

Development of the Carbon Fund Verification Process

Carbon Fund Nineteenth Meeting (CF19)
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Background

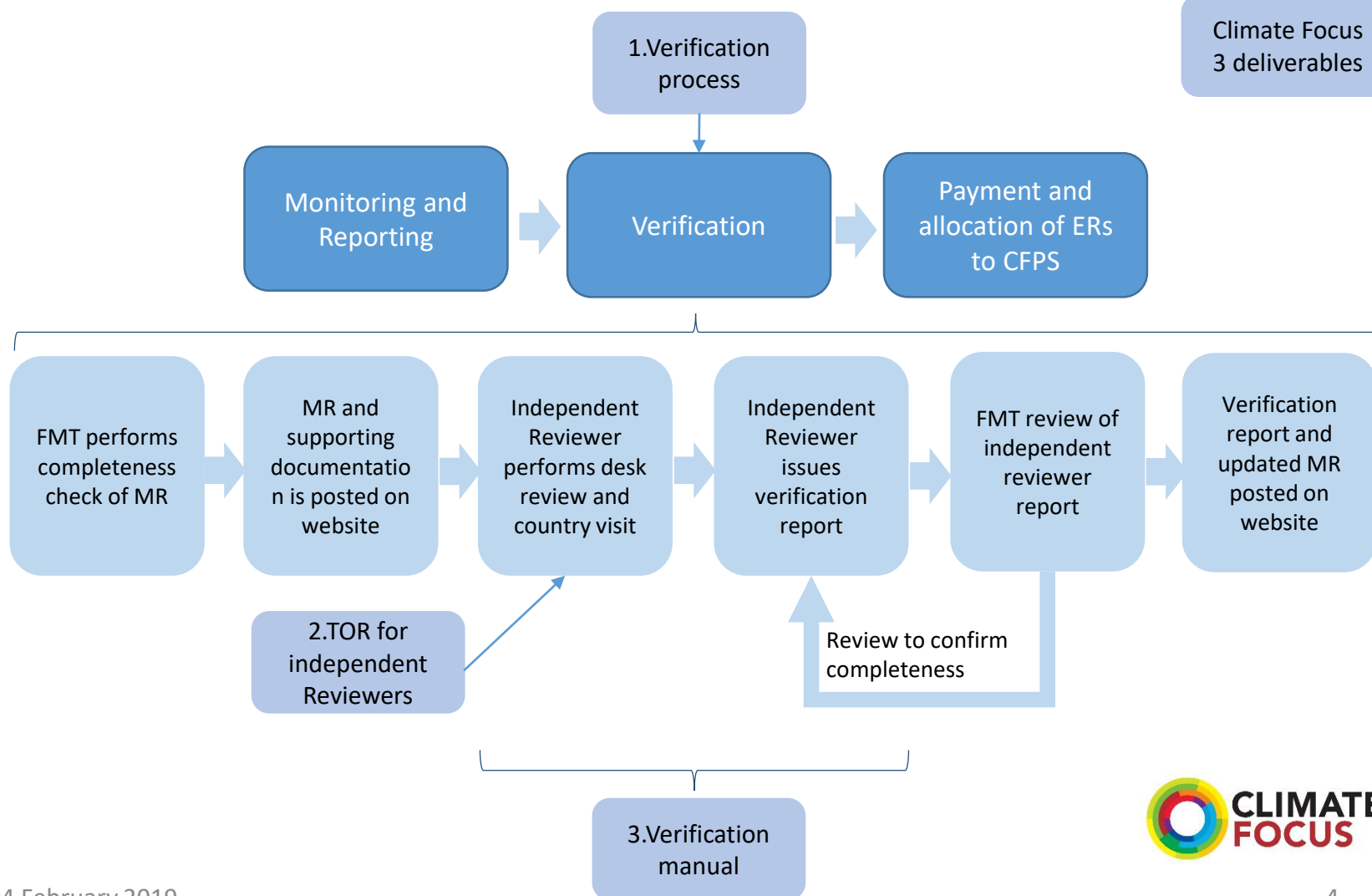
- Climate Focus retained to support development of the verification standard
- Based on decisions at CF16, CF17, CF 18:
 - Verification to follow an *auditing approach*
 - Verification conducted by *a third-party firm*
 - Verification scope limited to *carbon accounting and registries aspects*
- Main components to be developed:
 - Basis and process of verification
 - TOR for Independent Reviewers
 - Verification manual

Objectives of this session

1. Presentation of high-level verification process
2. Presentation policy options and implications
3. Discussion with CFPs and Observers on key considerations for verification scope
4. Timeline and decision making process

High-level verification process

Climate Focus
3 deliverables



Principles of auditing approach

- Verification against the Carbon Fund MF
 - Auditor identifies omissions, misstatements or errors in ER calculations and estimates following a risk based approach
 - Can also evaluate compliance against other [specific] MF requirements and criteria
 - Applies a risk-based approach (focus on areas representing higher risks of material misstatements)
- Auditor's independence is ensured
 - Does not provide advice on how to become compliant with MF
 - Programs need to make adjustments in case of non-compliance



Delimitation of scope

- **Assumed** based on CF16/17 that the scope of verification is *limited to GHG accounting and registries*
- However, the precise carbon accounting components have not yet been defined
- Options relate mainly to the accounting elements that will be assessed for conformity at first verification and from then onwards.

