DRAFT LEGAL ARRANGEMENTS BETWEEN THE CONFERENCE OF THE PARTIES SERVING AS THE MEETING OF THE PARTIES TO THE KYOTO PROTOCOL AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (WORLD BANK) REGARDING THE SERVICES TO BE PROVIDED BY THE TRUSTEE FOR THE ADAPTATION FUND

(Prepared by Invited Trustee)

(Containing Chair’s edits in bracketed italics)
1. The Conference of Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) decided in paragraph 31 of Decision 1/CMP.3 to request the Adaptation Fund Board to develop the necessary legal arrangements to be concluded between the CMP and the trustee servicing the Adaptation Fund, and present the legal arrangements for adoption by the CMP.

2. In response to the above decision, the draft terms and conditions of services to be provided by the International Bank for Reconstruction and Development (the World Bank) as interim trustee for the Adaptation Fund (the World Bank in such capacity, the Trustee) (the Terms and Conditions), attached as Annex 1, are submitted to the Adaptation Fund Board for its consideration.

3. It is recommended that pursuant to paragraph 31 of Decision 1/CMP.3, the Adaptation Fund Board (i) approve the draft Terms and Conditions, (ii) recommend to the Fourth Session of the CMP to conclude the legal arrangement between the CMP and the World Bank by way of approving and accepting the Terms and Conditions, subject to approval and acceptance of the same by the World Bank, and (iii) invite the World Bank to take any necessary action to accept the invitation to serve as the Trustee, including seeking approval of the Terms and Conditions by the Executive Directors of the World Bank, following approval and acceptance of the same by the CMP.
ANNEX 1

DRAFT TERMS AND CONDITIONS OF SERVICES TO BE PROVIDED BY THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AS TRUSTEE FOR THE ADAPTATION FUND

RECITALS

(A) A clean development mechanism (the CDM) was established under Article 12 of the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the Convention) (the Kyoto Protocol).

(B) The Conference of the Parties to the Convention decided in its decision 10/CP.7 that an adaptation fund (the Adaptation Fund) shall be established to finance concrete adaptation projects and programmes in developing country Parties that are Parties to the Kyoto Protocol, as well as activities identified in paragraph 8 of decision 5/CP.7.

(C) The decision was further endorsed by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol through its decision 28/CMP.1.

(D) In decision 1/CMP.3, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol decided that the Adaptation Fund shall finance concrete adaptation projects and programmes that are country driven and are based on the needs, views and priorities of eligible Parties, and that the Adaptation Fund Board shall be established as the operating entity of the Adaptation Fund.

(E) The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, in its decision 1/CMP.3, invited the International Bank for Reconstruction and Development (the World Bank) to serve as the trustee for the Adaptation Fund (the World Bank in such capacity, the Trustee) on an interim basis, and requested the Adaptation Fund Board to present the necessary legal arrangements to be concluded between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Trustee, for adoption by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its fourth session.

(F) The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the World Bank wish to conclude the legal arrangements necessary for the World Bank to serve as Trustee on an interim basis by way of approving and accepting the terms and conditions of services to be provided by the Trustee on an interim basis (the Terms and Conditions) in the manner set forth below.
TERMS AND CONDITIONS

Role and Responsibilities of the Trustee

1. The World Bank shall act as the Trustee on an interim basis in accordance with the Terms and Conditions set forth herein.

2. The Trustee shall perform its functions under the Terms and Conditions in accordance with the applicable provisions of the World Bank’s Articles of Agreement, by-laws, policies and procedures. Further, [subject to paragraph 12 below,] the Trustee shall comply with the principles and modalities for operations stipulated in the relevant decisions of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and decisions of the Adaptation Fund Board.

3. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol hereby (i) confirms its designation, under its decision 1/CMP.3, of the Adaptation Fund Board as its designee and delegatee in respect of the Adaptation Fund, and (ii) imbues the Adaptation Fund Board with the capacity, power and authority to render decisions and provide instructions, directions and guidance to the Trustee [hereunder and to cause to be entered into any and all contracts necessary for sale of certified emission reductions (CERs) collected as the share of proceeds for the Adaptation Fund pursuant to paragraph 24 below.].

4. The Trustee shall be accountable to the Adaptation Fund Board, [acting as the designee and delegatee in respect of the Adaptation Fund under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol,] [consistent with decision 1/CMP.3 paragraph 5 k] for performance of its functions under the Terms and Conditions.

