

Draft standard for materiality

Twenty-second meeting of the Joint Implementation Supervisory Committee

Bonn, Germany, 15 June 2010



Olof Bystrom
UNFCCC secretariat

Background

- The 2009 development of the DVM along with associated JI technical workshop, roundtable and calls for public inputs resulted in significant feedback, among them requests to consider materiality
- Decision 3/CMP.5 requests the JISC to “...to conduct an assessment of the implications of possible inclusion of the concepts of materiality and level of assurance in joint implementation for the process of determinations referred to in paragraphs 33 and 37 of the joint implementation guidelines”
- Following JISC 20, the JISC requested the secretariat to conduct a call for public inputs regarding materiality and changes during project implementation
- After JISC 21, the JISC, supported by the secretariat, prepared a first draft standard for consideration at JISC 22, included as Annex 1 to the agenda



Highlights from 2010 Roundtable

- Generally supportive – differences in where it should be applied and details of text
- Important to distinguish between accuracy and materiality
- Maintain flexibility
- ERU certainty should be absolute – discount emission reductions as needed
- Apply to regulator as well as AIE and in all assessments (AIEs, secretariat/experts, JISC)
- Rationale for thresholds and level of assurance?
- Define positive determination/verification
- Remove requirement to have identified errors corrected (para. 4)



Materiality and level of assurance



- ISO 14064-3 defines materiality as a “concept that individual or the aggregation of errors, omissions, and misrepresentations could affect the greenhouse gas assertion”
- ISO 14064-3 defines level of assurance as the “degree of assurance the intended user requires in a [determination] or verification”
- Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement
- Thus, materiality provides a threshold or cutoff point rather than being a primary qualitative characteristic which information must have if it is to be useful



Materiality and level of assurance

- The materiality threshold provides guidance on what omissions, errors, and misstatements are considered significant
- The level of assurance measures how “sure” the entity providing the statement is:
 - **Reasonable assurance***: The entity “provides reasonable but not absolute, level of assurance that the responsible party’s GHG assertion is materially correct”. For example: “Based on the process and procedures conducted, the GHG assertion is materially correct and is a fair representation of the GHG data and information, and is prepared in accordance with the [approved monitoring plan and the JI guidelines]”
 - **Limited assurance***: Limited assurance “is distinguishable in that there is less emphasis on detailed testing of GHG data and information supplied to support the GHG assertion.” For example: “Based on the process and the procedures conducted, there is no evidence that the GHG assertion is not materially correct and is not a fair representation of GHG data and information and has not been prepared in accordance with...”



Potential thresholds and assurance levels

- **Materiality threshold and level of assurance**
 - o In line with normal business practice
 - o Three alternative schemes recommended in inputs

Source	Low	Thres- hold	High	Thres- hold	Affecting	Level of assurance
EU ETS	<300,000 tCO ₂	5%	≥ 300,000 tCO ₂	2%	Annual emissions	Reasonable
~ VCS	SSC + average projects	5%	High volume projects	1%	Emission Reductions	Reasonable
DOE/AIE Forum	<100,000 tCO ₂	5%	≥ 100,000 tCO ₂	1%	Emission Reductions	Reasonable



Draft standard

4. In preparing the verification of a project's reductions of anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks, the AIE shall assess whether the monitoring report prepared by the project participant and all its supporting data and other information provide sufficient support for the verification. The AIE shall consider materiality in its assessment and shall apply the following materiality thresholds:

not exceeding

(a) A materiality threshold of five percent shall be applied for projects with annual average emission reductions by sources (or enhancement of removals by sinks) amounting to less than [100,000] [300,000] tonnes per year;

(b) A materiality threshold of [one] [two] percent shall be applied for projects with annual average emission reductions by sources (or enhancement of removals by sinks) amounting to [100,000], [300,000] tonnes per year or more.



5. When submitting a verification for consideration by the JISC, the AIE shall include in its verification opinion a statement confirming that the reductions of anthropogenic emissions by sources or enhancements of anthropogenic removals by sinks reported by project participant are accurate and free of material errors, omissions, or misstatements. [All identified errors, omissions or misstatements shall be reported regardless of their materiality.] Using the materiality thresholds defined in paragraph 4, above, the verification opinion shall be based on a reasonable level of assurance.

6. The AIE shall issue a positive verification opinion only if it can confirm that the monitoring report, data collected, and other evidence supporting the reductions of anthropogenic emissions by sources, or enhancements of anthropogenic removals by sinks reported by the project participants are consistent with paragraphs 4 and 5 above.



Considering Enforcement

- **Verification:** if materiality requirements appears to be insufficiently addressed in a verification report, a review may be requested
 - **Fraud or significant deficiencies:** If fraud, material errors, omissions or significant deficiencies were to be revealed at a later stage, paragraph 42-44 of the JI guidelines (AIE suspension) apply
 - **Accreditation Standard:**
 - **Competence:** para. 54: “Any determiner, verifier and determination or verification team leader shall have sufficient knowledge and understanding of the JI guidelines, relevant decisions of the CMP and the JISC, including all determination or verification requirements, and the Determination and verification manual (DVM)”
 - **Systems/Procedures:** para 81: “An IE shall establish and implement a documented procedure for carrying out its determination and verification work in accordance with the JI guidelines, relevant decisions of the CMP and the JISC, including all determination and verification requirements, and the DVM”
-

