

Decision 3/CMP.1

Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol

The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,
Recalling the provisions of Articles 3 and 12 of the Kyoto Protocol,

Bearing in mind that, in accordance with Article 12, the purpose of the clean development mechanism is to assist Parties not included in Annex I to the Convention in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3 of the Kyoto Protocol,

Aware of its decisions 2/CMP.1, 9/CMP.1, 11/CMP.1, 13/CMP.1, 15/CMP.1, 16/CMP.1, 19/CMP.1, 20/CMP.1, and 22/CMP.1, and decisions 2/CP.7 and 24/CP.7,

Cognizant of decision 17/CP.7 on modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol,

1. *Decides* to confirm, and give full effect to any actions taken pursuant to, decision 17/CP.7 and to any other relevant decisions by the Conference of the Parties, as appropriate;
2. *Adopts* the modalities and procedures for a clean development mechanism contained in the annex below;
3. *Invites* the Executive Board to review the simplified modalities, procedures and the definitions of small-scale project activities referred to in paragraph 6 (c) of decision 17/CP.7 and, if necessary, make appropriate recommendations to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol;
4. *Decides further* that any future revision of the modalities and procedures for a clean development mechanism shall be decided in accordance with the rules of procedure of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, as applied. The first review shall be carried out no later than one year after the end of the first commitment period, based on recommendations by the Executive Board and by the Subsidiary Body for Implementation drawing on technical advice from the Subsidiary Body for Scientific and Technological Advice, as needed. Further reviews shall be carried out periodically thereafter. Any revision of the decision shall not affect clean development mechanism project activities already registered.

ANNEX

Modalities and procedures for a clean development mechanism

A. Definitions

1. For the purposes of the present annex the definitions contained in Article 1¹ and the provisions of Article 14 shall apply. Furthermore:
 - (a) An “emission reduction unit” or “ERU” is a unit issued pursuant to the relevant provisions in the annex to decision 13/CMP.1 and is equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;
 - (b) A “certified emission reduction” or “CER” is a unit issued pursuant to Article 12 and requirements thereunder, as well as the relevant provisions in these modalities and procedures, and is equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;
 - (c) An “assigned amount unit” or “AAU” is a unit issued pursuant to the relevant provisions in the annex to decision 13/CMP.1 and is equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;
 - (d) A “removal unit” or “RMU” is a unit issued pursuant to the relevant provisions in the annex to decision 13/CMP.1 and is equal to one metric tonne of carbon dioxide equivalent, calculated using global warming potentials defined by decision 2/CP.3 or as subsequently revised in accordance with Article 5;
 - (e) “Stakeholders” means the public, including individuals, groups or communities affected, or likely to be affected, by the proposed clean development mechanism project activity.

B. Role of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol

2. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP) shall have authority over and provide guidance to the clean development mechanism (CDM).
3. The COP/MOP shall provide guidance to the Executive Board by taking decisions on:
 - (a) The recommendations made by the Executive Board on its rules of procedure;
 - (b) The recommendations made by the Executive Board, in accordance with provisions of decision 17/CP.7, the present annex and relevant decisions of the COP/MOP;
 - (c) The designation of operational entities accredited by the Executive Board in accordance with Article 12, paragraph 5, and accreditation standards contained in appendix A below.
4. The COP/MOP shall further:
 - (a) Review annual reports of the Executive Board;

¹ In the context of this annex, “Article” refers to an Article of the Kyoto Protocol, unless otherwise specified.

- (b) Review the regional and subregional distribution of designated operational entities and take appropriate decisions to promote accreditation of such entities from developing country Parties;²
- (c) Review the regional and subregional distribution of CDM project activities with a view to identifying systematic or systemic barriers to their equitable distribution and take appropriate decisions, based, inter alia, on a report by the Executive Board;
- (d) Assist in arranging funding of CDM project activities, as necessary.

C. Executive Board

5. The Executive Board shall supervise the CDM, under the authority and guidance of the COP/MOP, and be fully accountable to the COP/MOP. In this context, the Executive Board shall:

- (a) Make recommendations to the COP/MOP on further modalities and procedures for the CDM, as appropriate;
- (b) Make recommendations to the COP/MOP on any amendments or additions to rules of procedure for the Executive Board contained in the present annex, as appropriate;
- (c) Report on its activities to each session of the COP/MOP;
- (d) Approve new methodologies relating to, inter alia, baselines, monitoring plans and project boundaries in accordance with the provisions of appendix C below;
- (e) Review provisions with regard to simplified modalities, procedures and the definitions of small-scale project activities and make recommendations to the COP/MOP;
- (f) Be responsible for the accreditation of operational entities, in accordance with accreditation standards contained in appendix A below, and make recommendations to the COP/MOP for the designation of operational entities, in accordance with Article 12, paragraph 5. This responsibility includes:
 - (i) Decisions on re-accreditation, suspension and withdrawal of accreditation;
 - (ii) Operationalization of accreditation procedures and standards;
- (g) Review the accreditation standards in appendix A below and make recommendations to the COP/MOP for consideration, as appropriate;
- (h) Report to the COP/MOP on the regional and subregional distribution of CDM project activities with a view to identifying systematic or systemic barriers to their equitable distribution;
- (i) Make publicly available relevant information, submitted to it for this purpose, on proposed CDM project activities in need of funding and on investors seeking opportunities, in order to assist in arranging funding of CDM project activities, as necessary;
- (j) Make any technical reports commissioned available to the public and provide a period of at least eight weeks for public comments on draft methodologies and guidance before documents are finalized and any recommendations are submitted to the COP/MOP for their consideration;

² In the context of this annex, "Party" refers to a Party to the Kyoto Protocol, unless otherwise specified.

