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**Technical paper on the processes necessary for  
implementation of the share of proceeds to cover  
administrative expenses and the share of proceeds to assist  
developing country Parties that are particularly vulnerable to  
the adverse effects of climate change to meet the costs of  
adaptation**

## **I. Introduction**

### **A. Background and mandate**

1. The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), at its third session (November 2021), adopted the rules, modalities and procedures (RMP) for the mechanism established by Article 6, paragraph 4, of the Paris Agreement (hereinafter referred to as the Article 6.4 Mechanism)<sup>1</sup> and requested the Subsidiary Body for Scientific and Technological Advice (SBSTA) to develop, on the basis of the RMP, recommendations, for consideration and adoption by the CMA at its fourth session, on eight specific elements for the operationalization of the Article 6.4 Mechanism.<sup>2</sup>

2. The SBSTA, at its fifty-sixth session (June 2022), considered the mandate referred to in paragraph 1 above and requested the secretariat to prepare, with a view to facilitating the understanding of the relevant issues but without prejudging possible outcomes, and considering the views expressed by Parties at that session and taking into account paragraph 29 of the RMP for the Article 6.4 Mechanism, where applicable, technical papers without formal status on six elements, including on the processes necessary for implementation of the share of proceeds to cover administrative expenses and the share of proceeds to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation in accordance with chapter VII of the RMP (Levy of share of proceeds for adaptation and administrative expenses).

### **B. Purpose and scope**

3. This technical paper identifies issues and proposes possible processes to implement the share of proceeds to cover administrative expenses and the share of proceeds to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation in accordance with chapter VII of the RMP for the Article 6.4 Mechanism (Levy of share of proceeds for adaptation and administrative expenses) for consideration of the SBSTA to make recommendations to the CMA at its fourth session.

## **II. Issues and proposed solutions**

### **A. Share of proceeds for administrative expenses**

#### **1. Fee structures and levels of other market mechanisms**

4. When determining the structure and levels of the share of proceeds to cover administrative expenses for the Article 6.4 Mechanism, the lessons learned in this respect from the clean development mechanism (CDM) under the Kyoto Protocol, being a market mechanism under the same Convention, would be the first reference point. Under the CDM, the share of proceeds to cover administrative expenses is charged at two stages in the project cycle: at registration of activities under the CDM (registration fee); and at issuance of certified emission reductions (CERs) (issuance fee). At no other stages in the project cycle is a fee charged to cover administrative expenses for the CDM. Table 1 below summarizes the structure and levels of these fees.

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<sup>1</sup> Decision 3/CMA.3, annex.

<sup>2</sup> Decision 3/CMA.3, paragraph 7.

