



## Joint Implementation *Action Group*

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Joint Implementation Supervisory Committee  
Attn. Mr. Leguet  
P.O. Box 260124  
D-53153 Bonn  
Germany

Subject: JISC Call for Input on Materiality and Changes  
during Project Implementation

26 March 2010

Dear Chair of the Joint Implementation Supervisory Committee (JISC),  
Dear members and alternate members of the JISC,

The Joint Implementation Action Group (JIAG) welcomes the opportunity to share its views on the issues of materiality and changes during project implementation.

### **I. Background on Materiality**

The concept of materiality is commonly used within financial auditing to help determine whether there are any significant (or material) misstatements, errors, or omissions in financial statements. Materiality is also increasingly used in auditing of greenhouse gas (GHG) emission reports and is a required component in many procedures, such as the EU directives establishing guidelines for the monitoring and reporting of GHG emissions<sup>1</sup>, and ISO 14064-3 which stipulates requirements for independent entities in certifying GHG emission reductions or removal enhancements in accordance with the standard. Along the lines of the EU example, a materiality threshold could be introduced for JI purposes in the sense that an uncertainty of up to a certain percentage in the calculation of emission reductions at the stage of determination and/or verification would be deemed immaterial (negligible), while an uncertainty above that threshold would be seen as material with implications for the validity of the determination or verification process.

At its twentieth meeting held at 23-24 February 2010, the JISC agreed to examine the concept of materiality with a view to deciding whether, and to what extent, it could be internalized for JI project cycle purposes.

### **JIAG's Suggestions**

The JIAG welcomes the initiative on materiality and encourages the JISC to adopt recommendations for applying the concept for the calculation and the measurement of the project's emission reduction figures at the relevant stages in the JI project cycle:

- Determination of a project by an Accredited Independent Entity (AIE);
- Review of determination (JISC level);
- Verification of a project (AIE level); and
- Review of verification (JISC level);
- Deviations of project implementation (see below).

The application of the concept will lead to more solid, clear and stable emission reduction calculations while avoiding onerous efforts in monitoring and verification processes. For an adoption of the concept in the concept of deviation see below under II.

Furthermore, it is suggested that the JISC, on a non-prescriptive basis, recommends the approach chosen by the European emissions trading scheme (EU ETS). Under this approach, facilities with annual emission of less than 300,000 tonnes of CO<sub>2</sub> output per year, a materiality threshold of 5% is in effect; for facilities with annual emissions of more than 300,000 tonnes of CO<sub>2</sub>, the threshold is lowered to 2%. The EU ETS threshold may represent an appropriate and pragmatic solution to determining a reasonable level of scrutiny in calculation of emission reductions as both mechanisms operate in a capped-environment (contrary to the CDM).

### **II. Background Deviation**

The design of a JI Track 2 project may change during the course of its implementation. These changes may affect a project design document and/or its monitoring plan. If the changes occur prior to project determination according to paragraph 33 of the JI guidelines, there is an opportunity for the JISC to identify and address these changes as appropriate within its mandate. However, if changes occur after the determination is deemed final, existing JISC documents offer only limited guidance.

At its twentieth meeting held at 23-24 February 2010, the JISC agreed to assess the issue of deviation with a view to formulating more detailed guidelines on the issue.

### **JIAG's Suggestions**

The JIAG welcomes the initiative of the JISC to tackle this issue of high practical importance. Project developers every now and then face the difficulty to react to changing circumstances with documentation that, once approved, remains static.

We would like to suggest that the JISC adopts a position that would maintain the highest standards of project quality and integrity while being open to subsequent changes to project description. This means that modifications in the project design or the technology used to accommodate changes to the project's context, or as a result of new insights obtained during project implementation which require changes to design should be acceptable ("non-material changes") if the following conditions are met:

- a project's GHG emission sources remain unchanged;

- its baseline scenario remains the same;
- changes can be justified by the project developer as not having any effect on the compliance of the project with relevant JI guidance;
- the applicability of the methodology or the JI specific approach to the project activity remains unaltered;
- The revision does not change the physical location of the project as described in section A.4.1 of the PDD;

Furthermore, we would request the JISC to concede just as the CDM Executive Board that we are still at the beginning of a learning phase in which strict boundaries for permissive deviations might prove counterproductive. What is needed is a clear mechanism under which AIEs are obliged to record any deviation and report it to the JISC after which the JISC can decide whether to call for a review of the determination/verification. Generally, where a case of deviation proves as being within the limits set out above, the AIEs should be given the authority to approve the relevant changes without the need for re-determination/registration.

Furthermore, we would suggest that, if a deviation proves material and leads to an increase in reductions, the project participant can decide to subtract the amount of reductions; this would avoid that re-determination is required. Alternatively, the project participant can decide to submit the Monitoring Plan for re-determination. Alternatively, rectification may be established through verification alone (see below). If, on the other hand, a deviation proves material and if it leads to a decrease in reductions, the determination/verification should be accepted without changes

Rectification procedures in all cases should be privileged, i.e. full re-determination should be avoided. Rectification at Monitoring Plan level and rectification in the verification process are sufficient means to remedy the situation of deviation.

Yours sincerely,

Lennard de Klerk  
JIAG Chair

## Annex 1: JIAG Members

JIAG members		
	Company	Nominated representative
1	Global Carbon (chair)	Mr. Lennard de Klerk
2	Climate Focus (secretariat)	Ms. Charlotte Streck, Mr. Jelmer Hoogzaad
3	Core Carbon Group	Mr. Morten Prehn Sorensen
4	Vertis Environmental Finance	Mr. James Atkins
5	Carbon Trade & Finance	Mr. Ingo Ramming
6	FutureCamp	Mr. Roland Geres
7	GreenStream Network	Ms. Hanna-Mari Ahonen