- (k) Develop, maintain and make publicly available a repository of approved rules, procedures, methodologies and standards;
- (l) Develop and maintain the CDM registry as defined in appendix D below;
- (m) Develop and maintain a publicly available database of CDM project activities containing information on registered project design documents, comments received, verification reports, its decisions as well as information on all CERs issued;
- (n) Address issues relating to observance of modalities and procedures for the CDM by project participants and/or operational entities, and report on them to the COP/MOP;
- (o) Elaborate and recommend to the COP/MOP for adoption at its next session procedures for conducting the reviews referred to in paragraphs 41 and 65 below including, inter alia, procedures to facilitate consideration of information from Parties, stakeholders and UNFCCC accredited observers. Until their adoption by the COP/MOP, the procedures shall be applied provisionally;
- (p) Carry out any other functions ascribed to it in decision 17/CP.7, the present annex and relevant decisions of the COP/MOP.

6. Information obtained from CDM project participants marked as proprietary or confidential shall not be disclosed without the written consent of the provider of the information, except as required by national law. Information used to determine additionality as defined in paragraph 43 below, to describe the baseline methodology and its application, and to support an environmental impact assessment referred to in paragraph 37 (c) below, shall not be considered as proprietary or confidential.

7. The Executive Board shall comprise 10 members from Parties to the Kyoto Protocol, as follows: one member from each of the five United Nations regional groups, two other members from the Parties included in Annex I, two other members from the Parties not included in Annex I, and one representative of the small island developing States, taking into account the current practice in the Bureau of the Conference of the Parties.

8. Members, including alternate members, of the Executive Board shall:

- (a) Be nominated by the relevant constituencies referred to in paragraph 7 above and be elected by the COP/MOP. Vacancies shall be filled in the same way;
- (b) Be elected for a period of two years and be eligible to serve a maximum of two consecutive terms. Terms as alternate members do not count. Five members and five alternate members shall be elected initially for a term of three years and five members and five alternate members for a term of two years. Thereafter, the COP/MOP shall elect, every year, five new members, and five new alternate members, for a term of two years. Appointment pursuant to paragraph 11 below shall count as one term. The members, and alternate members, shall remain in office until their successors are elected;
- (c) Possess appropriate technical and/or policy expertise and shall act in their personal capacity. The cost of participation of members, and of alternate members, from developing country Parties and other Parties eligible under UNFCCC practice shall be covered by the budget for the Executive Board;
- (d) Be bound by the rules of procedure of the Executive Board;
- (e) Take a written oath of service witnessed by the Executive Secretary of the UNFCCC or his/her authorized representative before assuming his or her duties;

- (f) Have no pecuniary or financial interest in any aspect of a CDM project activity or any designated operational entity;
 - (g) Subject to their responsibilities to the Executive Board, not disclose any confidential or proprietary information coming to their knowledge by reason of their duties for the Executive Board. The duty of the member, including alternate member, not to disclose confidential information constitutes an obligation in respect of that member, and alternate member, and shall remain an obligation after the expiration or termination of that member's function for the Executive Board.
9. The COP/MOP shall elect an alternate for each member of the Executive Board based on the criteria in paragraphs 7 and 8 above. The nomination by a constituency of a candidate member shall be accompanied by a nomination for a candidate alternate member from the same constituency.
10. The Executive Board may suspend and recommend to the COP/MOP the termination of the membership of a particular member, including an alternate member, for cause including, inter alia, breach of the conflict of interest provisions, breach of the confidentiality provisions, or failure to attend two consecutive meetings of the Executive Board without proper justification.
11. If a member, or an alternate member, of the Executive Board resigns or is otherwise unable to complete the assigned term of office or to perform the functions of that office, the Executive Board may decide, bearing in mind the proximity of the next session of the COP/MOP, to appoint another member, or an alternate member, from the same constituency to replace the said member for the remainder of that member's mandate.
12. The Executive Board shall elect its own Chair and Vice-Chair, with one being a member from a Party included in Annex I and the other being from a Party not included in Annex I. The positions of Chair and Vice-Chair shall alternate annually between a member from a Party included in Annex I and a member from a Party not included in Annex I.
13. The Executive Board shall meet as necessary but no less than three times a year, bearing in mind the provisions of paragraph 41 below. All documentation for Executive Board meetings shall be made available to alternate members.
14. At least two thirds of the members of the Executive Board, representing a majority of members from Parties included in Annex I and a majority of members from Parties not included in Annex I, must be present to constitute a quorum.
15. Decisions by the Executive Board shall be taken by consensus, whenever possible. If all efforts at reaching a consensus have been exhausted and no agreement has been reached, decisions shall be taken by a three-fourths majority of the members present and voting at the meeting. Members abstaining from voting shall be considered as not voting.
16. Meetings of the Executive Board shall be open to attendance, as observers, by all Parties and by all UNFCCC accredited observers and stakeholders, except where otherwise decided by the Executive Board.
17. The full text of all decisions of the Executive Board shall be made publicly available. The working language of the Executive Board shall be English. Decisions shall be made available in all six official languages of the United Nations.
18. The Executive Board may establish committees, panels or working groups to assist it in the performance of its functions. The Executive Board shall draw on the expertise necessary to perform its

functions, including from the UNFCCC roster of experts. In this context, it shall take fully into account the consideration of regional balance.

19. The secretariat shall service the Executive Board.

D. Accreditation and designation of operational entities

20. The Executive Board shall:

- (a) Accredite operational entities which meet the accreditation standards contained in appendix A below;
- (b) Recommend the designation of operational entities to the COP/MOP;
- (c) Maintain a publicly available list of all designated operational entities;
- (d) Review whether each designated operational entity continues to comply with the accreditation standards contained in appendix A below and on this basis confirm whether to reaccredit each operational entity every three years;
- (e) Conduct spot-checking at any time and, on the basis of the results, decide to conduct the above-mentioned review, if warranted.

