



ADAPTATION FUND

AFB/B.33.b/3
20 June 2019

Adaptation Fund Board
Additional meeting (33.b)
Bonn, Germany, 28-29 June 2019

Agenda items 5-8

**MATTERS RELATED TO THE MANDATE
CONTAINED IN PARAGRAPH 6 OF DECISION 1/CMP.14**

I. Background

1. In Katowice, Poland in December 2019, by decision 13/CMA.1 and decision 1/CMP.14, it was decided that the Adaptation Fund (the Fund) shall serve the Paris Agreement under the guidance of, and be accountable to, the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) with respect to all matters relating to the Paris Agreement, effective 1 January 2019, and that the Fund shall exclusively serve the Paris Agreement once the share of proceeds under Article 6, paragraph 4, of the Paris Agreement becomes available.

2. By decision 1/CMP.14, paragraph 6,¹ the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) requested the Board to consider the following and to make recommendations to the CMP 15 with a view to the recommendations being forwarded to the CMA 2 in November 2019:

- (i) the rules of procedure of the Board;
- (ii) the arrangements of the Fund with respect to the Paris Agreement;
- (iii) any other matter so as to ensure the Fund serves the Paris Agreement smoothly; and
- (iv) implications of the Fund receiving the share of proceeds from activities under Articles 6, 12 and 17 of the Kyoto Protocol when the Fund serves the Paris Agreement.

3. By the same decision, the CMP requested the Subsidiary Body for implementation, at its fiftieth session, to consider the eligibility for membership on the Board, and to forward a recommendation to the CMP 15 to be held in December 2019².

4. Considering decision 1/CMP.14, at its thirty-third meeting in March 2019, the Board discussed issues arising from CMP 14 and CMA 1-3 considering [document AFB/B.33/11](#) which was prepared by the secretariat. Considering document AFB/B.33/11, the Board decided:

a) To request the secretariat to prepare for inclusion of, in the draft addendum to the report of the Board to the Conference of the Parties serving as meeting of the Parties to the Kyoto Protocol at its fifteenth session (CMP 15), possible Board's consideration and recommendations on the tasks mandated by decision -/CMP.14 "Matters Relating to the Adaptation Fund," and submit them to the Board for consideration at its meeting in October 2019;

b) To request the secretariat, in preparation of the Board's consideration and recommendations mentioned in subparagraph a), to consult with the UNFCCC Secretariat, the interim trustee (the World Bank) and the GEF Secretariat on relevant matters;

c) To establish a task force to provide guidance to the secretariat on:

- (i) defining the scope of the elements to be included in the Board's consideration and recommendations on the tasks mandated by decision -/CMP.14;*

¹ <https://unfccc.int/sites/default/files/resource/08a1e.pdf>.

² It was confirmed on 7 March 2019 that COP 25 / CMP 15 will take place on 2-13 December 2020.

- (ii) *seeking inputs on the matter referred to in subparagraph a) from the trustee, the GEF, the UNFCCC Secretariat and other relevant sources;*
 - (iii) *reflecting the inputs referred to in subparagraph c) (ii) in possible Board's consideration and recommendations referred to in subparagraph a); and*
 - (iv) *considering any other matters that may arise related to subparagraphs a) and b) and c);*
- d) *To elect the following as members of the tasks force which will serve until the Board meeting in October 2019 to fulfil the tasks as described in subparagraph c):*
- (i) *Chair of the Board (Ms. Sylviane Bilgischer, Belgium, Annex I Parties);*
 - (ii) *Vice-Chair of the Board (Mr. Ibila Djibril, Benin, Africa);*
 - (iii) *Ms. Claudia Keller (Germany, Western Europe and Others);*
 - (iv) *Ms. Elenora Cogo (Italy, Western Europe and Others);*
 - (v) *Ms. Sheida Asgharzadeh Ghahroudi (Islamic Republic of Iran, Asia-Pacific);*
 - (vi) *Mr. Philip S. Weech (Bahamas, Latin America and the Caribbean);*
 - (vii) *Mr. Mohammed Zmerli (Tunisia, Africa); and*
 - (viii) *Mr. Aram Ter-Zakaryan (Armenia, Eastern Europe)*
- e) *To decide to hold an additional meeting of the Board in Bonn, Germany, on 28-29 June 2019, in addition to the Board meeting scheduled in October 2019, to discuss the matter related to a); and*
- f) *To request the task force and the secretariat to report the progress of the work contained in subparagraphs a), b) and c) to the Board at its meeting on 28-29 June 2019.*

(Decision B.33/52)

5. In accordance with subparagraph b) of decision B.33/52, the secretariat has conducted further review and held consultations with the World Bank (the trustee), the GEF Secretariat and the UNFCCC Secretariat on the topics relevant to decision B.33/52 since April 2019. The secretariat reported to the Task Force on the status and outcome of the consultations which had been held from April 2019 to early June 2019 seeking their guidance per subparagraph c) of decision B.33/52.

