Call for public inputs from 23 July to 10 August 2012 – Compilation of inputs	Document: "Draft Guidelines on the application of materiality in verifications" (ver. 01.0)

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#	**Submitter**	**Para No./ Annex / Figure**	**Type of input** **ge** = general **te** = technical **ed** = editorial	**Comment** **(including justification for change)**	**Proposed change** **(including proposed text)**	**Assessment of comment** **(*completed by UNFCCC secretariat*)**
1	DIA		ge	We would like to emphasize that the implementation of the guidelines requires an immediate transfer into internal guidance of the regulatory body (EB, UNFCCC secretariat, RIT members, AT members) in order to ensure a consistent understanding and approach of the concept of materiality. Only by applying the concept under the same conditions can it be assured that there are no distortions during completeness checks, information and reporting checks or requests for review.		**Accepted** Some work has been undertaken in the secretariat to define how to apply materiality in the assessment of requests for issuance. This is mentioned in the cover note of the draft guideline submitted at EB69.
2	PDF		ge	The PF Forum would like to once again highlight the issue of time and resources which are wasted in addressing temporary and permanent deviations from monitoring plans which are immaterial in nature. In order for the materiality guidelines to assists PPs in their activities of monitoring and reporting, we request that the scope is extended to include the treatment of immaterial deviations.		**Not accepted** This guideline is not intended for PPs, but DOEs only, as it addresses an auditing concept. Addressing deviations is not within the scope of this guideline, but it will be considered in a future revision of the VVS and PS.

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3	DIA	6	te	We suggest that the application of the guidelines should not be limited to the verification of CDM projects only. It should encompass every kind of data verification performed in - verification of CDM activities including PoA - data verification along validation activities - data verification when assessing changes of a CDM activity or a monitoring plan. It should be recognised that the concept, which is an audit principle, has always been applied by DOEs whether regulated or not by a procedure. It has relevance for all kinds of data verification, not only to the verification of standard CDM projects as set by the draft. We would like to draw your attention to the following text: *"Pursuant to paragraph 20 of decision 7/CMP.1 project activities under a programme of activities (PoA) can be registered as a single clean development mechanism project activity"* (Paragraph 1 of the Procedure for Registration of PoA). The narrow interpretation provided by the draft guidelines is in contradiction with the above text and would therefore create an inconsistency within the regulatory framework.	These guidelines are applicable to DOEs for data verification of any type of assessment of CDM project activities.	**Not accepted** The CMP decision is clear that materiality covers the stage of verification by DOEs. The scope of "verification" is clear in the CDM and it does not include any activities that take place in validations even if there is in validations some data assessment similar to what is done in verifications. Furthermore, the CMP decision makes no reference to PoA or CPA and does not contain any materiality thresholds for it. Consideration of the application of materiality for PoA-CPA will be part of the Board's report to the CMP at CMP8 on the experience with the implementation of the concept of materiality (para. 7.(a) of decision 9/CMP.7).
4	DIA	7	te	The adjacent proposed text eliminates some of the restrictions.	They are not applicable to: (a) Uncertainties related to measurement; and (b) Temporary deviations and permanent changes from the registered monitoring plan or applied methodology, regardless of whether corresponding emission reductions or removals are above or below materiality thresholds.	**Not accepted** This is linked to the previous comment above.
5	DIA	10	ed	Typo	(c) 2 per cent of the emission reductions or removals for large-scale project activities achieving a total emission reduction or removal of 300,000 tonnes of carbon dioxide equivalent per year or less;	**Accepted**
6	DIA	13	ed	Typo	Recognizing that circumstances may exist that could cause the information reported by project participants to be materially misstated, DOEs should plan and perform verifications with an attitude of professional scepticism and rely on their professional judgment while applying the concept of materiality.	**Accepted**

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7	UFJ	16		Para 16(b) says "the sources of project emissions and leakage within the project boundary", however "leakage" is defined as "the net change of anthropogenic emissions by sources of GHG which occurs outside the project boundary".		**Accepted** Language modified accordingly.
8	UFJ	29		Para 29(b) says "the third source reportedly accounts for 1.8 per cent of the total emissions (i.e. less than the materiality level of 2 per cent)", however the materiality standard discusses the emission reductions instead of emissions as defined in the sentence, "X per cent of the emission reductions or removals for project activities achieving a total emission reduction or removal of equal to or more than YY tonnes of carbon dioxide equivalent per year". Denominator to calculate the materiality threshold level is "the total emission reductions or removals", instead of "the total emissions".		**Accepted** Language modified accordingly.
9	UFJ	30		Para 30 explains the following situation. • The number of all data reported is 1,000 • Among 1,000 data, a DOE checked 200 samples. • Among 200 data, two data are found to be erroneous. Para 30(d) says "to review the whole data set to check whether similar errors also occurred in the remaining data set not checked by the DOE", and it gives the impression that a DOE must check the remaining 800 reported data in order to reach a reasonable level of assurance. The concept of materiality should be introduced to avoid such a complete enumeration in the first place, and allow the DOE to determine that the claimed emission reductions or removals are free from material error, omission or misstatement.		**Accepted** Language modified accordingly.