21. The Executive Board may recommend to the COP/MOP to suspend or withdraw the designation of a designated operational entity if it has carried out a review and found that the entity no longer meets the accreditation standards or applicable provisions in decisions of the COP/MOP. The Executive Board may recommend the suspension or withdrawal of designation only after the designated operational entity has had the possibility of a hearing. The suspension or withdrawal is with immediate effect, on a provisional basis, once the Executive Board has made a recommendation, and remains in effect pending a final decision by the COP/MOP. The affected entity shall be notified, immediately and in writing, once the Executive Board has recommended its suspension or withdrawal. The recommendation by the Executive Board and the decision by the COP/MOP on such a case shall be made public.

22. Registered project activities shall not be affected by the suspension or withdrawal of designation of a designated operational entity unless significant deficiencies are identified in the relevant validation, verification or certification report for which the entity was responsible. In this case, the Executive Board shall decide whether a different designated operational entity shall be appointed to review, and where appropriate correct, such deficiencies. If such a review reveals that excess CERs were issued, the designated operational entity whose accreditation has been withdrawn or suspended shall acquire and transfer, within 30 days of the end of review, an amount of reduced tonnes of carbon dioxide equivalent equal to the excess CERs issued, as determined by the Executive Board, to a cancellation account maintained in the CDM registry by the Executive Board.

23. Any suspension or withdrawal of a designated operational entity that adversely affects registered project activities shall be recommended by the Executive Board only after the affected project participants have had the possibility of a hearing.

24. Any costs relating to the review referred to in paragraph 22 above shall be borne by the designated operational entity whose designation has been withdrawn or suspended.

25. The Executive Board may seek assistance in performing the functions in paragraph 20 above, in accordance with the provisions of paragraph 18 above.

E. Designated operational entities

26. Designated operational entities shall be accountable to the COP/MOP through the Executive Board and shall comply with the modalities and procedures in decision 17/CP.7, the present annex and relevant decisions of the COP/MOP and the Executive Board.
27. A designated operational entity shall:
- (a) Validate proposed CDM project activities;
 - (b) Verify and certify reductions in anthropogenic emissions by sources of greenhouse gases;
 - (c) Comply with applicable laws of the Parties hosting CDM project activities when carrying out its functions referred to in subparagraph (e) below;
 - (d) Demonstrate that it, and its subcontractors, have no real or potential conflict of interest with the participants in the CDM project activities for which it has been selected to carry out validation or verification and certification functions;
 - (e) Perform one of the following functions relating to a given CDM project activity: validation or verification and certification. Upon request, the Executive Board may, however, allow a single designated operational entity to perform all these functions within a single CDM project activity;
 - (f) Maintain a publicly available list of all CDM project activities for which it has carried out validation, verification and certification;
 - (g) Submit an annual activity report to the Executive Board;
 - (h) Make information obtained from CDM project participants publicly available, as required by the Executive Board. Information marked as proprietary or confidential shall not be disclosed without the written consent of the provider of the information, except as required by national law. Information used to determine additionality as defined in paragraph 43 below, to describe the baseline methodology and its application, and to support an environmental impact assessment referred to in paragraph 37 (c) below, shall not be considered as proprietary or confidential.

F. Participation requirements

28. Participation in a CDM project activity is voluntary.
29. Parties participating in the CDM shall designate a national authority for the CDM.
30. A Party not included in Annex I may participate in a CDM project activity if it is a Party to the Kyoto Protocol.
31. Subject to the provisions of paragraph 32 below, a Party included in Annex I with a commitment inscribed in Annex B is eligible to use CERs, issued in accordance with the relevant provisions, to contribute to compliance with part of its commitment under Article 3, paragraph 1, if it is in compliance with the following eligibility requirements:
- (a) It is a Party to the Kyoto Protocol;
 - (b) Its assigned amount pursuant to Article 3, paragraphs 7 and 8, has been calculated and recorded in accordance with decision 13/CMP.1;

- (c) It has in place a national system for the estimation of anthropogenic emissions by sources and anthropogenic removals by sinks of all greenhouse gases not controlled by the Montreal Protocol, in accordance with Article 5, paragraph 1, and the requirements in the guidelines decided thereunder;
 - (d) It has in place a national registry in accordance with Article 7, paragraph 4, and the requirements in the guidelines decided thereunder;
 - (e) It has submitted annually the most recent required inventory, in accordance with Article 5, paragraph 2, and Article 7, paragraph 1, and the requirements in the guidelines decided thereunder, including the national inventory report and the common reporting format. For the first commitment period, the quality assessment needed for the purpose of determining eligibility to use the mechanisms shall be limited to the parts of the inventory pertaining to emissions of greenhouse gases from sources/sector categories from Annex A to the Kyoto Protocol and the submission of the annual inventory on sinks;
 - (f) It submits the supplementary information on assigned amount in accordance with Article 7, paragraph 1, and the requirements in the guidelines decided thereunder and makes any additions to, and subtractions from, assigned amount pursuant to Article 3, paragraphs 7 and 8, including for the activities under Article 3, paragraphs 3 and 4, in accordance with Article 7, paragraph 4, and the requirements in the guidelines decided thereunder.
32. A Party included in Annex I with a commitment inscribed in Annex B shall be considered:
- (a) To meet the eligibility requirements referred to in paragraph 31 above after 16 months have elapsed since the submission of its report to facilitate the calculation of its assigned amount pursuant to Article 3, paragraphs 7 and 8, and to demonstrate its capacity to account for its emissions and assigned amount, in accordance with the modalities adopted for the accounting of assigned amount under Article 7, paragraph 4, unless the enforcement branch of the compliance committee finds in accordance with decision 24/CP.7 that the Party does not meet these requirements, or, at an earlier date, if the enforcement branch of the Compliance Committee has decided that it is not proceeding with any questions of implementation relating to these requirements indicated in reports of the expert review teams under Article 8 of the Kyoto Protocol, and has transmitted this information to the secretariat;
 - (b) To continue to meet the eligibility requirements referred to in paragraph 31 above unless and until the enforcement branch of the Compliance Committee decides that the Party does not meet one or more of the eligibility requirements, has suspended the Party's eligibility, and has transmitted this information to the secretariat.
33. A Party that authorizes private and/or public entities to participate in Article 12 project activities shall remain responsible for the fulfilment of its obligations under the Kyoto Protocol and shall ensure that such participation is consistent with the present annex. Private and/or public entities may only transfer and acquire CERs if the authorizing Party is eligible to do so at that time.