6. This document is prepared as per subparagraph f) of decision B.33/52 to report the progress of the work which has been made from the 33rd Board meeting through the first week of the 50th session of Subsidiary Body. The document is not intended to influence or prejudice any future decisions by Parties on relevant matter. The Annex I to the document contains a discussion note prepared by the trustee on "*Implications of Paris Agreement Decisions on the Trustee Terms and Conditions.*" *Amended and restated Terms and Conditions (2017-2020)*³ and *new guidelines for the monetization of carbon assets* (document AFB/EFC.16/3⁴) are contained in document AFB/B.33.b/Inf.2 and in document AFB/B.33.b/Inf. 3 respectively, for reference to discussion on

³ FCCC/KP/CMP/2014/6, Annex I: Amended and restated terms and conditions of services to be provided by the International Bank for Reconstruction and Development as trustee for the Adaptation Fund.

⁴ https://www.adaptation-fund.org/wp-content/uploads/2015/04/AFB.EFC_16.3-AF-Monetization-Guidelines.pdf.

the matter related to the Terms and Conditions (T&Cs). In addition, document AFB/B.33/11 that the Board considered at 33rd meeting in March 2019 is available as document AFB/B.33.b/inf.1 for reference to discussions at the additional Board meeting in June 2019.

II. Structure of the Adaptation Fund Board's consideration and recommendations on the tasks mandated by decision 1/CMP.14 in the AFB Report to CMP 15

7. The Board may consider structuring its consideration and recommendation to CMP15 on matters related to paragraph 6 of decision 1/CMP.14, which will be included in the addendum to the report of the Board to the CMP15, around the following four themes enumerated in paragraph 6 of decision 1/CMP.14:

- (1) The arrangements of the Fund with respect to the Paris Agreement;
- (2) Implications of the Fund receiving the share of proceeds from activities under Articles 6, 12 and 17 of the Kyoto Protocol when the Fund serves the Paris Agreement;
- (3) The Rules of Procedure of the Board;
- (4) Any other matter so as to ensure the Fund serves the Paris Agreement smoothly.

III. Possible scope of the elements to be Included in the Adaptation Fund Board's consideration and recommendations on the tasks mandated by decision 1/CMP.14

1) *The arrangements of the Fund with respect to the Paris Agreement*

8. The Adaptation Fund Board Secretariat (the secretariat) has conducted consultations with the World Bank (interim trustee), the GEF Secretariat and the UNFCCC Secretariat on this matter, with a particular focus on that the current MoU and T&Cs will automatically expire in May 2020, unless otherwise agreed in the manner, for instance, of adoption of extension of the MoU and the T&Cs by respective CMP decisions and GEF Council's agreement in such extension of the MoU and World Bank's agreement in the extension of the T&Cs.

9. Consultations found that the current T&Cs and MoU have worked very well meeting their purposes. The important aspects to be considered are:

- **[Timing]:** The arrangement for the extension of the current legal arrangements for the secretariat services and trustee services must be adopted by the CMP 15 to prevent any disruption in trustee services and secretariat services for the Fund. Therefore, the Board may want to make a decision on the arrangement for the extension at its 34th meeting in October 2019 and make a recommendation to the CMP 15, as part of the addendum to the Board's report to the CMP 15, that CMP 15 adopts such extensions.
- **[Two-phase approach to MoU and T&Cs]:** Consultations found that it could be desirable to take a 'two-phase approach' to considering legal arrangements of the

Fund with respect to the Paris Agreement: (i) for ‘**transitional period**’ where the Fund serves both the Kyoto Protocol (KP) and the Paris Agreement (PA); and (ii) ‘**post-transitional period**’ where the Fund exclusively serves the PA. Consultations also took note of the fact that it was crucial to prepare the necessary legal arrangements in a way to prevent any disruption of secretariat services and trustee services for the Fund. Considering that the current arrangements have met their respective purposes, it was found that (i) the current frameworks for the respective arrangements would not need to be amended in the near future for ‘transitional period’; and (ii) preparation for the arrangements for ‘post-transitional period’ would be able to start in earnest only when additional clarity is available related to Article 6, paragraph 4 of Paris Agreement.

