

October 14, 2010

**Input for the CDM EB's Future Meeting : Possible Introduction of the Concepts of Materiality and Level of Assurance in the CDM**

Japan Quality Assurance Organization

We would be very pleased if the CDM Executive Board takes into account our following comments upon considering the above concepts at the future Meeting:

**a. The Concept of Materiality**

Paragraph 10 of the “Draft Standard on the Use of the Concepts of Materiality and Level of Assurance in the Clean Development Mechanism” describes as follows:

“Information related to a CDM project is considered material if its omission might lead, as an aggregated level, to a total overestimation of the emission reduction achieved by a CDM project equal or higher than:

- (a) 0.5% of the emission reduction for projects achieving a total emission reduction of more than 500,000 tonnes of CO<sub>2</sub> equivalent per year; .....

Based on the above description we can assume that an overestimation of the emission reduction or removal for a CDM project activity verified by a DOE is considered “material” information if the ratio of the overestimation to the total emission reduction or removal verified by the DOE is equal to or higher than 0.5% in the above (a) case. The issue to be clarified is how to measure the overestimation of the total emission reduction or removal based on uncertainty of both measurement stage and reporting stage conducted by the project participant. The EB should provide the measurement method based on probabilistic or statistical processing under which the DOE could estimate the overestimation of the total emission reduction or removal monitored by the project participant and verified by the DOE.

A further issue to be clarified is how to treat uncertainty that might derive from monitoring methodology, especially in case of emission removal projects for sink. The draft itself pays its attention only to the volume of emission reduction or removal as the basis of measurement of the overestimation of the total emission reduction or removal. However, taking an example of emission removal projects, there is a risk proper to the estimation of the emission removal that might arise out or be in connection to the uncertainty in the monitoring methodology for emission removal projects for sink. The EB should broaden the scope of its consideration on Materiality, including but not limited to quantitative approach to the volume of emission reduction or removal and qualitative aspects such as uncertainty on monitoring methodology for emission removal projects for sink.

**b. The Concept of Level of Assurance**

In case that the overestimation is estimated as provided in **a.** by the DOE and the ratio of the overestimation to the total emission reduction or removal crosses the threshold provided in the paragraph 10. (a), (b) or (c), the issue to be clarified is how to treat the estimated overestimation in the verification/certification report by the DOE. Based on the concept of materiality we think that it would be appropriate for the DOE to deduct the estimated overestimation, which crosses the threshold provided in the paragraph 10. (a), (b) or (c), from the total emission reduction or removal monitored by the project participant and verified by the DOE and that it would not be necessary for the DOE to deduct the estimated overestimation, which does not cross the threshold provided in the paragraph 10 (a), (b) or (c), from the total emission reduction monitored by the project participant and verified by the DOE.

A further issue to be clarified is how the overestimation could be dealt in the excess issuance issue of CERs that has discussed at the 57<sup>th</sup> Meeting of the EB. In order to avoid the excess issuance issue it would be appropriate for the DOE to deduct the estimated overestimation from the total emission reduction or removal monitored by the project participant and verified by the DOE in the verification/certification report. Or, as another option, it would be appropriate for the DOE to be ensured that any liability against the DOE shall not be sought by a third party beyond the extent to the threshold provided in the paragraph 10 (a), (b) or (c) if the DOE refers to the overestimation of the total emission reduction or removal in the verification/certification report.