34. The secretariat shall maintain publicly accessible lists of:
- (a) Parties not included in Annex I which are Parties to the Kyoto Protocol;
 - (b) Parties included in Annex I that do not meet the requirements in paragraph 31 above or have been suspended.

G. Validation and registration

35. Validation is the process of independent evaluation of a project activity by a designated operational entity against the requirements of the CDM as set out in decision 17/CP.7, the present annex and relevant decisions of the COP/MOP, on the basis of the project design document, as outlined in appendix B below.

36. Registration is the formal acceptance by the Executive Board of a validated project as a CDM project activity. Registration is the prerequisite for the verification, certification and issuance of CERs relating to that project activity.

37. The designated operational entity selected by project participants to validate a project activity, being under a contractual arrangement with them, shall review the project design document and any supporting documentation to confirm that the following requirements have been met:

- (a) The participation requirements as set out in paragraphs 28–30 above are satisfied
- (b) Comments by local stakeholders have been invited, a summary of the comments received has been provided, and a report to the designated operational entity on how due account was taken of any comments has been received
- (c) Project participants have submitted to the designated operational entity documentation on the analysis of the environmental impacts of the project activity, including transboundary impacts and, if those impacts are considered significant by the project participants or the host Party, have undertaken an environmental impact assessment in accordance with procedures as required by the host Party
- (d) The project activity is expected to result in a reduction in anthropogenic emissions by sources of greenhouse gases that are additional to any that would occur in the absence of the proposed project activity, in accordance with paragraphs 43–52 below
- (e) The baseline and monitoring methodologies comply with requirements pertaining to:
 - (i) Methodologies previously approved by the Executive Board; or
 - (ii) Modalities and procedures for establishing a new methodology, as set out in paragraph 38 below
- (f) Provisions for monitoring, verification and reporting are in accordance with decision 17/CP.7, the present annex and relevant decisions of the COP/MOP
- (g) The project activity conforms to all other requirements for CDM project activities in decision 17/CP.7, the present annex and relevant decisions by the COP/MOP and the Executive Board.

38. If the designated operational entity determines that the project activity intends to use a new baseline or monitoring methodology, as referred to in paragraph 37 (e) (ii) above, it shall, prior to a submission for registration of this project activity, forward the proposed methodology, together with the

draft project design document, including a description of the project and identification of the project participants, to the Executive Board for review. The Executive Board shall expeditiously, if possible at its next meeting but not later than four months, review the proposed new methodology in accordance with the modalities and procedures of the present annex. Once approved by the Executive Board it shall make the approved methodology publicly available along with any relevant guidance and the designated operational entity may proceed with the validation of the project activity and submit the project design document for registration. In the event that the COP/MOP requests the revision of an approved methodology, no CDM project activity may use this methodology. The project participants shall revise the methodology, as appropriate, taking into consideration any guidance received.

39. A revision of a methodology shall be carried out in accordance with the modalities and procedures for establishing new methodologies as set out in paragraph 38 above. Any revision to an approved methodology shall only be applicable to project activities registered subsequent to the date of revision and shall not affect existing registered project activities during their crediting periods.

40. The designated operational entity shall:

- (a) Prior to the submission of the validation report to the Executive Board, have received from the project participants written approval of voluntary participation from the designated national authority of each Party involved, including confirmation by the host Party that the project activity assists it in achieving sustainable development;
- (b) In accordance with provisions on confidentiality contained in paragraph 27 (h) above, make publicly available the project design document;
- (c) Receive, within 30 days, comments on the validation requirements from Parties, stakeholders and UNFCCC accredited non-governmental organizations and make them publicly available;
- (d) After the deadline for receipt of comments, make a determination as to whether, on the basis of the information provided and taking into account the comments received, the project activity should be validated;
- (e) Inform project participants of its determination on the validation of the project activity. Notification to the project participants will include:
 - (i) Confirmation of validation and date of submission of the validation report to the Executive Board; or
 - (ii) An explanation of reasons for non-acceptance if the project activity, as documented, is judged not to fulfil the requirements for validation;
- (f) Submit to the Executive Board, if it determines the proposed project activity to be valid, a request for registration in the form of a validation report including the project design document, the written approval of the host Party as referred to in subparagraph (a) above, and an explanation of how it has taken due account of comments received;
- (g) Make this validation report publicly available upon transmission to the Executive Board.

41. The registration by the Executive Board shall be deemed final eight weeks after the date of receipt by the Executive Board of the request for registration, unless a Party involved in the project activity or at least three members of the Executive Board request a review of the proposed CDM project activity. The review by the Executive Board shall be made in accordance with the following provisions:

