

**CDM-EB70-AA-A17**

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# Concept note on revision of procedure for accrediting operational entities by the Executive Board of the clean development mechanism

Version 03.0



**United Nations**  
Framework Convention on  
Climate Change

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## 1. Procedural background

1. The Executive Board of the clean development mechanism (CDM) (hereinafter referred to as the Board), through the CDM management plan 2012, decided to improve the performance and role-definition of operational entities within the mechanism, including through revised standards and procedures. This work covers, among other areas, the revision of the three key regulatory documents related to the CDM accreditation system: the “CDM accreditation standard for operational entities” (CDM accreditation standard); the “Procedure for accrediting operational entities by the Executive Board of the clean development mechanism” (CDM accreditation procedure); and the “Procedure on performance monitoring of designated operational entities” (DOE performance monitoring procedure).
2. The Board, at its sixty-eighth meeting, considered the concept note on the analysis for strengthening the CDM accreditation system, and agreed to the timeline and initial list of priority issues for revision of the three key documents. With regard to the CDM accreditation procedure, the expected delivery of the revised procedure was set for the Board’s seventy-first meeting (i.e. the first meeting in 2013),<sup>1</sup> and the (non-exhaustive) priority issues for the CDM accreditation procedure are:
  - (a) Addressing non-conformities within the system;
  - (b) Role of the designated operational entity (DOE) annual activity reports and certificates;
  - (c) Type, number and purpose of assessments, legality, transparency, clarity, impartiality, technicality and consistency of the complaints/appeals/disputes procedures;
  - (d) Requirement for submission of documentation in English;
  - (e) Streamlining the accreditation process;
  - (f) Length of the accreditation cycle;
  - (g) Purpose and procedure for submission of notifications of change;
  - (h) Strategic elements covering conflicts of interest;
  - (i) Technical review;
  - (j) Integration of CDM/joint implementation (JI) accreditation processes;
  - (k) Suspension and withdrawal procedures in terms of timing, criteria, use and how they are perceived;
  - (l) Timelines for all steps and length of extensions of scope/reaccreditation assessments.

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<sup>1</sup> The target meeting has now been renumbered as the seventy-second meeting due to the Board’s decision at its sixty-ninth meeting that it will have a special meeting early in 2013 focused on strategic matters arising from the guidance provided by the eighth session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP).

## 2. Purpose

3. The purpose of the revision of the CDM accreditation procedure is to improve the efficiency and effectiveness of the CDM accreditation process.

## 3. Key issues and proposed solutions

### 3.1. Addressing non-conformities within the system

4. The core of an accreditation assessment of an applicant entity (AE) or DOE is: 1) a CDM assessment team (CDM-AT) raising the entity's non-conformities (NCs) with the CDM accreditation standard; 2) the entity addressing the NCs with corrective actions; and 3) the CDM-AT and CDM Accreditation Panel (CDM-AP) checking whether the NCs have been resolved. Under the current CDM accreditation procedure:
  - (a) These steps can become a fairly lengthy process, sometimes involving many iterations between the entity and the CDM-AT and/or the CDM-AP;
  - (b) It is not always clearly defined at what stages NCs may be raised, how they should be agreed upon between the CDM-AT and the entity, and how they should be resolved;
  - (c) The course of action to be decided by the CDM-AP based on the CDM-AT assessment report, and that by the Board based on the CDM-AP recommendation are not always predictable, in particular where some NCs are still open.
5. The following revision to the CDM accreditation procedure could improve the efficiency and predictability of the accreditation assessment process:
  - (a) In all types of assessments, add a step for the AE/DOE to provide written acceptance of NCs if applicable, after the CDM-AT has given due explanation/clarification to the AE/DOE before the AE/DOE proposes corrective actions to resolve the NCs. Also, add a process to handle the case if there is no acceptance of NCs by the AE/DOE (i.e. no agreement on NCs between the CDM-AT and the AE/DOE);
  - (b) In all types of assessments, conducting a root-cause analysis by the AE/DOE will be made mandatory before they propose corrective actions in line with the current practice. The outcome of the root-cause analysis, together with the proposed corrective actions, will be assessed by the CDM-AT;
  - (c) In all types of assessments, the AE/DOE may not submit additional evidence of implementation of corrective actions to the NCs on the occasion of commenting on the draft final assessment report of the CDM-AT;
  - (d) In all types of assessments, when the CDM-AP considers the case based on the CDM-AT final assessment report, if it finds that not all NCs have been resolved, the CDM-AP will, in principle, provide an additional and final opportunity to the AE/DOE to resolve the remaining NCs before the CDM-AP concludes on the outcome of the assessment;