5. Without prejudice to any other provisions of the Terms and Conditions, the Trustee shall, in performing its functions under the Terms and Conditions, act upon decisions, instructions, directions or guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol or the Adaptation Fund Board (or such other person designated in writing by the Adaptation Fund Board for that purpose (Authorized Designee)), only if such decisions, instructions, directions or guidance are provided to the Trustee in writing. The Trustee shall not be responsible for inquiring or investigating if any decisions, instructions, directions or guidance of the Adaptation Fund Board or, as the case may be, any Authorized Designees do not contravene an existing decision or act of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, and shall have no liability for relying in good faith on any written decision, instruction, direction or guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, Adaptation Fund Board or any Authorized Designees, without further inquiry or investigation on its part or otherwise for any actions taken, or omitted to be taken, in good faith.

6. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol acknowledges that the Trustee may disclose information obtained by it in connection with its
functions under the Terms and Conditions, if such disclosure is required, or otherwise necessary in carrying out the services and activities set out herein, in accordance with the World Bank's policies and procedures.

7. The Trustee shall establish a trust fund for the Adaptation Fund (the Trust Fund), and shall hold in trust, as a legal owner, and administer the funds, assets and receipts, which constitute the Trust Fund, on behalf of the Adaptation Fund supervised and managed by the Adaptation Fund Board.

8. For the purpose of the monetization of CERs for the Adaptation Fund, the Trustee, \[being responsible for the monetization of the CERs as one of its fiduciary responsibilities, of which it has to be accountable to the AFB consistent with paragraph 22 of decision 1/CMP.3 may be authorized by the AFB\] [in its capacity as agent of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, is hereby authorized by the Conference of the Parties to the Kyoto Protocol to administer sales of CERs [pursuant to paragraphs 24, 25, 26 and 27 below]. \[The AFB shall remain responsible for the monetization process of the CER issued by the CDM and forwarded to the AF as already directed by the COP/MOP under paragraph 5 k of decision 1/CMP.3.\]

9. The Trustee shall be responsible only for performing those duties and responsibilities specifically and expressly set forth in the Terms and Conditions and shall not be subject to any other duties or responsibilities (express or implied), including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of equity, trust or fiduciary obligations and/or any other legal or equitable principles. To the extent that sales of CERs are conducted by the Trustee pursuant to paragraphs 24, 25, 26 and 27 below, the Trustee shall not be responsible for the legality, validity or enforceability of any such sales of CERs, the value obtained from such sales of CERs (including any reduction in the value of the CERs from the time they are credited to the CDM Account (as defined in paragraph 24 below) to the time such sales are consummated) or any expenses or liabilities incurred in connection with such sales.

10. The Trustee shall not be liable for any failure to carry out its obligations under the Terms and Conditions where such failure is a result of a Force Majeure Event, and, for so long as such circumstances continue, shall be relieved of its obligations under the Terms and Conditions which it has been prevented from fulfilling as a result of that Force Majeure Event without liability; provided that the Trustee shall, notwithstanding that it is relieved from its obligations hereunder, take all reasonable and practical steps to minimize any loss and/or disruption resulting from any such Force Majeure Event. For the purpose of this paragraph, “Force Majeure Event” means any event beyond the reasonable control of the person affected including, without limitation, labor dispute, act of God, war, act or circumstance of terrorism, riot, civil commotion, malicious damage, accident, breakdown of essential computer software, hardware or system failure, fire, flood and/or storm and other unforeseen circumstances materially and adversely effecting the performance of the functions of the Trustee under the Terms and Conditions.
11. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol acknowledges that the World Bank, [as the Trustee], [shall have the right to] [may] engage in any of the types of activities described in the Terms and Conditions for its own account or for the account of clients other than the Adaptation Fund whether acting as trustee, adviser or in any other capacity vis-à-vis such clients. [In doing so, the Trustee shall notify and get clearance of the AFB, consistent with paragraph 22 of decision 1/CMP.3.] The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol agrees that the World Bank, in carrying out such activities for its own account or for the account of others, may decide to adopt approaches and courses of actions, which differ from the approaches and courses of action that the Trustee decides to take in performing the services for the Adaptation Fund described in the Terms and Conditions [provided that such causes of action are approved by the AFB].