**Table 1: Fees under the clean development mechanism to cover administrative expenses**

Stage	For project activities	For programmes of activities (PoAs)
Registration	<p><b>General</b></p> <ul style="list-style-type: none"> <li>• Registration fee is an advance payment of issuance fees</li> </ul> <p><b>Rates</b></p> <ul style="list-style-type: none"> <li>• Registration fee is equivalent to the issuance fee for the expected average annual emission reductions for the proposed project activity over its (first) crediting period</li> <li>• Capped at USD 350,000</li> <li>• Possible settlement if the annual average emission reductions by the approved project activity differs from what is in the request</li> </ul> <p><b>Exemption</b></p> <ul style="list-style-type: none"> <li>• Registration fee is exempted for project activities: <ul style="list-style-type: none"> <li>– With expected average annual emission reductions over its (first) crediting period of below 15,000 tCO<sub>2</sub>e; or</li> <li>– In least developed countries (LDCs)</li> </ul> </li> <li>• Registration fee is deferred until the first issuance of CERs for project activities in countries with fewer than 10 registered CDM project activities and PoAs in total</li> </ul> <p><b>Reimbursement</b></p> <ul style="list-style-type: none"> <li>• Paid registration fee is reimbursed: <ul style="list-style-type: none"> <li>– In full if the request for registration is withdrawn prior to the date of its publication; or</li> <li>– Any portion in excess of USD 30,000 otherwise (i.e. rejection of the request by the CDM Executive Board, or the request is withdrawn after its publication)</li> </ul> </li> </ul>	<p><b>General</b></p> <ul style="list-style-type: none"> <li>• Registration fee is an advance payment of issuance fees</li> </ul> <p><b>Rates</b></p> <ul style="list-style-type: none"> <li>• Registration fee is set as two-tiered fixed rates: <ul style="list-style-type: none"> <li>– USD 10,000 for PoA applying only small-scale methodologies;</li> <li>– USD 20,000 otherwise</li> </ul> </li> <li>• No fee for inclusion of component project activities (CPAs) in a registered PoA</li> </ul> <p><b>Exemption</b></p> <ul style="list-style-type: none"> <li>• Registration fee is exempted for PoAs hosted exclusively in LDCs</li> <li>• Registration fee is deferred until the first issuance of CERs for PoAs in countries with fewer than 10 registered CDM project activities and PoAs in total</li> </ul> <p><b>Reimbursement</b></p> <ul style="list-style-type: none"> <li>• Paid registration fee is reimbursed: <ul style="list-style-type: none"> <li>– In full if the request for registration is withdrawn prior to the date of its publication; or</li> <li>– No reimbursement otherwise (i.e. rejection of the request by the CDM Executive Board, or the request is withdrawn after its publication)</li> </ul> </li> </ul>
Issuance of CERs	<p><b>General</b></p> <ul style="list-style-type: none"> <li>• The paid registration fee is deducted from the issuance fee until the former is fully consumed</li> </ul> <p><b>Rates</b></p> <ul style="list-style-type: none"> <li>• Issuance fee is calculated as: <ul style="list-style-type: none"> <li>– USD 0.10 per CER issued for the first 15,000 tCO<sub>2</sub>e requested in a given calendar year;</li> <li>– USD 0.20 per CER issued for any amount in excess of 15,000 tCO<sub>2</sub>e requested in a given calendar year</li> </ul> </li> <li>• Possible settlement of issuance fee if the amount of CERs approved by the CDM Executive Board for issuance differs from what is in the request</li> </ul> <p><b>Exemption</b></p> <ul style="list-style-type: none"> <li>• Issuance fee is exempted for project activities in LDCs</li> </ul>	<p><b>General</b></p> <ul style="list-style-type: none"> <li>• The paid registration fee is deducted from the issuance fee until the former is fully consumed</li> </ul> <p><b>Rates</b></p> <ul style="list-style-type: none"> <li>• Issuance fee is calculated as: <ul style="list-style-type: none"> <li>– USD 0.10 per CER issued for the first 15,000 tCO<sub>2</sub>e requested in a given calendar year;</li> <li>– USD 0.20 per CER issued for any amount in excess of 15,000 tCO<sub>2</sub>e requested in a given calendar year</li> </ul> </li> <li>• Possible settlement of issuance fee if the amount of CERs approved by the CDM Executive Board for issuance differs from what is in the request</li> </ul> <p><b>Exemption</b></p> <ul style="list-style-type: none"> <li>• Issuance fee is exempted for PoAs hosted exclusively in LDCs</li> </ul>

	<b>Reimbursement</b> <ul style="list-style-type: none"> <li>• Paid issuance fee is reimbursed: <ul style="list-style-type: none"> <li>– In full if the request for issuance is withdrawn prior to the date of its publication; or</li> <li>– Any portion in excess of USD 30,000 otherwise (i.e. rejection of the request by the CDM Executive Board, or the request is withdrawn after its publication)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• If a PoA is partially, but not exclusively, hosted in LDCs, issuance fee is exempted only for emission reductions achieved in LDCs</li> </ul> <b>Reimbursement</b> <ul style="list-style-type: none"> <li>• Issuance fee is reimbursed: <ul style="list-style-type: none"> <li>– In full if the request for issuance is withdrawn prior to the date of its publication; or</li> <li>– Any portion in excess of USD 30,000 otherwise (i.e. rejection of the request by the CDM Executive Board, or the request is withdrawn after its publication)</li> </ul> </li> </ul>
Renewal	No fee is charged	No fee is charged
Post-registration change	No fee is charged	No fee is charged

Note: For afforestation and reforestation activities, “emission reductions” and “CERs” in the table shall be read as “removals”, and “tCERs” or “ICERs”, depending on the approach to addressing non-permanence taken. The share of proceeds for administrative expenses for afforestation and reforestation activities is calculated differently from non-afforestation and reforestation activities.<sup>3</sup>

5. The administrative fees under similar market-based mechanisms in the voluntary market are charged differently from those under the CDM. The fee structures and levels of two of such schemes – the Gold Standard and the Verified Carbon Standard – are summarized in Table 2 below.

