



Designated Operational Entities
& Independent Entities Association

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Subject **Call for public input for establishing a reserve/pool structure to complement the draft procedure for addressing significant deficiencies**

Honorable Members of the CDM Executive Board,

This input has been prepared by the Designated Operational Entities and Independent Entities Association (D.I.A.) after inviting all members to provide feedback. The following delivers comments to the each question/issue as listed by the call for input.

1. The purpose of such a reserve/pool:

- a. Is it a form of mutual insurance for Designated Operational Entities?
- b. Is it an "environmental integrity fund" compensating for excess issuance outside of the draft Procedure?
- c. Is there another associated rationale?

The question whether such a reserve/pool could be form of mutual insurance for DOEs must be seen in the context of the DOE Forum's request to limit in size the maximum amount of CERs which a DOE may have to replace due to a significant deficiency in its validations or verifications. As presented by other submissions to the Board, DOEs request the adoption of a procedure for addressing significant deficiencies which is

- restricting its application to exceptional, rare cases
- capping the risk at a reasonable maximum level in relation to the DOE's business opportunities
- limiting the exposure in time to such risks

The reserve/pool may serve as an option for DOEs to obtain CERs up to the limit specified in the procedure for addressing significant deficiencies, but is not considered as a must for coming to a workable solution for addressing significant deficiencies. Nonetheless, due to a possible low interest by insurance companies to develop any insurance product dealing with the significant deficiency risk for a small market like 40+ DOEs, the reserve/pool may be welcomed by many DOEs if the reserve/pool would be developed as some kind of insurance product offered by the regulatory body. It is not considered as mutual insurance as this would require additional legal structures which do not yet exist. But it would be worth considering the option to sign a contract with UNFCCC administering this insurance product which is financially backed by the reserve/pool.

The reserve/pool may also be used to compensate excess issuance not covered by the procedure on significant deficiencies (e.g. caused by ambiguous guidance and methodologies). However, it must be noted that this would be beyond the mandate of the CMP. Moreover, the establishment of "environmental integrity fund" shall not be accompanied by a systematic re-assessment of registered CDM project activities as this as a high potential in damaging the performance of the whole system by diverting resources to a complex, time-consuming reprocessing of historic cases with open outcome. Therefore, any "environmental integrity fund" should only be established with the objective to compensate excess issuance

for few projects only where excess issuance may become apparent. Any procedure to address this kind of excess issuance must also ensure that its application is expected to be a rare exemption from the regular CDM project life cycle.

2. How the reserve/pool could be created?

It needs to be mentioned that the necessary extent of the reserve pool strongly depends on the regulatory framework considering the expected frequency of applying the procedure of significant deficiency and the expected amount of excess issuance associated to such applications. Designing the reserve/pool too large may have a severe impact of the attractiveness of the CDM. A delivery of CERs by DOEs is not considered as workable solution as

- it would require significant resources to administer the process to be applied for each request for issuance. Costs being created by such an approach would be added to services fees and therefore will again reduce the attractiveness of the CDM.
- it might create a perverse incentive by implicitly linking service costs to the amount of CERs, a principle which is deemed unacceptable in the context of the accreditation standard.

If the pool is created, the only reasonable solution would be a direct discount of CERs (similar to the share of proceeds) at the time of issuance and a transfer to the pool.

3. Who should manage the reserve/pool?

Following the suggestion made under item 2, the only option is the management by UNFCCC secretariat.

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

We do not see a risk that the existence of a reserve/pool creates any incentive for moral hazard. The accreditation scheme is considered robust enough to prevent malpractice. As written above we expect the procedure for addressing significant deficiencies to be applied only in exceptional cases. The low frequency (if even applied) has no correlation to the existence or the extent of a reserve/pool.

We look forward to further contributing on this matter.

Kind regards,



Werner Betzenbichler
General Manager
Designated Operational Entities and Independent Entities Association