12. [If a] Any decision by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol or the Adaptation Fund Board relates in any way to the functions of the Trustee performed or to be performed under the Terms and Conditions, such decision shall be [made only with prior consultation and mutual agreement between the Trustee and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol or the Adaptation Fund Board, as applicable.] [communicated immediately to the Trustee so as to ensure that the Trustee incorporates such a decision in its work as soon as possible. The Trustee shall be bound by such a decision and may seek clarification on areas that might have additional financial or legal implications on the part of the Trustee]. [Absent prior consultation with and the agreement of the Trustee, the Trustee shall not be bound by any decision of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol or the Adaptation Fund Board, to the extent that such decision relates in any way to the functions of the Trustee performed or to be performed under the Terms and Conditions.]

13. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol agrees that the Trustee shall be fully indemnified, out of the assets held for the Adaptation Fund, including the Trust Fund resources, for any liabilities, claims, losses, costs and expenses, including attorneys’ fees and expenses, incurred by the Trustee in connection with or in any way arising out of its activities as Trustee, including but not limited to any activities of the Trustee in connection with the sale or the facilitation of the sale of the CERs. Such indemnity shall not include any liabilities, claims, losses, costs or expenses incurred by the Trustee as a direct result of its own gross negligence or willful misconduct.

14. The privileges and immunities accorded to the World Bank shall apply to the property, assets, archives, operations and transactions of the Trust Fund. Nothing in the Terms and Conditions shall be considered a waiver of any privileges or immunities of the World Bank under its Articles of Agreement or any applicable law, all of which are expressly reserved.

15. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol agrees that the Trustee shall be reimbursed annually from the assets held for the Adaptation Fund, including the Trust Fund resources, the fees, costs and expenses incurred by it in connection with performing its functions under the Terms and Conditions, including, without limitation, the costs and expenses incurred in connection with the establishment and
administration of the Trust Fund, the sales of CERs, and any and all services provided hereunder, including attorneys’ fees and expenses and external auditors’ costs, costs of insurance policies and relevant service providers’ fees.  

Such costs shall be prior approved by the Board as part of the trustee’s annual work plan that will be tabled to the AFB approval at the beginning of each year consistent with Decision 1/CMP.3 paragraph 5 k and paragraph 22. For this purpose, the Trustee shall submit annually to the Adaptation Fund Board a proposal for the services and activities to be provided by the Trustee and estimated fees, costs and expenses to carry out such services and activities for the [initial and/or] upcoming fiscal year, [as applicable] for approval. Upon [mutual agreement between the Trustee and the Adaptation Fund Board on such proposal,] approval the Trustee may deduct and transfer the amount of the [estimated] approved fees, costs and expenses to its own account from the Trust Fund resources or such other assets held for the Adaptation Fund; provided that the amount of the fees, costs and expenses transferred shall be subject to an end of year adjustment based on actual costs and expenses incurred to be submitted to the AFB for approval.

16. In order to enable the Trustee to carry out its functions enumerated in the Terms and Conditions, the Trustee shall [be entitled to] attend any meetings of the Adaptation Fund Board, as an observer, [and] any meetings of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol [if invited to do so], which may concern operations and activities of the Adaptation Fund [Trustee]. [Absent prior consultation with the agreement of the Trustee, the Trustee shall not be bound by any decision of the Conference of the Parties to the Kyoto Protocol or the Adaptation Fund Board, to the extent that such decision relates in any way to the functions of the Trustee performed or to be performed under the Terms and Conditions.] The COP/MOP reiterates the need to ensure that the Trustee remains accountable to the AFB consistent with paragraph 22 of decision 1/CMP.3. Cooperation with other bodies participating in the work of the Fund shall be through, and directed by the AFB. Further, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol hereby requests the secretariat servicing the Adaptation Fund Board and the Adaptation Fund in accordance with decision 1/CMP.3 and the secretariat of the Convention (the UNFCCC Secretariat) to cooperate fully with the Trustee.

**Administration of the Trust Fund**

17. The Trustee shall receive and hold in the Trust Fund any proceeds from sales of the CERs conducted pursuant to paragraphs 24, 25, 26 and 27 below. If requested by the Adaptation Fund Board, the Trustee may accept, on terms mutually agreed between the Trustee and the Adaptation Fund Board, contributions from donors to support the operations of the Adaptation Fund. For the avoidance of doubt, no CERs shall be held in the Trust Fund.