**Table 2: Fee schedules of selected other market-based mechanisms**

Stage	Gold Standard <sup>4</sup>	Verified Carbon Standard <sup>5</sup>
Registration	<b>Registry account fee</b> <ul style="list-style-type: none"> <li>• USD 1,000 per year per account (can be used for multiple projects belonging to the same project developer)</li> <li>• USD 2,500 for reactivation per suspension</li> </ul> <b>Rates</b> <ul style="list-style-type: none"> <li>• Preliminary Review Fee <ul style="list-style-type: none"> <li>– USD 500 for microscale projects</li> <li>– USD 3,500 for land-use and forestry projects</li> <li>– USD 900 for all other projects</li> </ul> </li> <li>• Project Design Review Fee <ul style="list-style-type: none"> <li>– USD 0.15 per credit for Gold Standard voluntary offset projects, minus Preliminary Review Fee paid</li> <li>– USD 0.05 per credit for Gold Standard CDM projects, minus Preliminary Review Fee paid</li> <li>– USD 1,500 for Renewal Energy Labels</li> </ul> </li> </ul>	<b>Registry account fee</b> <ul style="list-style-type: none"> <li>• USD 500 per account (can be used for multiple projects belonging to the same project developer)</li> </ul> <b>Rates</b> <ul style="list-style-type: none"> <li>• USD 0.10 per tCO<sub>2</sub>e of emission reductions, capped at the annual equivalent if submitted with a verification report for the period of at least one year, capped at USD 10,000</li> <li>• Registration fee is credited towards future issuance requests (i.e. advance payment of issuance fees)</li> </ul>

<sup>3</sup> For more details, see appendix 1 of the “CDM project cycle procedure for project activities” and appendix 1 of the “CDM project cycle procedure for programmes of activities”, available at <<https://cdm.unfccc.int/Reference/Procedures/index.html>>.

<sup>4</sup> The information on fees is available at <<https://globalgoals.goldstandard.org/fees/>>. The list is not exhaustive and there are other fees for other services (e.g. microscale validation and verification, methodology approval, credit conversion).

<sup>5</sup> The information on fees is available at <[https://verra.org/wp-content/uploads/2020/04/Program-Fee-Schedule\\_v4.1.pdf](https://verra.org/wp-content/uploads/2020/04/Program-Fee-Schedule_v4.1.pdf)>. The list is not exhaustive and there are other fees for other services (e.g. methodology approval, credit conversion).

	<ul style="list-style-type: none"> <li>- USD 1,500 for land-use and forestry projects</li> <li>- USD 4,500 for Averted Disability Adjusted Life Years (ADALYs) projects and black carbon projects</li> <li>• Performance Review Fee <ul style="list-style-type: none"> <li>- USD 650 for microscale projects</li> <li>- USD 1,500 for land-use and forestry projects</li> <li>- USD 4,500 for ADALYs projects and black carbon projects</li> <li>- USD 1,000 for all other projects</li> </ul> </li> </ul>	
Issuance of credits	<p><b>Rates</b></p> <ul style="list-style-type: none"> <li>• For first year of issuance <ul style="list-style-type: none"> <li>- USD 0.15 per credit minus Performance Review Fee paid for Gold Standard voluntary market projects</li> <li>- USD 0.05 per credit minus Performance Review Fee paid for Gold Standard CDM projects</li> <li>- To be determined for ADALYs projects</li> <li>- USD 0.10 per Renewable Energy Certificate</li> <li>- USD 0.30 per credit for land-use and forestry projects</li> </ul> </li> <li>• For subsequent issuance <ul style="list-style-type: none"> <li>- USD 0.30 per credit minus Performance Review Fee paid for Gold Standard voluntary market projects (in cash)</li> <li>- USD 0.10 per credit minus Performance Review Fee paid for Gold Standard CDM projects (in cash)</li> <li>- USD 0.10 per credit plus 2% of issuance minus Performance Review Fee paid for Gold Standard voluntary market projects (in share of proceeds)</li> <li>- USD 0.02 per credit plus 1.5% of issuance minus Performance Review Fee paid for Gold Standard CDM projects (in share of proceeds)</li> <li>- To be determined for ADALYs projects</li> <li>- USD 0.10 per Renewable Energy Certificate</li> <li>- USD 0.30 per credit for land-use and forestry projects</li> </ul> </li> </ul>	<p><b>Rates</b></p> <ul style="list-style-type: none"> <li>• For cumulative issuances of credits from a project occurring within a calendar year: <ul style="list-style-type: none"> <li>- USD 0.05 per credit for the first 10,000 credits</li> <li>- USD 0.14 per credit for the next tiered portion of 10,000–1,000,000 credits</li> <li>- USD 0.12 per credit for the next tiered portion of 1,000,001–2,000,000 credits</li> <li>- USD 0.105 per credit for the next tiered portion of 2,000,001–4,000,000 credits</li> <li>- USD 0.085 per credit for the next tiered portion of 4,000,001–6,000,000 credits</li> <li>- USD 0.06 per credit for the next tiered portion of 6,000,001–8,000,000 credits</li> <li>- USD 0.04 per credit for the next tiered portion of 8,000,001–10,000,000 credits</li> <li>- USD 0.025 per credit for the portion above 10,000,000 credits</li> </ul> </li> </ul>
Renewal	USD 0.15 per credit (annual average)	N/A
Post-registration change	The greater of USD 500 or USD 0.10 per credit, plus any applicable issuance fee	N/A