- **[Request of clarification/guidance on ‘trigger’ as stated in paragraph 3 of Decision 13/CMA.1 and in paragraph 2, Decision 1/CMP.14]:** Consultations found that there is unclarity related to ‘trigger’ which leads to the Fund starting exclusively serving the Paris Agreement. Paragraph 3 of Decision 13/CMA.1 and in paragraph 2, Decision 1/CMP.14 states “once the share of proceeds under Article 6, paragraph 4 of the Paris Agreement becomes available.” In this regard, **the Board may want to include, in its recommendation to the CMP15, its request for additional clarification/guidance on the definition of ‘trigger’ point referred to in paragraph 3 of Decision 13/CMA.1 and paragraph 2, Decision 1/CMP.14.** Further guidance and clarification on the trigger would be crucial to ensuring to prevent any disruption of the secretariat services and trustee services for the Adaptation Fund.

(1) Institutional arrangement (MoU) with GEF for secretariat services to the Board

a) MoU for transitional period (the Fund serves both KP and PA)

10. Considering that the current MoU has provided effective legal framework for secretariat services and that it expires on 30 May 2020, the Board may want to consider recommending to CMP 15 (i) to extend the current MoU between CMP and GEF Council and (ii) to amend sections necessary to reflect Decision 13/CMA.1 and Decision 1/CMP.14 to ensure that the Fund serves the KP and PA.

11. CMP and GEF Council would continue to be the signing parties to MoU. Based on consultation with the UNFCCC Secretariat, it would appear that CMA does not need to be a signing party to the MoU for this transitional period.

12. Possible elements of amendment to the MoU (the following list is not exhaustive)⁵:

- (i) **reflection of Decision 13/CMA.1 and Decision 1/CMP.14;**

⁵ The Board can recommend amendments to the MoU based on Section IV, Article 4 of the MoU (“Any amendments to the present MOU will be mutually agreed upon by the CMP and the (GEF) Council. The Board may recommend the CMP any amendments to the MOU.”).

- (ii) **inclusion of a provision which sets out and/or reassures necessary preparation for a new MoU** between CMA and GEF Council for post-transitional period to prevent any disruption of secretariat service for the Fund;
- (iii) extension of the terms of the MoU to the extent that it remains effective until the trigger occurs: Considering the unclarity on 'trigger,' and the fact that the relevant CMP and CMA decision(s) on adoption/extension of MoU can be made only at the COP, the Board may consider recommending that the MoU is extended to the extent that it remains effective until the trigger occurs.

b) MoU for post-transitional period (the Fund exclusively serves the PA)

13. A new MoU between CMA and GEF Council would need to be ready to take effect when the 'trigger' becomes effective in order to prevent any disruption of secretariat services for the Fund. The following could be considered in preparing a new MoU for post-transitional period:

- New MoU needs to be carefully drafted with a view to preventing any disruption of secretariat service to the Board;
- New MoU is mutually agreed by CMA and GEF Council;
- Preparation of the new MoU should start in advance (following the development of the mechanism of Article 6 of the Paris Agreement) **so that it is effective prior to or on the date of the AF starts serving the PA** (to prevent any disruption of trustee and secretariat services);
- When the 'trigger' occurs, relevant CMP decision and CMA decision would need to be made to terminate 'the present MoU between CMP and GEF Council' concurrently operationalizing the 'new MoU between CMA and GEF Council' to reduce any disruption of secretariat services.

(2) Terms and Conditions (T&Cs) of the trustee services

14. Related to this matter, the trustee prepared a note for Board's discussion to be held at its additional meeting (33.b) on 28-29 June 2019, which is contained in Annex I to this document.

a) T&Cs for transitional period (the Fund serves both KP and PA)

15. During consultations, the World Bank as the interim trustee, conveyed that signing two agreements respectively with CMA and CMP was not preferable or acceptable given the importance of clear accountabilities related to, for instance, authorization to act as agent for the monetization of carbon assets either under KP or PA, holding and investing funds, transfers to implementing entities.

