

August 9, 2012

CDM Executive Board  
c/o UNFCCC Secretariat  
P.O. Box 260124  
D-53153 Bonn  
Germany

**Subject: Response to a call for inputs for establishing a reserve/pool structure to complement the draft procedure for addressing significant deficiencies in past validation, verification and certification reports (draft Procedure)**

Honorable Members of the CDM Executive Board,

We welcome the opportunity to contribute to the discussion on the establishment of a reserve/pool to complement the procedure for addressing significant deficiencies in past validation, verification and certification reports. The suggestions in response to the call for inputs in this context are noted below.

**1. The purpose of such a reserve/pool**

a) The reserve/pool could serve the purpose of mutual insurance for DOEs and support the enforcement of measures to address significant deficiencies in past validation, verification and certification reports.

b) A reserve/pool is expected to have secondary role in preserving the environmental integrity as the risk of excess issuance is primarily mitigated through conservativeness of the methodologies default values permitted, and procedures adopted in issuance of credits under the CDM.

**2. How the reserve/pool could be created**

As the reserve/pool is understood to be more of a form of mutual insurance and less of environmental integrity fund, it is considered inappropriate to raise the CERs for the reserve/pool by "requiring a contribution of a share of each CER at every issuance". Alternatives relevant in this regard include:

- Expand the decision 3/CMP.1 para 24 and decision 3/CMP.1, appendix D, Para 8 to include a portion of the DOE license fee to be set aside in an escrow account to generate a reserve/pool. DOE that is found guilty of professional negligence, could be allowed to purchase CERs upto a cap at the pre-determined price for transfer to the cancellation account.
- A certain portion of project registration fees could be contributed to the reserve/pool and to purchase insurance against the risk of excess issuance of CERs so that a part of

the liability of the excess issuance could be addressed at the level of the overall mechanism.

The use of resources from DOE license fee and project registration fee would help create and manage the reserve/pool as part of risk sharing approach to address the risk of excess issuance in situations of DOE negligence or fraud at the level of projects.

**3. Who should manage the reserve/pool**

The UNFCCC secretariat or an independent agency in the same way as UNOPs manages the UNFCCC loan facility could manage the reserve/pool.

**4. How moral hazard in the use of the reserve/pool could be avoided**

The relative proportion of resources contributed from DOE license fee and project registration fee; and linking of DOE annual license fee to its performance with reference to the occurrence and magnitude of excess issuance during the previous five years could reduce the risk of moral hazard.

With kind regards,



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