level up to the auditor it is explicitly stated under §10 of the draft standard. Therefore, the presented quote only serves as a justification of the actual definition and numbers provided in §10. Hence, §5 (situated in section “Definitions”) may be misleading. §10 should be cross-referenced.

2. The definition of materiality quoted from the IASB is strictly focused on an *economic decision* taken based on *financial statements*. This is in disagreement with other paragraphs in this document (e.g. §6, §10), where the focus is on emission reductions. Furthermore, §5 clearly states that in this standard “[...] the definition of materiality as proposed by the International Accounting Standards Board (IASB) is used [...]”. This obviously contradicts other parts of this

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|   | <p>standard, most importantly §10. Kindly also refer to comment 1 in this regard.</p> <p>3. Note 1 and 2 indicate yet another definition of materiality. The verifying DOE “shall consider the information as material if it could change the decision of the Board to register the project or to issue the CERs.”</p> <p>This definition again contradicts what is presented in §10. Furthermore, this would lead to DOE statements which connect the level of assurance to the probability of a positive EB opinion. Moreover, the common application of a concept of materiality (including the quote from IASB) involves a statement of entity X to be verified by a third party Y to contain no material misstatements with a certain level of assurance. It is typically not intended to consider the decision of another entity Z. Entity Z, may however, define the level of materiality which is to be applied by third party Y.</p> |
| <p><b>Paragraph in Draft Document</b></p> | <p>11. In the absence of a prescriptive requirement defining how the DOE shall conduct the assessment of a given project activity, the DOE may adjust the level of scrutiny during the audit and in its reporting, based on the materiality of the information that is to be assessed. If the omission of an information is considered by DOE as not material with a suitable level of assurance, then the DOE may subject this information to a lower level of scrutiny. However, the DOE shall list in the validation or verification report those aspects of the CDM project for which a failure to provide information has been considered as not material. It is the responsibility of the DOE to provide objective evidence that the aggregated impact of the ignored information, taken as a whole for a CDM project, is not material.</p>   |
| <p><b>Comment by TÜV Nord Cert</b></p>    | <p>“If the omission of an information is considered by DOE as not material with a suitable level of assurance [...]”.</p> <p>If a suitable level of assurance is not defined in the materiality standard, it allows DOEs to develop their own standards. While this is desirable, it should be ensured that achieved levels of assurance are well documented, transparent and traceable in order to enable EB to cross-check the same. As the level of assurance essentially represents the reliability of an audit, its integrity is especially important to retain the trust-building potential of the concept of materiality when putting it into practice.</p>  |