16. **The Board may consider recommending to CMP 15 that it maintains the current legal arrangement between CMP and World Bank for trustee services for the Fund and only amend the T&C to reflect necessary changes to ensure the Fund serves the KP and PA.** This means that the Trustee will continue to act in the capacity as agent of the CMP (for the

monetization of the Fund's carbon assets) for transitional period. The Trustee would continue to take guidance and instruction from the Board on day to day activities.⁶

17. CMP and World Bank would remain as the signing parties to T&Cs, and there would be no need for CMA to be a signing party to T&Cs for the transitional period according to consultations with the trustee and the UNFCCC Secretariat.

18. Possible elements of amendments to T&Cs (the following list is not exhaustive):
- (i) **reflection of Decision 13/CMA.1 and Decision 1/CMP.14;**
 - (ii) **inclusion of a provision which heralds and/or reassure necessary preparation for a new T&Cs** between CMA and World Bank as trustee for post-transitional period to prevent any disruption of trustee service for the Fund;
 - (iii) deletion of the automatic termination provision considering the trustee's suggestion as contained in Annex I to this document (section 2.1).

b) T&Cs for post-transitional period (the Fund exclusively serves the PA)

19. In preparing a new T&C between CMA and World Bank (Trustee), the Board may want to consider the Trustee's discussion note as contained in Annex I to this document.

2) Implications of the Fund receiving the share of proceeds from activities under Articles 6, 12 and 17 of the Kyoto Protocol when the Fund serves the Paris Agreement

20. Progress on the consultations on this matter among the trustee, the secretariat and UNFCCC Secretariat are reflected in the Trustee's note as contained in Annex I to this document.

3) The Rules of Procedure of the Board (RoP) and Strategic Priorities, Policies and Guidelines of the Fund (SPPG, contained in Annex I to OPG)

21. Paragraph 6 of Decision 1/CMP 14 explicitly includes the Rules of Procedure of the Board (RoP) in its mandate to the Board to consider and make recommendation on it to CMP15, but it does not include Strategic Priorities, Policies and Guidelines of the Fund (SPPG, contained in Annex I to OPG). However, it is logical and recommendable to amend the RoP together with SPPG because they are interlinked, and because the amendments to RoP and SPPG require respective adoptions by CMP decision.

a) Possible amendments to the Rules of Procedure of the Board (RoP)

22. Based on Decision 1/CMP.14, decision on 'eligibility for Board's membership' is expected to be made at the CMP 15 in December 2019 considering SBI's consideration and

⁶ For further information, see Annex I to document AFB/B.33/11.

recommendation, and therefore, reflection of such CMP 15 decision into amendments to RoP would be possible only after the CMP decision on eligibility for AFB membership is made. **In this regard, the Board may need to present to the CMP 15 its consideration and recommendation on possible amendments to RoP with placeholder on provisions related to eligibility for AFB membership.**

23. Elements of possible amendments to RoP are contained in paragraphs 2-6 of Annex I to document AFB/B.33/11 (available as document AFB/B.33.b/Inf.1 for Board's discussion at the additional meeting on 28-29 June 2019). **The Board may want to discuss with a view to preparing its recommendation to CMP 15 on possible amendments to RoP to ensure that the Fund serves the KP and PA.**

b) Possible amendments to Strategic Priorities, Policies and Guidelines of the Fund (SPPG, contained in Annex I to OPG)

24. **Preliminary assessment on elements of possible amendments to SPPG are contained in paragraphs 7 of Annex I to document AFB/B.33/11** (available as document AFB/B.33.b/Inf.1 for Board's discussion at the additional meeting on 28-29 June 2019). **The Board may want to discuss this matter with a view to preparing its recommendation to CMP 15 on possible amendments to SPPG to ensure that the Fund serves the KP and PA.**

25. In considering possible amendments to SPPG, the Board may want to consider taking into account, (i) whether paragraph 5 needs to be amended or not and (ii) whether additional clarification, guidance and/or decision from CMP/CMA are needed. Paragraph 5 of SPPG states that:

In accordance with decision 1/CMP.3, paragraphs 1 and 2, the Adaptation Fund shall:

*(a) Assist **developing country Parties to the Kyoto Protocol** that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation;*

*(b) Finance concrete adaptation projects and programmes that are country driven and are based on the needs, views and priorities of **eligible Parties**.*

4) Any other matter so as to ensure the Fund serves the Paris Agreement smoothly

26. Secretariat conducted a preliminary analysis on possible amendments to OPG, possible Board's consideration on other Fund's policies as contained in paragraph 20 of the [Annex I to document AFB/B.33/11](#). According to the preliminary analysis, whereas OPG would need amendments to reflect CMP decision and CMA decision related to AF serving the PA, other policies do not appear to require any major revisions because some of them were recently updated, or in the process of update. The Board may consider whether to include a brief summary of these policies in its report to CMP15 to demonstrate its fulfillment with its mandate from the decision 1/CMP.14.