6. Under all three schemes referred to above, the fee charged at registration is mostly an advance payment of the fees that are payable at issuance of credits. In addition, although very small, both the Gold Standard and the Verified Carbon Standard charge a fixed fee for opening and maintaining a registry account, while the CDM does not charge such a fee. The

CDM and the Verified Carbon Standard, and the Gold Standard to some extent (i.e. Project Design Review), determine the registration fee based on the scale of emission reductions, with a cap of maximum fee payable.

7. Under all three schemes, the issuance fee is set as a proportional levy to the amount of credits requested for issuance with varying rates. It is worth noting that the rate per credit under the CDM is two-tiered and higher for the higher tier, while the rate per credit under the Verified Carbon Standard is eight-tiered and decreases as it moves up to a higher tier (with the exception of the transition from the lowest to the second-lowest tier). The issuance fee rates under the Gold Standard depend on the project type rather than the scale of emission reductions.

## **2. Registration fee**

8. With regard to the registration fee for the Article 6.4 Mechanism, the RMP, paragraph 48, states that “The activity participants shall pay a share of proceeds, at a level determined by the CMA, taking into account the likely scale of the activity, to cover the administrative expenses for registering the activity when submitting a request for registration.” The RMP does not elaborate what determines the “scale” of the activity, but it would be reasonable to determine the scale by the amount of emission reductions or removals by the activity, as it would be the only common means of measurement of “scale” of all activity types that may be registered under the A6.4 Mechanism.

9. The registration fee under the CDM can be very high if the activity is expected to generate a large amount of emission reductions or removals per year, although the cap is set at USD 350,000. It should also be noted that not all registered activities may proceed with the issuance stage (under the CDM, it is only around 40% that proceeded with the issuance stage to date). Therefore, the registration fee paid as an advance payment of issuance fees, particularly if the registration fee is calculated as high, may be a barrier to requesting registration, or may not serve the purpose of the registration fee as intended by the system (i.e. to be consumed for issuance). Also, the registration itself does not create tradable units (A6.4ERs under the A6.4 Mechanism), and it is at issuance when such units are created and the activity participants benefit from them. Furthermore, defining the registration fee as an advance payment of issuance fees creates administrative complexity of calculating the difference between the remaining advance payment and the fee due for a particular issuance request, which is prone to administrative errors. For these reasons, and since processing registration requests itself incurs administrative cost that need to be recovered even if the activity does not proceed with the issuance stage, it would be reasonable to decouple the registration fee from the share of proceeds payable at issuance.

10. In general, providing preferential treatments for small-scale or microscale activities, thereby encouraging participation of small businesses and grassroots community activities in the A6.4 Mechanism in view of supporting sustainable development of host Parties as well as enhancing mitigation efforts globally, may well be pursued like under the CDM. At the same time, it is important to recover administrative expenses that are needed to process registration requests, as required by the RMP. Nevertheless, considering the special circumstances of LDCs and small island developing States (SIDS), the registration fee for activities in these countries may be waived based on the provision in the RMP, paragraph 29.<sup>6</sup> Therefore, the registration fee should be set at a level so that they can subsidize the administrative expenses for processing registration requests for activities in LDCs and SIDS.

11. For a PoA, the scale cannot be determined at registration as it is not known how many CPAs of what scale of emission reductions or removals will be subsequently included in the PoA. Therefore, the registration fee could only be set at a fixed rate, like under the CDM.