- (e) In all types of assessments, [NCs will be not be graded by any means, and will continue to be treated equally] [NCs will be graded, and the consequence of open NCs will be differentiated depending on the grade];
  - (f) In all types of assessments, if the same NCs are recurring for the same DOE, a stricter action by the Board and/or the CDM-AP should be taken;
  - (g) In the initial accreditation and reaccreditation process, only issues arising from a lack of information or unclear information in the application documentation, not NCs, may be identified at the desk review stage as a preparation for the on-site assessment stage, where the NCs are to be raised if applicable;
  - (h) In performance assessments, the conclusion of the CDM-AP will not classify the outcome as “positive” or “negative”, but will be either a successful completion of the performance assessment or a recommendation to the Board to suspend the accreditation of the DOE if not all [major] NCs have been resolved after a defined number of attempts by the DOE. Consequently, the option of undertaking an additional performance assessment due to a “negative” conclusion will be removed.
6. It should be noted that the possible revision referred to in paragraph 5 above may reduce the flexibility in the course of action by the CDM-AP and the Board, in particular in the case of suspension of accreditation. Also, if the grading of NCs is to be introduced, the criteria for grading and the corresponding consequences taking into account, inter alia, the number attempts by the AE/DOE to close the NCs or recurrence of the same NCs, need to be established. The establishment of such criteria and their implementation could be challenging.

### **3.2. Role of the DOE annual activity reports and certificates**

7. In accordance with the annex to decision 3/CMP.1 (CDM modalities and procedures), it is mandatory for DOEs to submit an annual activity report to the Board. It has been questioned whether the current content of the annual activity report gives appropriate types and level of detail of information for the Board to utilize such information effectively. However, no immediate change from the current practice may be necessary, but it may be better reviewed when the phase 2 revision of the CDM accreditation standard takes place in mid-2013, since the content of the reports is defined in annex C to the CDM accreditation standard.
8. Currently, accreditation certificates are issued for the AEs that have successfully completed initial accreditation, and the DOEs that have successfully completed reaccreditation without a basis in the CDM accreditation procedure. Since accreditation certificates are “physical proof” of the status of accreditation that DOEs can present to potential clients and are very much appreciated by DOEs, it is proposed that:
- (a) The CDM accreditation procedure will clearly define the step of issuance and the role of accreditation certificates;
  - (b) The UNFCCC CDM website (DOE list page) will be improved to provide and update the latest information on the accreditation status, the addresses and contact details of the central and non-central sites, etc. to which potential clients can refer.

### 3.3. Type, number and purpose of assessments and legality, transparency, clarity, impartiality, technicality and consistency of the complaints/appeals/disputes procedures

9. Under the current CDM accreditation procedure, various types of accreditation assessments are to be conducted for AEs/DOEs, i.e. initial accreditation assessment involving desk-review and on-site assessment, performance assessment, regular on-site surveillance, reaccreditation assessment involving desk-review and on-site assessment. Furthermore, a spot-check may be initiated. The purpose of each type of assessment is briefly defined in the current CDM accreditation procedure. However, the purpose, frequency and sequence of each type of assessment may need to be reviewed to maximize the effectiveness and minimize the cost for AEs/DOEs to acquire and maintain the accreditation status as well as the resources for the Board, the CDM-AP and the secretariat to maintain the accreditation process as a whole.
10. With regard to performance assessments, the number that a DOE is subject to is to be decided by the CDM-AP and “shall be based on the number of scopes for which the DOE is accredited for, number of project activities the DOE has validated/verified and performance of the DOE based on the results of the implementation of the policy framework to address non-compliance of DOEs”. These “criteria” are generating a large number of performance assessments for some DOEs, incurring substantial cost to the DOEs and resources for the work of the CDM-AP and the secretariat, while the value added is questioned. Also, what factor should be the main determinant of, or how different factors should be weighted in defining, the number of performance assessments needs to be reviewed. Based on this consideration, it is proposed that the number of performance assessments for each DOE could be calculated in the following manner:
  - (a) Two performance assessments (on one validation and one verification activity, considering the sectoral scopes for which the DOE is accredited) per year for any DOE as the mandatory basis, with a reduced number for the DOEs that submit requests for registration or issuance below a pre-determined threshold;
  - (b) Additional performance assessments will be added to the basis, based on the output from the DOE performance monitoring procedure with the following thresholds:
    - (i) **I<sub>2</sub> Registration:** one additional performance assessment on the validation activity of the DOE if it enters into the “yellow zone” in two consecutive monitoring periods. One less performance assessment on the validation activity of the DOE from those added due to entering into the “yellow zone” in two consecutive monitoring periods if the DOE is in the “green zone” for four consecutive monitoring periods;
    - (ii) **I<sub>2</sub> Issuance:** one additional performance assessment on the verification activity of the DOE if it enters into the “yellow zone” in two consecutive monitoring periods. One less performance assessment on the verification activity of the DOE from those added due to entering into the “yellow zone” in two consecutive monitoring periods if the DOE is in the “green zone” for four consecutive monitoring periods;