- (a) It shall be related to issues associated with the validation requirements

- (b) It shall be finalized no later than at the second meeting following the request for review, with the decision and the reasons for it being communicated to the project participants and the public.
42. A proposed project activity that is not accepted may be reconsidered for validation and subsequent registration, after appropriate revisions, provided that it follows the procedures and meets the requirements for validation and registration, including those relating to public comments.
43. A CDM project activity is additional if anthropogenic emissions of greenhouse gases by sources are reduced below those that would have occurred in the absence of the registered CDM project activity.
44. The baseline for a CDM project activity is the scenario that reasonably represents the anthropogenic emissions by sources of greenhouse gases that would occur in the absence of the proposed project activity. A baseline shall cover emissions from all gases, sectors and source categories listed in Annex A within the project boundary. A baseline shall be deemed to reasonably represent the anthropogenic emissions by sources that would occur in the absence of the proposed project activity if it is derived using a baseline methodology referred to in paragraphs 37 and 38 above.
45. A baseline shall be established:
- (a) By project participants in accordance with provisions for the use of approved and new methodologies, contained in decision 17/CP.7, the present annex and relevant decisions of the COP/MOP;
 - (b) In a transparent and conservative manner regarding the choice of approaches, assumptions, methodologies, parameters, data sources, key factors and additionality, and taking into account uncertainty;
 - (c) On a project-specific basis;
 - (d) In the case of small-scale CDM project activities which meet the criteria specified in decision 17/CP.7 and relevant decisions by the COP/MOP, in accordance with simplified procedures developed for such activities;
 - (e) Taking into account relevant national and/or sectoral policies and circumstances, such as sectoral reform initiatives, local fuel availability, power sector expansion plans, and the economic situation in the project sector.
46. The baseline may include a scenario where future anthropogenic emissions by sources are projected to rise above current levels, due to the specific circumstances of the host Party.
47. The baseline shall be defined in a way that CERs cannot be earned for decreases in activity levels outside the project activity or due to force majeure.
48. In choosing a baseline methodology for a project activity, project participants shall select from among the following approaches the one deemed most appropriate for the project activity, taking into account any guidance by the Executive Board, and justify the appropriateness of their choice:
- (a) Existing actual or historical emissions, as applicable, or
 - (b) Emissions from a technology that represents an economically attractive course of action, taking into account barriers to investment, or

- (c) The average emissions of similar project activities undertaken in the previous five years, in similar social, economic, environmental and technological circumstances, and whose performance is among the top 20 per cent of their category.
49. Project participants shall select a crediting period for a proposed project activity from one of the following alternative approaches:
- (a) A maximum of seven years which may be renewed at most two times, provided that, for each renewal, a designated operational entity determines and informs the Executive Board that the original project baseline is still valid or has been updated taking account of new data where applicable; or
 - (b) A maximum of 10 years with no option of renewal.
50. Reductions in anthropogenic emissions by sources shall be adjusted for leakage in accordance with the monitoring and verification provisions in paragraphs 59 and 62 (f) below, respectively.
51. Leakage is defined as the net change of anthropogenic emissions by sources of greenhouse gases which occurs outside the project boundary, and which is measurable and attributable to the CDM project activity.
52. The project boundary shall encompass all anthropogenic emissions by sources of greenhouse gases under the control of the project participants that are significant and reasonably attributable to the CDM project activity.

H. Monitoring

53. Project participants shall include, as part of the project design document, a monitoring plan that provides for:
- (a) The collection and archiving of all relevant data necessary for estimating or measuring anthropogenic emissions by sources of greenhouse gases occurring within the project boundary during the crediting period;
 - (b) The collection and archiving of all relevant data necessary for determining the baseline of anthropogenic emissions by sources of greenhouse gases within the project boundary during the crediting period;
 - (c) The identification of all potential sources of, and the collection and archiving of data on, increased anthropogenic emissions by sources of greenhouse gases outside the project boundary that are significant and reasonably attributable to the project activity during the crediting period;
 - (d) The collection and archiving of information relevant to the provisions in paragraph 37 (c) above;
 - (e) Quality assurance and control procedures for the monitoring process;
 - (f) Procedures for the periodic calculation of the reductions of anthropogenic emissions by sources by the proposed CDM project activity, and for leakage effects;
 - (g) Documentation of all steps involved in the calculations referred to in paragraph 53 (c) and (f) above.
54. A monitoring plan for a proposed project activity shall be based on a previously approved monitoring methodology or a new methodology, in accordance with paragraphs 37 and 38 above, that:

- (a) Is determined by the designated operational entity as appropriate to the circumstances of the proposed project activity and has been successfully applied elsewhere;
 - (b) Reflects good monitoring practice appropriate to the type of project activity.
55. For small-scale CDM project activities meeting the criteria specified in decision 17/CP.7 and relevant decisions by the COP/MOP, project participants may use simplified modalities and procedures for small-scale projects.
56. Project participants shall implement the monitoring plan contained in the registered project design document.
57. Revisions, if any, to the monitoring plan to improve its accuracy and/or completeness of information shall be justified by project participants and shall be submitted for validation to a designated operational entity.
58. The implementation of the registered monitoring plan and its revisions, as applicable, shall be a condition for verification, certification and the issuance of CERs.
59. Subsequent to the monitoring and reporting of reductions in anthropogenic emissions, CERs resulting from a CDM project activity during a specified time period shall be calculated, applying the registered methodology, by subtracting the actual anthropogenic emissions by sources from baseline emissions and adjusting for leakage.
60. The project participants shall provide to the designated operational entity, contracted by the project participants to perform the verification, a monitoring report in accordance with the registered monitoring plan set out in paragraph 53 above for the purpose of verification and certification.