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10	UFJ	31 (c)		Para 31(c) says "are identified to represent an error of 0.5 per cent of the total emissions (i.e. 2 less than the materiality level of 1 per cent)", but the materiality standard are defined "X per cent of the emission reductions or removals for project activities achieving a total emission reduction or removal of equal to or more than YY tonnes of carbon dioxide equivalent per year". Denominator to calculate materiality threshold level is "the total emission reductions or removals", instead of "the total emissions". In addition, as stated in Para 19 of the guidelines, as long as the claimed emission reductions stay within the allowable range of errors, the DOE shall be allowed to give a reasonable assurance to the claimed emission reductions or removals. The example in Para 31 contradicts the concept of materiality.		**Accepted** Language modified accordingly.
11	UFJ	31 (d)		Para 31(d) says "the DOE confirms the corrections but also decides to test another sample of data in order to reach a reasonable level of assurance that no additional errors are present in the data set". This implies that as long as a DOE detects errors within the sample data even if those detected errors may not be material, the DOE is required to check other data sets. This contradicts the concept of materiality. As long as the result of the sampling satisfies the materiality threshold, the DOE shall not be required to conduct further sampling as the claimed emission reductions or removals have already reached a reasonable level of assurance.		**Not accepted** The situation in paragraph 31 is only an example and does not imply that that as long as a DOE detects errors within the sample data (even if not be material), the DOE is required to check other data sets. This decisions is left to the DOE. The guideline makes it very clear, in paragraph 19, that in such situations, it is the DOE who has to determine whether or not additional procedures should be conducted. This type of case was clearly explained by a DOE's representative at the 4Th CDM Roundtable in June 2012.

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12	UFJ	31 (d) and 30 (c)		Para 30(d) says "After having confirmed that the project participants have corrected the identified errors", and para 31(d) says "These errors are corrected by the project participants and the DOE confirms the corrections". We have concerns that the project participants may encounter situations where they may not be able to correct all the errors (especially non material errors). In these examples of the said paragraph, even when the sampling result shows that the identified errors would not affect materiality, the project participant and the DOE are requested to correct and review the remaining data. As long as the claimed emission reductions stay within the allowable range of errors, the DOE shall be allowed to give a reasonable assurance to the claimed emission reductions or removals.		**Accepted with modifications** Situations given in paragraphs 30 and 31 are only examples and not binding rules. However, paragraph 15 is modified to reflect situations where it is not possible to correct errors, in which cases PPs have to follow requirements in the Project standard related to post registration changes. As a reminder, addressing errors is outside the scope of this guideline.
13	UFJ	32 (b)		Para 32(b) says "These errors are quantified to represent an error of 1 per cent of the total emissions (i.e. more than the materiality level of 0.5 per cent)", but the materiality standard are defined "X per cent of the emission reductions or removals for project activities achieving a total emission reduction or removal of equal to or more than YY tonnes of carbon dioxide equivalent per year". Denominator to calculate materiality threshold level is "the total emission reductions or removals", instead of "the total emissions".		**Accepted** Language modified accordingly.
14	UFJ		te	The guidelines on application of materiality in verifications must clearly explain how to compute a denominator and a numerator in calculating materiality level in order to compare it against the materiality threshold level. For example, if total emission reductions or removals is reported as100, and a DOE finds that 10 are possibly overestimated figure among 100 due to omissions and the true value is reasonably assumed somewhere between 8 and 10. In this case, is the materiality level calculated as (2/100) or (2/98)?		**Accepted** New paragraph 17 added.

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15	UFJ		te	The formula to calculate the materiality level is as follows: (The overestimated emission reductions or removals) / (The total emission reductions or removals) = (The overestimated (baseline emissions - project emissions - leakage emissions)) / (The total (baseline emissions - project emissions - leakage emissions)) Errors or omissions may occur not only in calculating the project emissions but also other parameters such as the baseline emissions and/or leakage emissions. Furthermore, errors or omissions may affect emission reductions differently (toward underestimation of emission reductions in calculating baseline emissions whereas toward overestimation of emission reductions in calculating project emissions). The guidelines on application of materiality in verifications must clearly explain how to compute a denominator and a numerator in calculating materiality level by showing specific numerical examples of all parameters needed for computing.		**Noted** Modifications made to the guideline as a result of other inputs above should address this input.