- (c) The data to be used for the calculations referred to in paragraph 10(b) above is version 2.0 of each performance monitoring report, assuming that the monitoring periods are changed to every four months;
  - (d) The option of undertaking an additional assessment following the negative outcome of a performance assessment will be removed as stated in paragraph 5(g) above.
- 11. Quite often, more than one accreditation assessment of the same or different type is underway for the same DOE. If such simultaneous assessments are conducted in complete isolation, some common and important information of the DOE that could affect the judgement of its compliance with the CDM accreditation standard may be overlooked in one assessment. On the other hand, if the outcome of one accreditation assessment is dependent on another accreditation assessment, it would complicate the management of those assessments with regard to the findings and the timing of completion. The current CDM accreditation procedure is silent in this regard. To effectively utilize the information obtained in, and the opportunity of, one assessment while not complicating the process of producing findings of assessments, it could be clarified that:
  - (a) If the regular on-site surveillance or reaccreditation process is initiated while a performance assessment is still underway, the findings in the latter should be taken into account in preparing a workplan for the former;
  - (b) The important findings in all performance assessments in the past accreditation period should be taken into account in preparing a workplan for the reaccreditation assessment;
  - (c) If a spot check is initiated while the regular on-site surveillance or reaccreditation process is underway or will start shortly, the latter should cover the former where possible.
- 12. Concurrently with the measures listed in paragraph 11 above, the CDM-AP and subsequently the Board may take a holistic approach in utilizing the outcomes of the individual accreditation assessments.
- 13. The current CDM accreditation procedure contains (in its appendices) the reconciliatory processes of: 1) handling appeals from AEs/DOEs against the adverse recommendations of the CDM-AP to the Board; 2) handling complaints against DOEs from their clients or any entity that has submitted comments in global stakeholder consultation on project design documents (PDDs) or programme design documents (PoA-DDs); 3) handling complaints and disputes from AEs/DOEs against the CDM-AP, CDM-ATs and/or the secretariat. The effectiveness of these processes is sometimes questioned by stakeholders, in particular by DOEs.
- 14. With regard to the process of handling appeals from AEs/DOEs against the adverse recommendations of the CDM-AP to the Board, improvement measures could include:
  - (a) Changing the ground for appeals to only the non-closure of NCs on the basis of the interpretation by the CDM-AP of the relevant accreditation requirements;
  - (b) Ensure the independence of the appeal panel by making the criteria for the appointment of its members transparent/public;

15. With regard to the process of handling complaints against DOEs from their clients or any entity that has submitted comments in global stakeholder consultation on PDDs or PoA-DDs, improvement measures could include:
- (a) Better define who may complain (in case of stakeholders, only when their comments have not been taken into consideration by a DOE);
  - (b) Define the scope of initial assessment, which will check:
    - (i) Eligibility of the person or entity that is filing the complaint;
    - (ii) Exhaustion of the internal remedial process of the DOE;
    - (iii) Reference to the provisions of the accreditation system of the DOE that were deemed breached, or the CDM accreditation procedure or CDM accreditation standard provisions deemed breached;
  - (c) Ensure the impartiality and prevent conflict of interest of the complaint committee members with the DOE;
  - (d) Streamline the process with mandatory deadlines for all parties (including the complainant, the DOE and the secretariat);
  - (e) Provide opportunities to both parties for counterarguments, i.e. provide a possibility to the complaint committee to request further input from both parties;
  - (f) Clarify what types of recommendations to the CDM-AP are possible, i.e. the secretariat will assess whether the complaint is justified, and propose what measures are to be taken (e.g. spot check, suspension or withdrawal of accreditation);
  - (g) Ensure the information on the outcome of the complaint is fed back into the CDM accreditation process.