18. [Subject to paragraphs 2 and 12 above,] the Trustee shall administer the funds, assets and receipts of the Trust Fund only for the purpose of, and in accordance with, the Terms and Conditions and the relevant decisions of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Adaptation Fund Board.
19. Notwithstanding paragraph 21 of decision 1/CMP.3, the Trustee shall hold the funds, assets and receipts that constitute the Trust Fund separate and apart from the funds of the World Bank, but may commingle them for administrative and investment purposes with other trust fund assets maintained by the World Bank. The Trustee shall establish and maintain separate records and accounts to identify the resources of the Trust Fund, the commitments financed out of the Trust Fund, and the receipts and transfers of funds in the Trust Fund.

20. The Trustee, upon consent of the AFB being the operating entity of the Adaptation Fund, shall invest the funds held in the Trust Fund, pending their transfer under paragraphs 15 and 22, in accordance with the Trustee’s policies and procedures for the investment of trust funds administered by the World Bank. The Trustee shall credit all income from such investment to the Trust Fund to be used for the same purposes as other funds held in the Trust Fund. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol acknowledges that no warranty is given by the Trustee as to the performance or profitability of the investment of the funds held in the Trust Fund, provide there annual accounting of such investments submitted to the AFB.

21. The funds held in the Trust Fund may be freely exchanged by the Trustee into other currencies as may facilitate their administration and transfer.

22. The Trustee shall, subject to the availability of resources held in the Trust Fund, record commitments and make transfers of funds from the Trust Fund in the manner agreed [to support adaptation activities approved by the Board with] [between the Trustee and the Adaptation Fund Board, and only at, and in accordance with,] the written direction provided to the Trustee by the Adaptation Fund Board [or any Authorized Designee]. Upon the transfer of funds, the Trustee shall not have any responsibility for the use of the Trust Fund funds transferred and activities carried out therewith, including but not limited to any responsibility with respect to supervising, monitoring, reporting on or verifying activities carried out with the Trust Fund funds transferred by the Trustee herein.

23. The Trustee shall prepare and furnish the Adaptation Fund Board with [budgets and] financial reports of the Trust Fund annually (or at such other frequency as the Trustee and the Adaptation Fund Board may agree) [for approval], and cause records and accounts of the Trust Fund to be audited by [its] authorized external auditors annually (or at such other frequency as the Trustee and the Adaptation Fund Board may agree), [in accordance with the policies and procedures of the Trustee] [consistent with paragraph 2 i of decision 5/CMP.2]. Further, the Trustee shall prepare and furnish the Adaptation Fund Board with reports on sales of the CERs for the Adaptation Fund and status of commitments and transfers of Trust Fund funds annually (or at such other frequency as the Trustee and the Adaptation Fund Board may agree).

Sales of CERs

24. An account has been established and maintained at the CDM registry for the Adaptation Fund to hold and transfer CERs collected as the share of proceeds to assist in meeting costs of adaptation in accordance with Article 12, paragraph 8 of the Kyoto Protocol (the CDM
Account). The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol [hereby] [in paragraph 5 k of decision 1/CMP.3 has mandated the AFB to be responsible for the “Monetization” of the CERs. This means the sale of CERs to get money, for activities agreed for support in eligible countries, while acknowledging the fact that the Trustee shall undertake this activity as one of its fiducial responsibility, of which the Trustee shall be accountable to the AFB as given in paragraph 22 of decision 1/CMP.3.] [authorizes the sale of the CERs from the CDM Account in the manner set fourth in paragraphs 25, 26 and 27 below.]

25. Pursuant to the authority provided under paragraph 3 above, the Adaptation Fund Board may [at its discretion.] cause to be entered into any and all contracts necessary for the sale of the CERs [referred to in paragraph 24 above] by granting to the Trustee any necessary power of attorney on behalf of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, so that the Trustee may execute contracts of sale with the relevant third party CER purchasers and such other contracts necessary in connection with the sale or the facilitation of the sale of the CERs, at the direction of the Adaptation Fund Board. [pursuant to paragraph 27 below.]

