



**PROJECT
DEVELOPER
FORUM**

**UNFCCC
JISC Roundtable Consultations
Bonn**

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Concept of Materiality in Determinations and Verifications – Expectations on the use

- **What is Materiality ?**
- **Why needed ?**
- **Where needed ?**
- **What threshold ?**
- **Expectations of PPs**
- **Suggestions for process improvements**
- **Conclusions**

The concept of materiality

– What is materiality ?

- Materiality is an important concept of auditing. In order to express an opinion on data or information, an auditor needs to be able to stop when any remaining errors, omissions or misstatements are considered too small [according to the end user]
- A materiality threshold [from the intended user] provides guidance to auditors on what constitutes a material discrepancy, so that they can concentrate their work on areas that are more likely to identify materially misleading errors/omissions/misstatements

A materiality threshold is fundamental to the concept of auditing

The concept of materiality

– What is materiality ?

- Materiality level is taken into account in determining the level of detail and amount of data/information checking performed by the verifier. It therefore also has a bearing on the time and potential costs of verification.
- Without materiality, e v e r y t h i n g must be checked.
- Absolute assurance [100% sure] is not possible.
- Imagine financial accountants trying to provide absolute assurance (with no materiality applied).
 - Every last cent in each and every bill would have to be checked...

The concept of materiality

– Why is materiality needed?

- Without defining a materiality threshold and thereby setting a reasonable level of assurance
 - The IE would have to assure that it has identified all potential errors, omissions and misstatements in the information/values reported (whatever their size)
 - the costs of verification would not be reasonable (but nearly infinitum).

– Where is materiality needed?

- At all assessments (IE as well as Secretariat/JISC)

– What threshold ?

(ref. Agenda JISC22, Annex 1)

- 5% for annual ER < 100'000 tCO₂e
- 2 % for annual ER > 100'000 tCO₂e

The concept of materiality

- **Expectations of project participants**
 - Transparency on the applied auditing processes
 - Improved comparability of (A)IE performance (concept already applied but, at times, with different approaches)
 - Harmonization of (A)IEs approach – common understanding is a must
 - Terms of Reference for verification contracts
 - Application at all assessments (incl. secretariat and during review cases)
 - Improved efficiency of the audit process by focusing efforts on parameters with real impact on additionality or ER volumes
 - Clear rules will lower investment risk (improve investment certainty)

Activity changes in JI projects

- **Suggestions for process improvements related to materiality**
 - Minor deviations/changes to be treated and reported by (A)IE like in PDD determination
 - Extended approval process only in case of impacts on additionality
 - Errors that do not have a material impact on the ER volumes or additionality should not cause delays or prevent issuance/registration
 - (A)IE professional judgement to be applied (based on transparent arguments) on whether errors or deviations will have material impact on ERs / additionality
 - Involved Annex-I-Parties are major stakeholders → they should be included in the process when material errors are identified.

Activity changes in JI projects

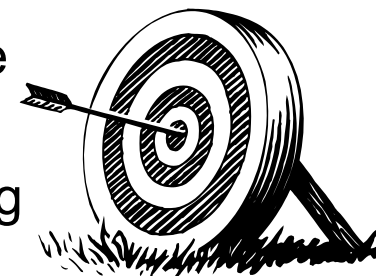
– Conclusions

- Materiality level values need to be set to ensure verifiers are able to give ‘reasonable assurance’ about the quality of information/data, at reasonable costs’.
- Materiality concept is to be included in the DVM, to ensure harmonized approaches in determinations and verifications.
- Materiality concept should be applied at all assessments (incl. secretariat and during review cases).
- (A)IE professional judgement should be applied on whether errors or deviations will have material impact on ERs/additionality.
- Errors that do not have a material impact on the ER volumes or additionality should not cause delays or prevent issuance/registration.
- Level of materiality threshold is less important than introducing the concept and the level explicitly in a transparent way.
5% for annual ER < 100’k tCO₂e and 2% for > 100’k tCO₂e seems reasonable

Aims of the PD Forum

UK registered non-profit company with Articles of Associations and membership rules to ensure transparency and due process open to all stakeholders of offset projects that agree with guiding principles.

- Interact with the carbon market regulator (EB, JISC etc.) to be constructive on rules, guidelines and regulations
- Participate in improving the efficiency and function of the regulatory system
- Improve policy and regulatory standards while preserving the environmental integrity
- Update and support independent standards and codes of conduct for project developers
- Assist members in producing quality products by sharing of information and experiences



Project Developer Forum Member Locations

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Members

Board of Directors

- Chair: Martin Enderlin, Ecosecurities
- Vice Chair: Leo Perkowski, AES Ltd
- Vice Chair: Andrew Prag, Camco Int'l

Other Members and Affiliates:

- AES Climate Solutions
- Agrinergy Pte Ltd
- Camco
- Carbon Fix e.V.
- Carbon Resource Management
- Center for Environment and Economy
- Climate Change Capital
- Cool NRG
- C-Quest Capital LLC
- CVDT Consulting B.V.
- EcoSecurities Group
- EEA Group
- Enecore Carbon Ltd
- EQAO (formerly EcoPart)
- Emergent Ventures India Pvt Ltd
- FirstClimate
- GazProm
- Green Gas Int'l
- International Millennium Development Goals Carbon Facility
- Kenya GEF (applied)
- Managing Emissions
- MGM Int'l (applied)
- Mitsubishi Corporation
- N.serve Environmental Services GmbH
- Orbeo
- Policy Solutions
- Sindicatum Carbon Capital
- South Pole Carbon Asset Mngt Ltd
- Sustainable Environmental Solutions
- Tricorona AB