### **3.4. Requirement for submission of documentation in English**

16. The types of documents necessary for each type of accreditation assessment and therefore required to be submitted by AEs/DOEs are listed in the CDM accreditation procedure. However, the list needs to be revised to reflect the experience gained. Also, the current CDM accreditation procedure is silent on whether and how to obtain the updated versions of the documents after their initial submissions. Furthermore, the current CDM accreditation procedure is silent on the language to be used in the accreditation assessment process except for the documents to be submitted for initial accreditation, regular on-site surveillance and reaccreditation, which is specified as English. In this regard, it is proposed that:
- (a) Appendices 1 and 8 of the CDM accreditation procedure could be updated to better reflect the experience gained and the progress of electronic systems;
  - (b) An alternative could be considered to the current practice (submission of required documentation on a per assessment basis), whereby AEs/DOEs are requested to continually maintain up-to-date the versions of the entities' key documents through the accreditation workflow;



- (c) The language of assessments could be specified as English, with the AEs/DOEs utilizing interpretation/translation services where necessary.

### **3.5. Streamlining the accreditation process**

- 17. This is a general issue and the solutions that could contribute to it are presented in other sections of this document.

### **3.6. Length of the accreditation cycle**

- 18. In accordance with paragraph 20(d) of the CDM modalities and procedures, the accreditation status of a DOE is valid for three years and reaccreditation is to take place every three years (if the DOE wishes to continue to be a DOE), necessitating the DOE applying for reaccreditation well in advance of the expiry of the current accreditation status, and the subsequent reaccreditation assessment. In addition to the system check through the regular on-site surveillance, DOE performance is constantly monitored through performance assessments, and it is arguable that the three-year accreditation period may well be extended to save costs and resources associated with reaccreditation. Therefore, it is proposed that:
  - (a) The accreditation cycle could be extended to five years with:
    - (i) Two regular on-site surveillances within the accreditation period. In addition, other on-site assessments may take place at any site of the DOE where CDM validation/verification functions are undertaken;
    - (ii) The application for reaccreditation should be submitted by the DOE 12 months before the end of the active accreditation period;
  - (b) The proposed change to the length of the accreditation cycle could be recommended to the CMP, since the current three-year accreditation term is derived from a CMP decision (paragraph 20(d) of the CDM modalities and procedures).

### **3.7. Purpose and procedure for submission of notifications of change**

- 19. The current CDM accreditation procedure lists the types of changes that AEs/DOEs are required to inform the secretariat of within a defined time frame. However, it is recognized that for AEs/DOEs some of these changes, in particular commercially sensitive ones (e.g. merger or take-over of the company), are difficult to disclose within the defined time frame. Also, there are various types of changes, ranging from those requiring extensive assessment to those where noting is sufficient, but the current CDM accreditation procedure does not elaborate how to treat different types of notifications differently. In this regard, it is proposed that:
  - (a) The timing of notification could be more flexible for some changes, allowing post-change notifications, but within a short space of time (e.g. 10 days);
  - (b) The types of changes that should be notified to the secretariat could be better defined (elaborated) and categorized;
  - (c) The notified changes might not necessarily prompt immediate assessments to check whether the AEs/DOEs still meet the CDM accreditation standard, but

might be checked on the occasion of the next planned accreditation assessments;

- (d) The transfer of the CDM validation/verification functions from one legal entity to another should be treated differently from other types of changes;
- (e) The time frame of notification and its treatment (type and level of check/assessment by the CDM-AP, CDM-ATs and/or the secretariat) should be defined for each category of changes.

### **3.8. Strategic elements covering conflicts of interest**

- 20. To ensure the integrity of the accreditation process, it is important to prevent the conflict of interest of CDM-AP and CDM-AT members on specific accreditation cases. Following the Board's consideration of the code of conduct at its sixty-ninth meeting, the issue is going to be considered by the Board in a wider context covering all panels, working groups, teams and appointed experts under the Board. Therefore it is unlikely to necessitate relevant provisions in the CDM accreditation procedure.

### **3.9. Technical review**

- 21. Technical review of draft documents before their finalization is a common practice for quality control in many areas. Whether such step could help improve the quality of CDM-AT assessment reports, which are the basis for the consideration of accreditation cases by the CDM-AP, is worth considering. It could ensure the quality and consistency of CDM-AT assessment reports before their submission to the CDM-AP. If it is decided to introduce an official technical review of CDM-AT assessment reports, it could be done so by, for example, appointing for the review a secretariat staff member or another expert from the accreditation roster of experts or from another dedicated roster of experts, who is not involved in the accreditation assessment.
- 22. It should be noted, however, that the introduction of an official technical review step would increase the time and resources required for the completion of the accreditation assessment process. Also, it would require the establishment of competence criteria for technical reviewers and the guidance to ensure the consistency of the reviews.