12. Based on the above considerations, it is proposed that the registration fee under the Article 6.4 Mechanism would be:

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<sup>6</sup> The RMP, paragraph 29, states that “In relation to the least developed countries and small island developing States, pursuant to Article 4, paragraph 6, their special circumstances shall be recognized where these rules, modalities and procedures relate to nationally determined contributions (NDCs), and other aspects of their special circumstances may be recognized in further decisions of the CMA relating to these rules, modalities and procedures.”

- (a) A fee to be fully consumed for processing the registration request (i.e. not an advance payment of issuance fees);
- (b) Multi-tiered fixed rates for standalone activities, depending on the estimated annual average emission reductions or removals over the (first) crediting period;
- (c) A fixed rate for PoAs;
- (d) Waived for activities in LDCs and SIDS.

13. The number of tiers of scales, the scale range of each tier, and the fixed rate for each tier is to be recommended by the Supervisory Body in accordance with decision 3/CMA.3, paragraph 6(b);<sup>7</sup> hence, this paper does not propose them.

14. Another benefit of setting fixed rates that are directly linked to recover administrative costs for processing registration requests is that it could simplify the rules of reimbursement of the registration fee and be less punitive to activity participants compared to those under the CDM. Such operational detail is expected to be developed and implemented by the Supervisory Body; hence, this paper does not propose them.

### 3. Issuance fee

15. With regard to the issuance fee under the Article 6.4 Mechanism, considering that issuance requests are directly linked to creating the real financial benefit of generating tradable units for activity participants, it would be reasonable, as it is under the CDM and other market mechanisms referred in paragraph 5 above, to link the issuance fee to the amount of A6.4ERs that will be issued, as a proportional levy.

16. Under the CDM, the rates for calculating the issuance fee, which is based on the requested amount of CERs to be issued, are two-tiered progressive rates and linked to the amount of CERs issued in a given calendar year. This has created an administrative complexity of tracking the issued amount of CERs in each year of the crediting period over the years. It has also given room for a degree of unfairness dependent on the timing of submission of issuance requests rather than the timing of occurrence of emission reductions or removals, because, under the CDM, there is no deadline for requesting issuance of CERs for emission reductions or removals after they actually occurred, and issuance requests do not need to be in chronological order of the occurrence of emission reductions or removals.

17. Based on the above considerations, it is proposed that the issuance fee under the Article 6.4 Mechanism be set as a single rate per A6.4ER, applicable to all A6.4ERs being requested for issuance. It is also proposed that the issuance fee be waived for activities in LDCs and SIDS like for the registration fee (and for the same reason) mentioned in paragraph 10 above.

18. The issuance fee rate needs to be set at a level that enables a sound long-term operation of the Article 6.4 Mechanism based on the expected number of A6.4ERs for issuance and estimated expenditure of administrative expenses. It should also be noted that under the A6.4 Mechanism, remaining funds received from the share of proceeds for administrative expenses (after setting aside the operating costs for the A6.4 Mechanism and an operating reserve) will be periodically transferred to the Adaptation Fund in accordance with the RMP, paragraph 67(c). Since the actual fee rate per A6.4ER is to be recommended by the Supervisory Body in accordance with decision 3/CMA.3, paragraph 6(b), this paper does not propose the fee rate.

19. Under this proposed approach, if the number of A6.4ERs to be issued eventually approved by the Supervisory Body differs from the number in the request for issuance, the reconciliation of the difference – additional payment of issuance fee or reimbursement of excessively paid issuance fee – would be necessary before the conclusion of the processing of the request.

<sup>7</sup> The CMA, in parallel with the request to the SBSTA that is addressed by this technical paper, requested the Supervisory Body to prepare recommendations on appropriate levels for the share of proceeds for administrative expenses and its operation, including in order to enable a periodic contribution to the share of proceeds, for consideration and adoption by the CMA at CMA 4.

20. The RMP does not mention the timing of payment of the issuance fee, but it is proposed that the fee be charged at the submission of an issuance request, like for the registration fee (see paragraph 2 above). The experience under the CDM showed that payment after issuance (and prior to forwarding) of CERs resulted in a situation where the administrative cost for processing issuances could not be fully recovered.

21. Rules of reimbursement of issuance fees could follow the same approach as for the registration fee. Like reimbursement rules for the registration fee, such operational detail are expected to be developed and implemented by the Supervisory Body; hence, this paper does not propose them.