Important scope considerations:

- Definition of ERs (ERPA General Conditions): *“One metric tonne of Carbon Dioxide Equivalent reduced, avoided, removed or sequestered within the ER Program Accounting Area under the ER Program below the Reference Level, as measured, reported and Verified in **accordance with the ER Monitoring Plan, the Methodological Framework and the General Conditions**”*
- TAP assessments can (and do) provide recommendations in relation to carbon accounting components and in some cases raise non-conformities that are not solved at time the ER program is included in the portfolio
- Chair’s summary includes recommendations in relation to carbon accounting components for ER programs included in the portfolio
- CF Buffer guidelines enable incremental improvements of uncertainty of MRV systems
- Guidance on Technical Corrections: *“Allowable technical corrections shall not relate to any change to policy and design decisions affecting the Reference Level, including, selected carbon pools and gases, selected GHG sources, selected reference period, forest definition, selected REDD+ activities, selected Accounting Areas, identified forest types and definitions, definitions of REDD+ activities (deforestation, degradation)”*

Key considerations for verification scope

- Which carbon accounting elements should be verified by the auditor?
- To which extent aspects already assessed by the TAP should be re-evaluated?

Option A: Narrow scope

- At each verification → confirm conformance with all **M&R of the MF** and confirm **absence of misstatements, omissions or errors.**
- At first verification → review and confirm conformance of any **technical corrections**
- At each verification → assess and confirm MRV system improvements which support the M&R requirements of the MF in response to **findings of previous verifications.**
- **Does not** include follow-up TAP + Chair's summary issues and recommendations
- Pros:
 - Overall audit remains simple and most likely at the lowest cost
 - Reference levels less subject to sudden changes
- Cons:
 - Quality and environmental integrity of ERs may be compromised
 - No ability to observe progress over-time against TAP recommendations
 - Limited ability to determine cause of misstatements
 - Lower likelihood of being consistent with Art. 6 of the PA

MF - Monitoring and Reporting related requirements of the MF

Criteria and Indicators	Topic
6	Data availability
7-9	Uncertainty analysis
14	Consistency of monitored estimates with RL
17.3, 17.4	Implementation and monitoring of displacement mitigation
18.2, 19-21	Implementation, monitoring and accounting of reversals
22-23	Accounting of ERs
37 - 38	REDD projects and programs DMS and ER transaction registry

Option B: Moderate scope

- Scope of Option A **AND**:
- At first verification → confirm that there are no misstatements, omissions or errors in the **establishment of the reference level + follow-up TAP & Chair's Summary issues and recommendations**
- Pros:
 - Provides more confidence on MRV system over time
 - More accurate accounting of ERs and predictability over time
 - Ability to address TAP findings and demonstrate improvements made
 - More likely than Option A to achieve consistency with Art. 6 of the PA
- Cons:
 - Changes in reference level and ex-ante ER estimation due to differences in interpretation between TAP and verifiers
 - Potentially more time consuming & higher costs

Option C: Broad scope

- Scope of Option B **AND**:
- At first verification → assess all carbon accounting requirements of the MF, **including policy and design decisions**, e.g. scope, reference level.

- Pros:
 - As in Option B
 - More comprehensive assurance on carbon accounting
 - Provides the highest assurance of compliance with MF
 - Higher likelihood of achieving consistency with Art. 6 of the PA
- Cons
 - As Option B
 - Potentially conflictive
 - More time consuming and higher costs as scope may be revised having impact on ER program design

MF – Requirements related to policy and design decisions

Criteria and Indicators	Topic
2 - 4	Scope
5	IPCC methods
10 - 13	Reference level including forest definition, adjustments, reference period and relation to FREL/GHGI
15 - 16	Design decisions related to monitoring and NFMS and community monitoring
17.1, 17.2, 18.2	Mitigation of displacement and reversals

Discussion on key considerations for verification scope

Seeking feedback on the three options:

- Option A – Narrow scope
 - Option B – Moderate scope
 - Option C – Broad scope
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- For additional feedback please contact us at s.koenig@climatefocus.com or t.Chagas@climatefocus.com

Timeline and decision making process

- Timeline:
 - Bibliography review: 28th of January 2019
 - User requirement analysis: 8th of March 2019
 - TOR for independent reviewers: 15th of April 2019
 - Verification manual: 29th of April 2019
- Decision making process:
 - **Option 1:** TOR and main verification elements for virtual Non-objection
 - **Option 2:** TOR and main verification elements for discussion and decision at CF20