### **3.10. Integration of CDM/JI accreditation process**

- 23. The alignment of the CDM and JI accreditation processes is under consideration. At this stage, no specific action is envisaged from the CDM side, as the revision of the JI accreditation procedure has not started yet.

### **3.11. Suspension and withdrawal procedures in terms of timing, criteria, use and how they are perceived**

- 24. The suspension or withdrawal of accreditation of a DOE is a severe action taken by the Board, as it would significantly damage the reputation of the DOE and its business opportunities in the carbon market. Therefore, the recommendation by the CDM-AP to suspend or withdraw accreditation to the Board and the Board's final decision on it should be done carefully with well-founded reasons and in a fair manner to all DOEs. The current CDM accreditation procedure provides options of full or partial suspension of accreditation at both stages of the CDM-AP recommendation to the Board and the

Board's final decision. However, the procedure does not provide criteria for either type of suspension. Therefore, it is proposed that:

- (a) Criteria to cover the following two main grounds for suspension could be introduced:
  - (i) Inability to demonstrate compliance with the accreditation requirements, i.e. [major] NC(s) remain open [or the same NCs are recurring for the same DOE];
  - (ii) Failure to follow the CDM accreditation procedure, including:
    - a. Failure to submit records, information, reports, or other materials requested as deemed necessary to determine continued conformity with the accreditation requirements;
    - b. Failure to accommodate a request to undergo an assessment.

25. The decision-making criteria could expand from those only for suspension to those for other types of decisions.

### **3.12. Timelines for all steps and length of extensions of scope/reaccreditation assessments**

26. To further facilitate the CDM accreditation process, it is possible to:
- (a) Establish deadlines for the steps performed by the secretariat, e.g. workplan preparation, completeness checks;
  - (b) Review the functions of the secretariat in the current CDM accreditation procedure and, if appropriate, delegate administrative functions that could speed up the accreditation process (e.g. preparation of accreditation assessment workplans);
  - (c) An extension of sectoral scopes, of up to three scopes, may be granted based on a desk review, on condition that additional performance assessment(s) focusing on the extended sectoral scopes will be conducted after the extension.

### **3.13. Other**

27. Possible solutions in other areas that do not belong to any of the previous sections above include:
- (a) The period of making the monitoring report publicly available before undertaking the site visit for verification could be extended from a minimum of 14 days to a minimum of 21 days (requiring a revision of the "Clean development mechanism project cycle procedure", not the CDM accreditation procedure);
  - (b) The rules for the provision of business class flights to CDM-AT members for attending on-site assessments could be aligned with those for the secretariat staff.

## **4. Impacts**

28. A revised CDM accreditation procedure would benefit AEs/DOEs through a facilitated accreditation process, reduced cost of acquiring/maintaining accreditation, and increased transparency, predictability and consistency of the decision-making on accreditation cases by the Board and the CDM-AP. It would also benefit the Board, the CDM-AP and the secretariat through an improved effectiveness and consistency of the operation of the accreditation process.

## **5. Proposed work and timelines**

29. Based on the guidance provided by the Board in response to this concept note, the secretariat will prepare a draft revised CDM accreditation procedure and consult with the CDM-AP and AEs/DOEs on the draft. Taking into account the inputs from the CDM-AP and AEs/DOEs, the secretariat will revise the draft and present it to the Board at its seventy-second meeting.

## **6. Recommendations to the Board**

30. The secretariat recommends that the Board provide feedback on the measures proposed in this concept note, including choosing options where applicable, to the secretariat for its preparation of a draft revised CDM accreditation procedure.

## **7. References**

31. The CDM accreditation procedure is closely related to, and hence should be read in conjunction with:
- (a) The CDM accreditation standard;
  - (b) The DOE performance monitoring procedure.

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### Document information

<i>Version</i>	<i>Date</i>	<i>Description</i>
03.0	5 November 2012	Published as an annex to the annotated agenda of EB70. Revision takes into account inputs from the DOE/AIE Coordination Forum and the CDM-AP.
02.0	9 October 2012	Minor editorial changes and distribution for consultation at CDM-AP 62.
01.0	8 October 2012	Initial distribution for consultation at DOE/AIE Coordination Forum meeting on 11 October 2012.

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Decision Class: Regulatory

Document Type: Information note

Business Function: Accreditation

Keywords: accreditation procedure, DOE

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