I. Verification and certification

61. Verification is the periodic independent review and ex post determination by the designated operational entity of the monitored reductions in anthropogenic emissions by sources of greenhouse gases that have occurred as a result of a registered CDM project activity during the verification period. Certification is the written assurance by the designated operational entity that, during a specified time period, a project activity achieved the reductions in anthropogenic emissions by sources of greenhouse gases as verified.
62. In accordance with the provisions on confidentiality in paragraph 27 (h) above, the designated operational entity contracted by the project participants to perform the verification shall make the monitoring report publicly available, and shall:
- (a) Determine whether the project documentation provided is in accordance with the requirements of the registered project design document and relevant provisions of decision 17/CP.7, the present annex and relevant decisions of the COP/MOP;
 - (b) Conduct on-site inspections, as appropriate, that may comprise, inter alia, a review of performance records, interviews with project participants and local stakeholders, collection of measurements, observation of established practices and testing of the accuracy of monitoring equipment;
 - (c) If appropriate, use additional data from other sources;
 - (d) Review monitoring results and verify that the monitoring methodologies for the estimation of reductions in anthropogenic emissions by sources have been applied correctly and their documentation is complete and transparent;

- (e) Recommend to the project participants appropriate changes to the monitoring methodology for any future crediting period, if necessary;
- (f) Determine the reductions in anthropogenic emissions by sources of greenhouse gases that would not have occurred in the absence of the CDM project activity, based on the data and information derived under subparagraph (a) above and obtained under subparagraph (b) and/or (c) above, as appropriate, using calculation procedures consistent with those contained in the registered project design document and in the monitoring plan;
- (g) Identify and inform the project participants of any concerns relating to the conformity of the actual project activity and its operation with the registered project design document. Project participants shall address the concerns and supply relevant additional information;
- (h) Provide a verification report to the project participants, the Parties involved and the Executive Board. The report shall be made publicly available.

63. The designated operational entity shall, based on its verification report, certify in writing that, during the specified time period, the project activity achieved the verified amount of reductions in anthropogenic emissions by sources of greenhouse gases that would not have occurred in the absence of the CDM project activity. It shall inform the project participants, Parties involved and the Executive Board of its certification decision in writing immediately upon completion of the certification process and make the certification report publicly available.

J. Issuance of certified emission reductions

64. The certification report shall constitute a request for issuance to the Executive Board of CERs equal to the verified amount of reductions of anthropogenic emissions by sources of greenhouse gases.

65. The issuance shall be considered final 15 days after the date of receipt of the request for issuance, unless a Party involved in the project activity or at least three members of the Executive Board request a review of the proposed issuance of CERs. Such a review shall be limited to issues of fraud, malfeasance or incompetence of the designated operational entities and be conducted as follows:

- (a) Upon receipt of a request for such a review, the Executive Board, at its next meeting, shall decide on its course of action. If it decides that the request has merit it shall perform a review and decide whether the proposed issuance of CERs should be approved;
- (b) The Executive Board shall complete its review within 30 days following its decision to perform the review;
- (c) The Executive Board shall inform the project participants of the outcome of the review, and make public its decision regarding the approval of the proposed issuance of CERs and the reasons for it.

66. Upon being instructed by the Executive Board to issue CERs for a CDM project activity, the CDM registry administrator, working under the authority of the Executive Board, shall, promptly, issue the specified quantity of CERs into the pending account of the Executive Board in the CDM registry, in accordance with appendix D below. Upon such issuance, the CDM registry administrator shall promptly:

- (a) Forward the quantity of CERs corresponding to the share of proceeds to cover administrative expenses and to assist in meeting costs of adaptation, respectively, in

accordance with Article 12, paragraph 8, to the appropriate accounts in the CDM registry for the management of the share of proceeds;

- (b) Forward the remaining CERs to the registry accounts of Parties and project participants involved, in accordance with their request.

APPENDIX A

Standards for the accreditation of operational entities

1. An operational entity shall:
 - (a) Be a legal entity (either a domestic legal entity or an international organization) and provide documentation of this status;
 - (b) Employ a sufficient number of persons having the necessary competence to perform validation, verification and certification functions relating to the type, range and volume of work performed, under a responsible senior executive;
 - (c) Have the financial stability, insurance coverage and resources required for its activities;
 - (d) Have sufficient arrangements to cover legal and financial liabilities arising from its activities;
 - (e) Have documented internal procedures for carrying out its functions including, among others, procedures for the allocation of responsibility within the organization and for handling complaints. These procedures shall be made publicly available;
 - (f) Have, or have access to, the necessary expertise to carry out the functions specified in modalities and procedures of the CDM and relevant decisions by the COP/MOP, in particular knowledge and understanding of:
 - (i) The modalities and procedures and guidelines for the operation of the CDM, and relevant decisions of the COP/MOP and of the Executive Board;
 - (ii) Issues, in particular environmental, relevant to validation, verification and certification of CDM project activities, as appropriate;
 - (iii) The technical aspects of CDM project activities relevant to environmental issues, including expertise in the setting of baselines and monitoring of emissions;
 - (iv) Relevant environmental auditing requirements and methodologies;
 - (v) Methodologies for accounting of anthropogenic emissions by sources;
 - (vi) Regional and sectoral aspects;
 - (g) Have a management structure that has overall responsibility for performance and implementation of the entity's functions, including quality assurance procedures, and all relevant decisions relating to validation, verification and certification. The applicant operational entity shall make available:
 - (i) The names, qualifications, experience and terms of reference of senior management personnel such as the senior executive, board members, senior officers and other relevant personnel;
 - (ii) An organization chart showing lines of authority, responsibility and allocation of functions stemming from senior management;
 - (iii) Its quality assurance policy and procedures;
 - (iv) Administrative procedures, including document control;

- (v) Its policy and procedures for the recruitment and training of operational entity personnel, for ensuring their competence for all necessary functions for validation, verification and certification functions, and for monitoring their performance;
 - (vi) Its procedures for handling complaints, appeals and disputes;
 - (h) Not have pending any judicial process for malpractice, fraud and/or other activity incompatible with its functions as a designated operational entity.
2. An applicant operational entity shall meet the following operational requirements:
- (a) Work in a credible, independent, non-discriminatory and transparent manner, complying with applicable national law and meeting, in particular, the following requirements:
 - (i) An applicant operational entity shall have a documented structure, which safeguards impartiality, including provisions to ensure impartiality of its operations
 - (ii) If it is part of a larger organization, and where parts of that organization are, or may become, involved in the identification, development or financing of any CDM project activity, the applicant operational entity shall:
 - Make a declaration of all the organization’s actual and planned involvement in CDM project activities, if any, indicating which part of the organization is involved and in which particular CDM project activities;
 - Clearly define the links with other parts of the organization, demonstrating that no conflicts of interest exist;
 - Demonstrate that no conflict of interest exists between its functions as an operational entity and any other functions that it may have, and demonstrate how business is managed to minimize any identified risk to impartiality. The demonstration shall cover all sources of conflict of interest, whether they arise from within the applicant operational entity or from the activities of related bodies;
 - Demonstrate that it, together with its senior management and staff, is not involved in any commercial, financial or other processes which might influence its judgement or endanger trust in its independence of judgement and integrity in relation to its activities, and that it complies with any rules applicable in this respect;
 - (b) Have adequate arrangements to safeguard confidentiality of the information obtained from CDM project participants in accordance with provisions contained in the present annex.