Annex I: Discussion Note Prepared by the Trustee

**Implications of Paris Agreement Decisions
On the Trustee Terms and Conditions**

Adaptation Fund: Discussion Note
Implications of Paris Agreement Decisions
On the Trustee Terms and Conditions
(Prepared by the Trustee)

Purpose: The purpose of this Discussion Note is to provide the AF Board with additional background and information on options for consideration on this issue. It is not intended to provide recommendations nor represent a definitive position of the World Bank as Trustee for the AF on these issues. It also in no way anticipates certain decisions by Parties or the AF Board on this issue and is not intended to influence such decisions.

1. Background:

1.1 The World Bank (IBRD) has provided trustee services to the Adaptation Fund (AF) since 2009. This includes the monetization of carbon assets (Certified Emission Reductions, or “CERs”) for the Adaptation Fund as an agent of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), processing donations, holding and investing undisbursed liquid balances in a trust fund, transferring cash to entities implementing AF projects, and financial reporting. Up to end-March 2019, the World Bank had generated approximately US\$ 201 million through the sale of CERs, processed over US\$ 641 million in donations, and was holding approximately US\$ 481 million in the AF Trust Fund. As at this date, the AF Board had made approximately US\$ 620 million in cumulative funding decisions and had instructed the Bank to transfer approximately US\$ 335 million of this amount to AF Implementing Entities for projects and programs.

1.2 The trustee services to the AF are governed by an arrangement between the CMP and the IBRD entitled the “Terms and Conditions of Services to be Provided by the International Bank for Reconstruction and Development as Trustee for the Adaptation Fund” (the “Terms and Conditions” or “T&Cs”), originally adopted in 2009. Amendment of the T&Cs follows the following process: the T&Cs are reviewed by the AF Board and, following consultation with the IBRD, submitted to the CMP for adoption by CMP decision. Upon decision by the CMP, the IBRD then formally confirms its acceptance of the revised T&Cs in writing to the AF Board Chair, with copy to the UNFCCC Executive Secretary.

1.3 The T&Cs include an automatic termination date and have been amended on several occasions to extend this date. The last amendment was in 2017, extending the automatic termination date by 3 years, i.e. until May 20, 2020. Absent further action and decision by the CMP prior to this date, the T&Cs will expire automatically, and IBRD’s trustee services would terminate. The IBRD shares the view that, notwithstanding any decision by the AF Board on whether to request the IBRD to continue to provide trustee services, it would be beneficial for the AF to avoid any gap in trustee services in order to ensure its continued operation.

1.4 The IBRD has consulted with the AF Secretariat and, together, with the UNFCCC Secretariat for the purpose of preparing background and options for consideration by the AF Board. These include the implications of the AF receiving the share of proceeds from activities under Articles 6, 12 and 17 of the Kyoto Protocol when AF serves the Paris Agreement (PA), and any other relevant matters of the AFB’s tasks mandated from CMP and Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA). These are elaborated in Sections 2 and 3 below.

2. Issues for Consideration by the AF Board:

2.1 Termination Date for the T&Cs: Notwithstanding multiple extensions of the T&Cs, subsequent amendments to the original 2009 version have retained the feature of a fixed termination date for trustee services. While it could be considered that specifying a fixed termination date in the T&Cs is consistent with the concept of “interim” trustee services to the AF, this interim arrangement has been in place for over ten years and the fixed termination date introduces certain limitations that may be detrimental to the AF. For instance, as AF funding relies increasingly on donations from Parties, certainty and stability with respect to trustee arrangements could provide additional comfort to donors and support going concern principle of the AF. In addition, the investment horizon considered by the trustee to invest the undisbursed liquid assets of the AF Trust Fund should not exceed the prevailing termination date of the T&Cs. Therefore, as the termination date approaches, the Trustee is required to adjust the investment horizon accordingly to invest in shorter- and shorter-term investments. The result is that the AF could be foregoing the potential increased investment income and risk mitigation benefits that could derive from a more diversified, longer term investment portfolio. Removing the automatic termination date in the T&Cs provide increased flexibility for such investments and potentially higher investment income for the AF. It should be noted that the T&Cs already contain a separate termination provision that permits either party (i.e. CMP or the Trustee) to terminate the T&Cs with advance notice; this right of termination would remain.