#### 4. Other fees

22. Under the CDM, no fee is charged for other requests in the project cycle. However, processing other requests also incurs administrative expenses of varying degrees. Therefore, under the Article 6.4 Mechanism, fees could be introduced for other requests in the activity cycle – namely, requests for renewal of crediting period or PoA period, and for post-registration change – to recover the administrative expenses for processing these requests.

23. Under the CDM, processing a request for **renewal** requires almost the same level of administrative cost as for a registration request, since the two processes are almost identical. Under the A6.4 Mechanism, detailed requirements and processes for approval of renewal requests are not yet known (to be decided by the Supervisory Body). However, it would be reasonable to assume that the required assessment of renewal requests is comparable to that of registration requests, considering the concept of renewal, which is mainly to adjust the registered activity to the latest methodological requirements to ensure that claimed emission reductions or removals are real and sufficiently conservative under the latest methodological knowledge and circumstances. Therefore, it would be reasonable to set the renewal fee with the same fee structure and levels as the registration fee based on the same considerations referred in subsection 2 above.

24. Submission and approval of **post-registration change** is another important process under the CDM. Although this process is not referred in the RMP, it is highly likely that the same process will be introduced under the A6.4 Mechanism, as it is quite common that a change to the activity design or any other elements relating to the activity after its registration becomes necessary for various reasons.

25. Processing a request for approval of post-registration change incurs administrative cost, as it is necessary for the Supervisory Body to assess and confirm whether the change is within the scope and conditions of acceptable post-registration changes to be set by the Supervisory Body. The extent of the work by the Supervisory Body and its support structure (the secretariat, external experts and/or panel) to confirm the above depends on the nature and number of changes, and hence varies significantly. Some of the changes might require only a few simple checks, while other changes might require extensive assessment comparable to that of registration or renewal requests. Due to this variation, it would be difficult to set a level (or levels) of fees for post-registration change requests that appropriately reflects the administrative cost incurred. It should also be noted that, based on the experience under the CDM, many post-registration changes are unforeseeable at the time of registration and sometimes beyond the control of the project participants.

26. Another aspect that needs attention when considering fees for post-registration change requests is that some post-registration changes would significantly increase the scale of emission reductions or removals (due to, for example, a change in the capacity of installed facility). There is a need to be fair with registration requests of the equivalent scale and to prevent the post-registration change process from being used to avoid a higher registration fee.

27. Based on these considerations, it is proposed that a minimum fixed-rate fee be set for each request for approval of post-registration change, and if the proposed change increases the scale of the activity to bring the scale to a higher tier of the registration fee, the difference in the registration fee rates be payable in addition to the fixed post-registration change fee.



28. Another possible process for which a fee may be charged is the inclusion of CPAs in a registered PoA. It is not charged under the CDM, but it has not had much implication on the administrative cost, as the involvement of the CDM Executive Board and its support structure in the inclusion of CPAs is minimal: The inclusion is only checked on a sample basis, otherwise the inclusion is automatic. Such inclusion process under the CDM is to reflect the concept of PoAs whereby the related processes are simplified to reduce the administrative burden and transaction cost for project participants for a group of similar emission reduction or removal activities. Under the Article 6.4 Mechanism, the process for inclusion of CPAs in a registered PoA, and hence the associated administrative cost for the Supervisory Body, is not yet known as it depends on the CPA inclusion process to be developed by the Supervisory Body. If the Article 6.4 Mechanism follows a similar simplified process of CPA inclusion as under the CDM, the fee for inclusion of CPAs may not be needed; otherwise a fee may need to be charged to recover administrative expenses.

29. As in the proposals on the registration fee and the issuance fee in subsections 2 and 3 above, it is also proposed that any other fees be waived for activities in LDCs and SIDS for the same reason mentioned in paragraph 10 above.

## **B. Share of proceeds for adaptation**

### **1. Components of share of proceeds for adaptation**

30. In accordance with the RMP, paragraph 67, the share of proceeds to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation shall be comprised of:

- (a) A levy of 5 per cent of A6.4ERs at issuance;
- (b) A monetary contribution related to the scale of the Article 6, paragraph 4, activity or to the number of A6.4ERs issued, to be set by the Supervisory Body;
- (c) After the Article 6.4 Mechanism becomes self-financing, a periodic contribution from the remaining funds received from administrative expenses, after setting aside the operating costs for the Article 6.4 Mechanism and an operating reserve, at a level and frequency to be determined by the CMA.