APPENDIX B

Project design document

1. The provisions of this appendix shall be interpreted in accordance with the annex above on modalities and procedures for a CDM.
2. The purpose of this appendix is to outline the information required in the project design document. A project activity shall be described in detail taking into account the provisions of the annex on modalities and procedures for a CDM, in particular, section G on validation and registration and section H on monitoring, in a project design document which shall include the following:
 - (a) A description of the project comprising the project purpose, a technical description of the project, including how technology will be transferred, if any, and a description and justification of the project boundary
 - (b) A proposed baseline methodology in accordance with the annex on modalities and procedures for a CDM including, in the case of the:
 - (i) Application of an approved methodology:
 - Statement of which approved methodology has been selected
 - Description of how the approved methodology will be applied in the context of the project
 - (ii) Application of a new methodology:
 - Description of the baseline methodology and justification of choice, including an assessment of strengths and weaknesses of the methodology
 - Description of key parameters, data sources and assumptions used in the baseline estimate, and assessment of uncertainties
 - Projections of baseline emissions
 - Description of how the baseline methodology addresses potential leakage
 - (iii) Other considerations, such as a description of how national and/or sectoral policies and circumstances have been taken into account and an explanation of how the baseline was established in a transparent and conservative manner
 - (c) Statement of the estimated operational lifetime of the project and which crediting period was selected
 - (d) Description of how the anthropogenic emissions of greenhouse gases by sources are reduced below those that would have occurred in the absence of the registered CDM project activity
 - (e) Environmental impacts:
 - (i) Documentation on the analysis of the environmental impacts, including transboundary impacts

- (ii) If impacts are considered significant by the project participants or the host Party: conclusions and all references to support documentation of an environmental impact assessment that has been undertaken in accordance with the procedures as required by the host Party
- (f) Information on sources of public funding for the project activity from Parties included in Annex I which shall provide an affirmation that such funding does not result in a diversion of official development assistance and is separate from and is not counted towards the financial obligations of those Parties
- (g) Stakeholder comments, including a brief description of the process, a summary of the comments received, and a report on how due account was taken of any comments received
- (h) Monitoring plan:
 - (i) Identification of data needs and data quality with regard to accuracy, comparability, completeness and validity
 - (ii) Methodologies to be used for data collection and monitoring including quality assurance and quality control provisions for monitoring, collecting and reporting
 - (iii) In the case of a new monitoring methodology, provide a description of the methodology, including an assessment of strengths and weaknesses of the methodology and whether or not it has been applied successfully elsewhere
- (i) Calculations:
 - (i) Description of formulae used to calculate and estimate anthropogenic emissions by sources of greenhouse gases of the CDM project activity within the project boundary
 - (ii) Description of formulae used to calculate and to project leakage, defined as: the net change of anthropogenic emissions by sources of greenhouse gases which occurs outside the CDM project activity boundary, and that is measurable and attributable to the CDM project activity
 - (iii) The sum of (i) and (ii) above representing the CDM project activity emissions
 - (iv) Description of formulae used to calculate and to project the anthropogenic emissions by sources of greenhouse gases of the baseline
 - (v) Description of formulae used to calculate and to project leakage
 - (vi) The sum of (iv) and (v) above representing the baseline emissions
 - (vii) Difference between (vi) and (iii) above representing the emission reductions of the CDM project activity
- (j) References to support the above, if any.

APPENDIX C

**Terms of reference for establishing guidelines
on baselines and monitoring methodologies**

The Executive Board, drawing on experts in accordance with the modalities and procedures for a CDM, shall develop and recommend to the COP/MOP, inter alia:

- (a) General guidance on methodologies relating to baselines and monitoring consistent with the principles set out in those modalities and procedures in order to:
 - (i) Elaborate the provisions relating to baseline and monitoring methodologies contained in decision 17/CP.7, the annex above and relevant decisions of the COP/MOP;
 - (ii) Promote consistency, transparency and predictability;
 - (iii) Provide rigour to ensure that net reductions in anthropogenic emissions are real and measurable, and an accurate reflection of what has occurred within the project boundary;
 - (iv) Ensure applicability in different geographical regions and to those project categories which are eligible in accordance with decision 17/CP.7 and relevant decisions of the COP/MOP;
 - (v) Address the additionality requirement of Article 12, paragraph 5 (c), and paragraph 43 of the above annex;
- (b) Specific guidance in the following areas:
 - (i) Definition of project categories (e.g. based on sector, subsector, project type, technology, geographic area) that show common methodological characteristics for baseline setting, and/or monitoring, including guidance on the level of geographic aggregation, taking into account data availability
 - (ii) Baseline methodologies deemed to reasonably represent what would have occurred in the absence of a project activity
 - (iii) Monitoring methodologies that provide an accurate measure of actual reductions in anthropogenic emissions as a result of the project activity, taking into account the need for consistency and cost-effectiveness
 - (iv) Decision trees and other methodological tools, where appropriate, to guide choices in order to ensure that the most appropriate methodologies are selected, taking into account relevant circumstances
 - (v) The appropriate level of standardization of methodologies to allow a reasonable estimation of what would have occurred in the absence of a project activity wherever possible and appropriate. Standardization should be conservative in order to prevent any overestimation of reductions in anthropogenic emissions
 - (vi) Determination of project boundaries including accounting for all greenhouse gases that should be included as a part of the baseline, and monitoring.