The Board may therefore wish to consider deleting the automatic termination provision in subsequent amendments to the T&Cs and to rely on the provision in the T&Cs for either party to terminate with advance notice if and when there is a need to terminate the trustee’s role in the future.

2.2 Amendment of the T&Cs to reflect decisions regarding the AF and the Paris Agreement: The T&Cs, as amended, have provided an appropriate and effective legal framework for the services provided by the Trustee since 2009. Further to consultations among the Trustee, AF Secretariat and UNFCCC Secretariat the practical implications for the Trustee of the AF serving exclusively the Paris Agreement (CMA) remain unclear. Insofar as the AF Board is responsible for the day-to-day operations of the AF and the Trustee acts upon instruction and guidance of the AF Board, it is not envisioned that this arrangement would need to be amended in the near term. An important implication would be with respect to: i) continuation of the current authority from the CMP to permit the Trustee to act as agent of the CMP for the monetization of the AF’s CERs, and ii) establishing a new authority from the CMA for the Trustee to monetize any new AF carbon assets arising from the PA (see Section 2.4). It is also unclear when the trigger for this effectiveness would occur (see Section 2.3). In this respect, and insofar as the CMP would remain in existence, there may be no requirement to amend the T&Cs at the present time, nor until new carbon assets in the AF Share of Proceeds are available for monetization.

The Board may wish to consider that for the purposes of the day-to-day provision of trustee services to the AF by the trustee, the current T&Cs could remain in effect until such time as there is additional clarity on the nature of any amendments that may be required by the effectiveness of the trigger for the AF to exclusively serve the Paris Agreement.

2.3 Trigger for the AF to exclusively serve the Paris Agreement (PA): By CMP/CMA decision, the trigger has been established as the date upon which new carbon assets become available under Article 6 of the PA. There is no fixed date anticipated for this event, and it remains unclear what the new assets would comprise, and how “become available” is defined in this context. It is also unclear what implications this effectiveness would have for the T&Cs, which represent an agreement between the CMP and the Trustee. From the Trustee perspective, it could be envisioned that the assets would only be available for use by the AF at such time as they can be monetized, and the proceeds allocated by the AF Board for concrete adaptation projects and programs. This would not be possible in any event until the T&Cs were amended to permit this. Notwithstanding the date of the trigger, the T&Cs between the CMP and the Trustee remain in effect in any event in accordance with their terms, i.e. until the earlier of: i) the termination date specified in the T&Cs (May 30, 2020), or ii) termination by either the CMP or the Trustee with advance notice in accordance with the terms of the T&Cs.

The Board may wish to consider seeking additional guidance from Parties on the trigger and how the “availability” of such assets would be defined. One option that would provide clarity for the AF and continuity for the Trustee to be able to monetize carbon assets is for “availability” to be the trigger insofar as the T&Cs are concerned, confirmed by way of positive written notification from the UNFCCC Secretariat to the AF Board and Trustee. Following this notification, the AF Board and Trustee could draft new T&Cs with the CMA for adoption and its next session. Upon adoption and acceptance by IBRD, the new T&Cs would become effective and the current T&Cs with the CMP simultaneously terminated.

2.4 Requirements to enable the Trustee to monetize PA carbon assets: The current T&Cs provide authorization to the Trustee to act as an agent of the CMP to monetize carbon assets that have been allocated to the Share of Proceeds for the Adaptation Fund at the Clean Development Mechanism. If a Share of Proceeds from PA carbon assets are allocated to the Adaptation Fund and the Parties and AF Board request that the Trustee also act as an agent to monetize these carbon assets, such authorization will need to be provided to the Trustee by the appropriate body. As the procedures, regulatory and other implications of monetizing such assets remain unknown, it would not be possible to include them in a revised T&Cs until this due diligence has been undertaken. Prior to the monetization of CERs, the Trustee undertook detailed due diligence on the tax, regulatory and other implications of CER monetization by IBRD; similar due diligence was performed with respect to monetization of AAUs and ERUs when such assets were added to the AF’s Share of Proceeds. The costs of these due diligence processes are borne by the AF Trust Fund. Guided by the experience with the addition of AAUs and ERUs, which have to date not provided any additional resources for the AF, the Trustee recommends that any further due diligence on the implications of monetizing new carbon assets not be undertaken until further details are available on the nature and characteristics of these new carbon assets.