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16	DIA	New 32	te	We provided three further examples which are deemed necessary to ensure a harmonized understanding and application of the concept. They have already been provided by the DIA working group at an earlier stage. The first one demonstrates how materiality is applied when planning the verification of emissions of minor sources.	Example #5- Setting of a cut-off point in verification activities of minor sources The project is a large-scale project achieving total emission reductions of >500,000 tonnes of CO2e, per annum, as such a 0.5% materiality level is applied. The project includes the operation of a back-up generator powered by fossil fuel which contributes to 2 % of the project emissions. Fuel consumption of the generator is monitored by a fuel balance comprising the determination of the fuel stock at the beginning and the end of the monitoring period and the determination of all fuel purchases during that period. The maximum fuel stock is equivalent to an amount of 0.1 % of the project emissions. While it could be confirmed that there is no material misstatement within all other data required for the calculation of the emission reduction as well as regarding the completeness, consistency and plausibility of fuel purchase data, the record for the fuel stock at the end of the monitoring period was taken manually by a single person without any corroborating evidence. The reading for the fuel stock at the beginning of the monitoring period is consistent with the one at the end of the previous period. When planning the verification activities for this emission source the DOE would focus on the completeness, consistency and plausibility of fuel purchase data. No specific efforts would be given to the fuel stock as even in the worst case any misstatement would result in a significantly lower over-estimation of emission reductions compared to the materiality threshold and would result in an equivalent under-estimation in the following period.	**Accepted** Example added.

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17	DIA	New 33	te	A further example already provided by the DIA working group demonstrating how materiality is applied in case of data resulting from a survey.	Example #6 - Setting of a cut-off point in verification activities for data obtained by survey The project is a small-scale project achieving total emission reductions of <30,000 tonnes of CO2e, per annum, as such a 5% materiality level is applied. The project's monitoring plan surveys at a household level involving some thousands of households. Along the audit trail a DOE checks by random sampling following the sampling standard whether the transfer from hand-written survey records to a project data base was performed adequately. The sampling approach by the DOE showed that out of the sample two data transfers have been made erroneously. When extrapolating the resulting error to the whole data set the overestimation at a 95 % confidentiality interval would be less than 0.5 %. The DOE requests the PP to correct the two identified erroneous data transfers and to once more assess the whole data set to check whether similar errors also occurred in the remaining data set not checked by the DOE. If no other risks of material misstatements are identified along the verification process, the DOE confirms that the PP has corrected the identified errors and has performed an assessment of the remaining data set. The DOE can then conclude that the monitoring report is free from material misstatement. The DOE will not verify a further sample.	**Noted** This example is already included in the guideline, in paragraph 30 (example 3), but was slightly adapted.

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18	DIA	New 34	te	A further example already provided by the DIA working group demonstrating how materiality is applied in case of data verified by a sampling approach performed by the DOE.	Example 7- Setting of a cut-off point in verification activities applying sampling The project is a large-scale project achieving total emission reductions of 150,000 tonnes of CO2e, per annum, as such a 2% materiality level is applied (3,000 tCO2). One of the parameters used for determining the project's baseline emissions is the measurement of the COD of wastewater, which according to the monitoring plan is performed daily. The monitoring period covers 540 days. The daily COD values are presented for verification in the emission reduction calculation spreadsheet and records are available for all 540 measurements carried out during the monitoring period. The COD values are manually transferred from the measurement records to the emission reduction calculation spreadsheet. The DOE has assessed the reported data and found that the reported COD values are reasonable and there are no outliers which need further investigation. The DOE thus applies sampling for verifying that the COD values in the emission reduction calculation spreadsheet are consistent with the actual measurement records and selects a random sample. The DOE identifies that for 5 of the records checked an error was made in transferring the data from the measurement record to the emission reduction calculation spreadsheet. The errors (typos of some digits) identified do not represent more than 10% of the reported value. Nonetheless, assuming that the frequency of errors in transferring data may be at least the same in the remaining data set as found in the sample (when applying the %error for the COD value of the records to the total COD value for 540 records the error in the ERs calculation is more than 3,000 tCO2), the possible error on the total reported emission is therefore material. The Project Participants are thus through a CAR requested to correct the errors identified in the sample and once more check the remaining records and correct any further errors.	**Accepted** Example added.

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					The Project Participants submit a revised emission reduction calculation spreadsheet in which the 8 errors identified by the DOEs sample were corrected in addition to 15 other values. To further verify the data set, the DOE selects a further random sample from the remaining data set. The DOE identifies that for one of the sampled records, the value was erroneously transferred to the emission reduction calculation spreadsheet. Again, the error (typos of some digits) identified does not represent more than 10% of the reported value. The Project Participants are thus through another CAR requested to correct the error identified in the second sample and once more check the remaining records and correct any further errors. The Project Participants submit a revised emission reduction calculation spreadsheet in which the identified error is corrected and they confirm that no further errors were found. The DOE does not carry out further verification and does not select another sample. Even if there are possibly further errors in the remaining data set not checked by the DOE, when applying the %error for the COD value identified in the sample of records to the remaining COD value the error in the ERs calculation is less than 3,000 tCO_2. Hence, any possible remaining misstatement in the reported COD values would not have a material impact on reported emission reductions.	

Submitters:

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