Relevance of leakage and recommendations for establishing appropriate project boundaries and methods for the ex post evaluation of the level of leakage

- (vii) Accounting for applicable national policies and specific national or regional circumstances, such as sectoral reform initiatives, local fuel availability, power sector expansion plans, and the economic situation in the sector relevant to the project activity
 - (viii) The breadth of the baseline, e.g. how the baseline makes comparisons between the technology/fuel used and other technologies/fuels in the sector
- (c) In developing the guidance in (a) and (b) above, the Executive Board shall take into account:
- (i) Current practices in the host country or an appropriate region, and observed trends;
 - (ii) Least cost technology for the activity or project category.

APPENDIX D

Clean development mechanism registry requirements

1. The Executive Board shall establish and maintain a CDM registry to ensure the accurate accounting of the issuance, holding, transfer and acquisition of CERs by Parties not included in Annex I. The Executive Board shall identify a registry administrator to maintain the registry under its authority.
2. The CDM registry shall be in the form of a standardized electronic database which contains, inter alia, common data elements relevant to the issuance, holding, transfer and acquisition of CERs. The structure and data formats of the CDM registry shall conform to technical standards to be adopted by the COP/MOP for the purpose of ensuring the accurate, transparent and efficient exchange of data between national registries, the CDM registry and the international transaction log.
3. The CDM registry shall have the following accounts:
 - (a) One pending account for the Executive Board, into which CERs are issued before being transferred to other accounts
 - (b) At least one holding account for each Party not included in Annex I hosting a CDM project activity or requesting an account
 - (c) At least one account for the purpose of cancelling ERUs, CERs, AAUs and RMUs equal to excess CERs issued, as determined by the Executive Board, where the accreditation of a designated operational entity has been withdrawn or suspended
 - (d) At least one account for the purpose of holding and transferring CERs corresponding to the share of proceeds to cover administrative expenses and to assist in meeting costs of adaptation in accordance with Article 12, paragraph 8. Such an account may not otherwise acquire CERs.
4. Each CER shall be held in only one account in one registry at a given time.
5. Each account within the CDM registry shall have a unique account number comprising the following elements:
 - (a) Party/organization identifier: the Party for which the account is maintained, using the two-letter country code defined by the International Organization for Standardization (ISO 3166), or, in the cases of the pending account and an account for managing the CERs corresponding to the share of proceeds, the Executive Board or another appropriate organization
 - (b) A unique number: a number unique to that account for the Party or organization for which the account is maintained.
6. Upon being instructed by the Executive Board to issue CERs for a CDM project activity, the registry administrator shall, in accordance with the transaction procedures set out in decision 13/CMP.1:
 - (a) Issue the specified quantity of CERs into a pending account of the Executive Board;
 - (b) Forward the quantity of CERs corresponding to the share of proceeds to cover administrative expenses and to assist in meeting costs of adaptation, in accordance with Article 12, paragraph 8, to the appropriate accounts in the CDM registry for holding and transferring such CERs;

- (c) Forward the remaining CERs to the registry accounts of project participants and Parties involved, in accordance with their request.
7. Each CER shall have a unique serial number comprising the following elements:
- (a) Commitment period: the commitment period for which the CER is issued
 - (b) Party of origin: the Party which hosted the CDM project activity, using the two-letter country code defined by ISO 3166
 - (c) Type: this shall identify the unit as a CER
 - (d) Unit: a number unique to the CER for the identified commitment period and Party of origin
 - (e) Project identifier: a number unique to the CDM project activity for the Party of origin.
8. Where the accreditation of a designated operational entity has been withdrawn or suspended, ERUs, CERs, AAUs and/or RMUs equal to the excess CERs issued, as determined by the Executive Board, shall be transferred to a cancellation account in the CDM registry. Such ERUs, CERs, AAUs and RMUs may not be further transferred or used for the purpose of demonstrating the compliance of a Party with its commitment under Article 3, paragraph 1.
9. The CDM registry shall make non-confidential information publicly available and provide a publicly accessible user interface through the Internet that allows interested persons to query and view it.
10. The information referred to in paragraph 9 above shall include up-to-date information, for each account number in the registry, on the following:
- (a) Account name: the holder of the account
 - (b) Representative identifier: the representative of the account holder, using the Party/organization identifier (the two-letter country code defined by ISO 3166) and a number unique to that representative for that Party or organization
 - (c) Representative name and contact information: the full name, mailing address, telephone number, facsimile number and e-mail address of the representative of the account holder.
11. The information referred to in paragraph 9 above shall include the following CDM project activity information, for each project identifier against which the CERs have been issued:
- (a) Project name: a unique name for the CDM project activity
 - (b) Project location: the Party and town or region in which the CDM project activity is located
 - (c) Years of CER issuance: the years in which CERs have been issued as a result of the CDM project activity
 - (d) Operational entities: the operational entities involved in the validation, verification and certification of the CDM project activity
 - (e) Reports: downloadable electronic versions of documentation to be made publicly available in accordance with the provisions of the present annex.

12. The information referred to in paragraph 9 above shall include the following holding and transaction information relevant to the CDM registry, by serial number, for each calendar year (defined according to Greenwich Mean Time):

- (a) The total quantity of CERs in each account at the beginning of the year
- (b) The total quantity of CERs issued
- (c) The total quantity of CERs transferred and the identity of the acquiring accounts and registries
- (d) The total quantity of ERUs, CERs, AAUs and RMUs cancelled in accordance with paragraph 8 above
- (e) Current holdings of CERs in each account.

*2nd plenary meeting
30 November 2005*