The Board may wish to consider requesting the Trustee to undertake such due diligence on the modalities for monetizing any new PA carbon assets only after Parties have decided on the detailed features and characteristics of such assets.

2.5 Disposal of remaining AF carbon assets (CERs in the CDM Share of Proceeds): As at end-March 2019, the AF Share of Proceeds held just over 12 million CERs. There is essentially no market for these assets; monetization by the Trustee in recent years has therefore focused on small customized transactions with specific buyers willing to pay a premium for small volume lots of these CERs.⁷ The new T&Cs could also include authorization to the Trustee to continue to sell these CMP assets if, for instance, the CMP assigned ownership of the assets to the CMA. Continued monetization of these assets would not be possible without continued authorization.

The Board may wish to consider recommending that the CMP assign the remaining AF Share of Proceeds to the CMA for monetization by the Trustee; or to consider other options for the disposal of the remaining assets in the SOP.

2.6 Acceptance of Donations: Presently, the Trustee receives donations from sovereign governments and the UN Foundation by entering into Donation Agreements/Arrangements with them and receiving cash donations into the AF Trust Fund. Such agreements/arrangements reflect Guidelines approved by the AF Board and incorporate standard terms applicable to all donors. From the Trustee perspective, donations are possible from any sovereign or other entity in accordance with the Guidelines. Minor changes would be required to new donation agreements at the time the AF serves exclusively the PA to acknowledge this, however the practical implementation of the processing of donations would remain unchanged.

2.7 Sequencing issues: The principle objective for the AF should be to ensure continuity in its operations, supported by the Trustee; i.e. that the current T&Cs with the CMP remain in effect until such time as they may be replaced or superseded by an alternative arrangement. With this objective in mind, the following sequence could be considered:

- Current T&Cs (amended as per above) would remain in effect, including the CMP's continued authorization for the Trustee to monetize CERs held in the AF Share of Proceeds account at the CDM.
- Further clarity is provided by Parties (CMA and CMP) on the nature and availability of new carbon assets under Article 6 of the PA and communicated to the AF Board and Trustee.
- UNFCCC Secretariat would notify the AF Board and Trustee of the trigger
- The Trustee could undertake any additional due diligence required for monetization of the new assets, or any other analysis required.
- Trustee and AF Board would agree on a new T&Cs to present to a subsequent meeting of the CMAP/CMP for decision.
- CMA decision to adopt the new T&Cs and CMP decision to simultaneously terminate the old T&Cs.

⁷ Sales volume has averaged 400-500 thousand tons per year in recent years, generating approx. USD 1 million annually.

- The new T&Cs could become effective upon subsequent acceptance by IBRD. Current T&Cs between the Trustee and CMP could be terminated upon effectiveness of the new T&Cs with CMA.

3. Modalities for Amending the Terms and Conditions

3.1 The AF Board would include in the Report to the CMP a recommendation for the CMP to amend the Amended and Restated Terms and Conditions of Services to be Provided by the International Bank for Reconstruction and Development as Trustee for the Adaptation Fund.

Option 1: Paragraph 34 would be revised as follows:

“34. The Trustee’s role as trustee servicing the Adaptation Fund under the Terms and Conditions shall be automatically terminated on May 30, [2024], unless the CMP and the Trustee affirmatively agree in writing to extend beyond this date the term of the Trustee’s services under the Terms and Conditions.”

Option 2: Paragraph 34 would be deleted.

4. Appendices

- i. Terms and Conditions (T&Cs), as amended
- ii. Comments from the World Bank on the implications of the Adaptation (AF) Serving the Paris Agreement (provided to APA 1.6)
- iii. Guidelines for the Monetization of Carbon Assets (http://www.adaptation-fund.org/wp-content/uploads/2015/04/AFB.EFC_16.3-AF-Monetization-Guidelines.pdf)