31. In accordance with the RMP, paragraph 66, all in-kind (i.e. A6.4ERs) and monetary contributions for adaptation shall go to the Adaptation Fund.

### **2. In-kind contribution from individual activities**

32. Of the three components of the share of proceeds for adaptation under the Article 6.4 Mechanism, a levy of 5 per cent of A6.4ERs at issuance is an in-kind contribution of credits which would be monetized in order to raise funds for the Adaptation Fund. The monetization programme is to be executed by the Trustee of the Adaptation Fund.

33. The process of operationalizing the 5 per cent levy of A6.4ERs at issuance is straightforward by forwarding the credits to the account held for the Adaptation Fund in the Article 6.4 Mechanism registry to be opened and maintained in accordance the operational procedures to be developed by the Supervisory Body for the Article 6.4 Mechanism registry. The operational procedures will determine the rules for possible transfers from this account. These rules will have implications on the monetization programme for A6.4ERs. For example, if transfers are only possible to a limited number of accounts within the Article 6.4 Mechanism registry, this may limit the possibilities for monetization.

### **3. Monetary contributions from individual activities**

34. With regard to the second component of the share of proceeds for adaptation under the Article 6.4 Mechanism referred to in paragraph 30(b) above, it is clear that this contribution is to be charged to requests concerning individual A6.4 Mechanism activities, and, in accordance with the language therein, it is to be charged at registration of the activity under the A6.4 Mechanism “or” at each issuance of A6.4ERs. Since this component is to be

set by the Supervisory Body, this paper does not propose at which stage of the activity cycle the fee is to be charged, or at what rate.

35. In terms of the subsequent process, it is proposed that the collected monetary contributions be transferred by the secretariat to the Adaptation Fund periodically (for example, annually).

#### **4. Periodic contributions from remaining funds**

36. In accordance with the third component of the share of proceeds for adaptation under the Article 6.4 Mechanism referred to in paragraph 30(c) above, the remaining funds received from administrative expenses charged to individual A6.4 Mechanism activities shall, after setting aside the operating costs for the Article 6.4 Mechanism and an operating reserve, be transferred periodically to the Adaptation Fund.

37. In the early years of the operation of the A6.4 Mechanism, requests for registration would be dominant. Therefore, if the registration fee is set at a level primarily to recover administrative expenses for processing registration requests as proposed in paragraph 12 above, the remaining funds would be very small during such period. It would only be from the time when requests for issuance of A6.4ERs start coming in that a sufficient surplus (after setting aside the operating costs for the Article 6.4 Mechanism and an operating reserve) from issuance fees can be expected. It is difficult to predict when such time will come as it depends on various factors, including the total requested amount of A6.4ERs in issuance requests, the resources required for the development of supporting infrastructure (e.g. information system to manage the activity cycle process for individual requests) and other administrative expenses. It is also difficult to predict the long-term trend of expected surplus at this stage, as the use of the A6.4 Mechanism by activity participants and the authorization by host Parties of activities to be registered under the A6.4 Mechanism are dependent on the market conditions for A6.4ERs and host Parties' policies in meeting the NDC targets, which will be affected by the ambitions of participating Parties, the prospect of compliance of Parties with their NDCs, and the competitiveness of the A6.4 Mechanism against other market-based mechanisms, among other factors.

38. It should also be noted that the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, at its sixteenth session (November 2021), invited the CMA to allocate the equivalent amount of the fund that had been transferred from the Trust Fund for the Clean Development Mechanism to the Trust Fund for Supplementary Activities for the work of the Supervisory Body to facilitate the expedited implementation of the A6.4 Mechanism (USD 30 million) to the Adaptation Fund after the A6.4 Mechanism has become self-financing. Consequently, any periodic contributions from the remaining funds to the Adaptation Fund should start after such transfer is complete.

39. Therefore, it would be prudent to remain open on the level and periodicity of transferring the remaining funds of the share of proceeds for administrative expenses to the Adaptation Fund at this stage. Instead, it is proposed that the state of income of fees and expenses be reviewed every year, and that the timing and the amount of funds to be transferred to the Adaptation Fund be determined after setting aside operational reserve at least for five coming years based on the projection of surplus.

40. It should be noted that this component of contributions to the Adaptation Fund is also being considered by the Supervisory Body for recommendation to the CMA in accordance with decision 3/CMA.3, paragraph 6(b). Therefore, it is proposed that the SBSTA review the recommendations of the Supervisory Body on this component and make any supplemental, not contradictory, recommendations to the CMA, as appropriate.