26. [Pursuant to the authority provided under paragraph 8 above, and in furtherance of paragraphs 24 and 25 above, the] [The] Trustee may, at the direction of the Adaptation Fund Board pursuant to paragraph 27 below, (i) cause the transfer of title to the CERs to the relevant third party purchasers upon receipt of payment in respect of the same, (ii) enter into arrangements with the CDM registry administrator to effectuate such transfers of the CERs, (iii) engage with relevant service providers for the purposes of execution, clearance, settlement and such other logistic matters in connection with the sale or the facilitation of the sale of the CERs, and (iv) take such other actions as are necessary to effectuate sales of the CERs [pursuant to paragraphs 24, 25 and 27,] for the benefit of the Adaptation Fund under [the accountability of the AFB as given authority by the] [authority of the] Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol [with regard to being responsible for monetization.]

27. Sales of the CERs and transfers of title in respect of the same pursuant to paragraphs 24, 25 and 26 above shall be effected by the Trustee only in accordance with the guidelines agreed in writing between the Trustee and the Adaptation Fund Board.

Dispute Resolution; Notices

28. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Trustee shall, to the extent possible, strive to resolve promptly and amicably questions of interpretation and application of the Terms and Conditions and settle any disputes, controversy, or claim arising out of or relating to the Terms and Conditions.

29. Any dispute, controversy, or claim arising out of or relating to the Terms and Conditions, which has not been settled by agreement of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Trustee, shall be submitted to arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL) in effect on the effective date of the Terms and Conditions, and the following
provisions: (a) the appointing authority shall be the Secretary-General of the Permanent Court of Arbitration; and (b) the language of the arbitral proceedings shall be English.

30. Any arbitral award under paragraph 29 above shall be final and binding upon the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Trustee. The provisions set forth in paragraphs 28 and 29 above shall be in lieu of any other procedure for the settlement of disputes between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Trustee.

31. Any notice or request required or permitted to be given or made under the Terms and Conditions and any other agreement between any of the parties contemplated by the Terms and Conditions shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, facsimile or, if so designated by the parties, other electronic means, to the World Bank or the UNFCCC Secretariat, in case of the Conference of Parties serving as the meeting of the Parties to the Kyoto Protocol, to which it is required or permitted to be given or made at such party’s address designated by notice to the World Bank or the UNFCCC Secretariat, in case of the Conference of Parties serving as the meeting of the Parties to the Kyoto Protocol, giving such notice or making such request. Deliveries made by facsimile or other electronic transmission shall also be confirmed by mail.

Amendment and Termination

32. Any amendment to the Terms and Conditions shall become effective only upon approval and acceptance by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the World Bank.

33. The Trustee’s role [as trustee servicing the Adaptation Fund] under the Terms and Conditions shall be automatically terminated three months after the sixth session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, unless the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Trustee affirmatively agree in writing to extend the term of Trustee’s services under the Terms and Conditions beyond such date.

34. Notwithstanding paragraph 33 above, the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol may at any time terminate the appointment of the Trustee as trustee servicing the Adaptation Fund under the Terms and Conditions. The Trustee’s role [as trustee servicing the Adaptation Fund] shall be terminated three months after receipt by the Trustee of the notice in writing of the termination of the appointment of the Trustee.

35. Notwithstanding paragraph 33 above, the Trustee may at any time terminate its role [as trustee servicing the Adaptation Fund], [and] after giving the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol a notice in writing no less than three months prior to any session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol. The Trustee’s role as trustee servicing the Adaptation Fund shall be terminated after the session of the Conference of the Parties serving as the meeting of the Parties to the
Kyoto Protocol immediately following notice by the Trustee. [In the event that no session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol is held within twelve months after the notice by the Trustee, however, the Trustee’s role shall be terminated twelve months after the notice by the Trustee.]

36. Following termination of the Trustee’s role as trustee servicing the Adaptation Fund pursuant to paragraphs 33, 34 or 35 above, the Trustee shall carry on no business for the Adaptation Fund except for the purpose of winding up its affairs. The Trustee shall take all necessary action for winding up its affairs in an expeditious manner, and for meeting the commitments already made by the Trustee and the transfer of any remaining funds, assets and receipts in the Trust Fund, as directed by the Adaptation Fund Board. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol hereby mandates that in such circumstances the Adaptation Fund Board shall provide such direction to the Trustee without undue delay. All of the powers and rights of the Trustee under the Terms and Conditions, including the right to be reimbursed for the fees, costs and expenses incurred under paragraph 15 above, shall continue until the affairs of the Trustee shall have been wound up.

Effectiveness

37. The Terms and Conditions shall become effective and constitute agreement between the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the World Bank, upon decisions by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the World Bank approving and accepting the Terms and Conditions