### **III. Summary of possible solutions**

41. Table 3 below summarizes the proposals in this paper.

Table 3: Summary of proposals

Category	Proposals	Note
<b>Share of proceeds for administrative expenses</b>		
Registration fee	<ul style="list-style-type: none"> <li>• A fee to be fully consumed for processing the registration request (i.e. not an advance payment of issuance fees)</li> <li>• Multi-tiered fixed rates for standalone activities, depending on the estimated annual average emission reductions or removals over the (first) crediting period</li> <li>• A fixed rate for PoAs</li> <li>• To be charged at the submission of the registration request and before the start of processing in accordance with the RMP, paragraph 48</li> <li>• Waived for activities in LDCs and SIDS</li> </ul>	<ul style="list-style-type: none"> <li>• The Supervisory Body is considering and expected to make recommendations on appropriate levels and its operation, including the number of scale tiers, the scale range of each tier, and the fixed rate for each tier</li> <li>• The Supervisory Body is also considering and expected to develop reimbursement rules for the requests that are withdrawn or rejected</li> </ul>
Issuance fee	<ul style="list-style-type: none"> <li>• A proportional levy to the amount of A6.4ERs requested for issuance, with a single rate per A6.4ER</li> <li>• Waived for activities in LDCs and SIDS</li> <li>• To be charged at the submission of the request for issuance and before the start of processing the request</li> </ul>	<ul style="list-style-type: none"> <li>• The Supervisory Body is considering and expected to make recommendations on appropriate levels and its operation</li> <li>• The Supervisory Body is also considering and expected to develop reimbursement rules for the requests that are withdrawn or rejected</li> </ul>
Renewal fee	<ul style="list-style-type: none"> <li>• Same tiered-fixed rates as the registration fee</li> </ul>	<ul style="list-style-type: none"> <li>• The Supervisory Body is considering and expected to make recommendations on appropriate levels and its operation</li> </ul>
Post-registration change fee	<ul style="list-style-type: none"> <li>• A minimum fixed-rate fee</li> <li>• If the proposed change increases the scale of the activity to bring the scale to a higher tier of the registration fee, the difference in the registration fee rates is payable in addition to the fixed-rate post-registration change fee</li> </ul>	<ul style="list-style-type: none"> <li>• The Supervisory Body is considering and expected to make recommendations on appropriate levels and its operation</li> </ul>
Other	<ul style="list-style-type: none"> <li>• No fee to be charged for inclusion of a CPA into a registered PoA, provided that there is no assessment by the secretariat of each inclusion</li> </ul>	
<b>Share of proceeds for adaptation</b>		
In-kind contribution (5% levy)	<ul style="list-style-type: none"> <li>• Deduct 5% of issued A6.4ERs and transfer to the Adaptation Fund account in the Article 6.4 Mechanism registry in a systematic and automated manner</li> <li>• The Adaptation Fund Board and its support structure to develop a strategy on monetization of received A6.4ERs</li> </ul>	
Monetary contributions from individual activities	<ul style="list-style-type: none"> <li>• The collected monetary contributions are to be transferred by the secretariat to the Adaptation Fund periodically (e.g. annually)</li> </ul>	<ul style="list-style-type: none"> <li>• The Supervisory Body is to set the point of charging and the rate, in accordance with the RMP, paragraph 30(b)</li> </ul>
Periodic contributions from remaining funds	<ul style="list-style-type: none"> <li>• Review the state of income of fees and expenses every year.</li> <li>• Determine the timing and the amount of funds to be transferred</li> </ul>	<ul style="list-style-type: none"> <li>• The Supervisory Body is also considering and expected to make recommendations on the same matter</li> </ul>

	to the Adaptation Fund after setting aside operational reserve for at least five coming years based on the projection of surplus	
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42. When considering the processes necessary for implementation of the share of proceeds to cover administrative expenses and the share of proceeds for adaptation, it is proposed that the SBSTA set some guiding principles – such as fairness to activity participants; sufficiency that enables long-term sound operation of the Article 6.4 Mechanism; and administrative efficiency and predictability to activity participants and the Supervisory Body alike – and follow them.

43. It is also proposed that the SBSTA review and take into account the considerations and recommendations by the Supervisory Body on the subject of the share of proceeds that was mandated in parallel with the mandate to the SBSTA, so that both considerations and recommendations are in line and supplement each other where appropriate.

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