

Adaptation Fund Board
Forty-Seventh meeting
Bonn, Germany

Status of the Transition of the Adaptation Fund to Exclusively Serve the Paris Agreement

Strategic Issues

- a) In 2018, the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) decided that “the Adaptation fund (the Fund) shall serve the Paris Agreement under the guidance of, and be accountable to, the CMA with respect to all matters relating to the Paris Agreement, effective 1 January 2019, subject to decision on this matter made by the CMP”. CMA also recommended to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) that “the Adaptation Fund shall exclusively serve the Paris Agreement once the share of proceeds under Article 6, paragraph 4, of the Paris Agreement becomes available” (Decision 13/CMA.1).
- b) In 2018, upon this recommendation by CMA, CMP decided that “the Adaptation Fund shall exclusively serve the Paris Agreement and shall no longer serve the Kyoto Protocol once the share of proceeds under Article 6, paragraph 4, of the Paris Agreement becomes available”, and that the Adaptation Fund shall continue to receive share of proceeds, if available, from activities under Articles 6, 12 and 17 of the Kyoto Protocol. It took note of the CMA decision that the Fund shall serve the Paris Agreement under the guidance of the CMA and be accountable to the CMA with respect to all matters relating to the Paris Agreement, effective 1 January 2019 (Decision 1/CMP.14).
- c) In 2018, CMP requested the Adaptation Fund Board to consider the rules of procedure of the Board, the arrangements of the Fund with respect to the Paris Agreement and any other matter so as to ensure the Fund serves the Paris Agreement smoothly; to consider the 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; and to make recommendations to CMP 15 with a view to the recommendations being forwarded to the CMA 2 (December 2019) (Decision 1/CMP.14, paragraph 6).
- d) In 2022 and 2023, CMA encouraged the Board to continue its consideration of its Rules of Procedure in the context of serving the Paris Agreement, including after the Subsidiary Body for Implementation (SBI) has concluded consideration of matters related to membership of the Board (Decisions 12/CMA.5 and 18/CMA.4).
- e) In 2024, CMP and CMA encouraged the Board to complete, as a matter of priority, its work related to implementing its mandates in decision 1/CMP.14 and 13/CMA.1 and to report thereon in its annual report to the CMP 20 and the CMA 7 (Decisions 2/CMP.19 and 13/CMA.6). In addition, CMP and CMA requested SBI to consider, at its 62nd session (June 2025), the matter of the arrangements for the Adaptation Fund to exclusively serve the Paris Agreement and to make recommendations on this matter consideration by the CMP 20 and CMA 7 (Decisions 2/CMP.19 and 13/CMA.6).

Purpose

1. This board document is to support the Board's continuing discussion on the matter of the status of the arrangements for the Adaptation Fund's transition from the Kyoto Protocol to exclusively serve the Paris Agreement, in response to Board decision B.43/32 and relevant decisions by the CMP and CMA related to the Fund's transition as described above.

Recommended Decision

2. The Adaption Fund Board (the Board), having considered document AFB/B.47/5 and its addenda, decides:
 - (a) To take note of the updates from the Secretariat, the UNFCCC Secretariat, and the Trustee regarding the ongoing work in support of the arrangements for the transition of the Adaptation Fund to exclusively serve the Paris Agreement;
 - (b) To express its intention to further revise and finalize the draft Terms and Conditions and the draft Memorandum of Understanding regarding secretariat services, in consultation with key stakeholders, as appropriate, taking into account any additional guidance that may be provided by the Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol and/or the Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement, as applicable, regarding the Adaptation Fund's transition to exclusively serve the Paris Agreement.

Background

3. At its 40th meeting in March 2023, the Board considered decisions taken by CMP17 and CMA4 related to the Fund and decided to request the Secretariat to continue consultations with the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC), the Trustee and any other relevant stakeholders with a view to the timely preparation of the arrangements for the transition of the Fund from the Kyoto Protocol to the Paris Agreement, as per decision 1/CMP.14, paragraph 2, and report on the status of the work to the Board at its 41st meeting (Decision B.40/80).
4. At its 41st meeting in October 2023, the Board considered document AFB/B.41/9 and its annexes and addendum and decided to request the Secretariat to prepare draft amendments to the Memorandum of Understanding regarding Secretariat services, the Rules of Procedure, the Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund, and the Strategic Priorities, Policies and Guidelines in the context of the transition of the Adaptation Fund from the Kyoto Protocol to the Paris Agreement and report on the status of the work to the Board at its 42nd meeting. It also requested the Secretariat and the Trustee to continue consultations with the UNFCCC Secretariat with a view to the timely development of a new terms and conditions for the Trustee services and a strategy on monetization of Article 6, paragraph 4, emission reductions (A6.4ERs) and to report on the status of the work to the Board at its 42nd meeting (Decision B.41/38).
5. At its 42nd meeting in April 2023, the Board considered confidential document AFB/B.42/13 and its addenda in a closed session and decided to request the Secretariat to: launch a consultation, including a survey, collect input from the Board on drafts the amendments to the memorandum of understanding regarding Secretariat services, the rules of procedure, the operational policies and guidelines for parties to access resources from the Fund and the strategic priorities, policies and guidelines in the context of the transition of the Fund from the Kyoto Protocol to the Paris Agreement, respectively contained in documents AFB/B.42/13/Add.1, AFB/B.42/13/Add.2,

AFB/B.42/13/Add.3 and AFB/B.42/13/Add.4, during the intersessional period between the 42nd and 43rd meetings of the Board; and update the drafts of the amendments to the instruments referred to in subparagraph (a) (ii), taking into consideration and reflecting the discussion of the Board at its 42nd meeting and the input received through the consultation, and present the outcome of the work to the Board for consideration at its 43rd meeting. It also requested the Trustee to prepare drafts of new terms and conditions of Trustee services and a strategy on monetization of the A6.4Ers and present to its 43rd meeting (Decision B.42/58).

6. At its 43rd meeting, the Board considered the results of the Board's input from the survey conducted per decision B.42/58 and the draft amendments to the instruments related to the arrangements for the Fund's transition to exclusively serve the Paris Agreement and decided to continue considering the matter of the arrangements for the transition of the Fund from the Kyoto Protocol to the Paris Agreement at its 44th meeting (Decision B.43/22).
7. In response to Decision B.43/22, in order to support the Board's deliberations at its 44th meeting on the transition of the Fund to exclusively serve the Paris Agreement, in consultation with the Chair of the Board, the Secretariat commissioned an independent analysis by two independent expert consultants. The experts were chosen for their independence, familiarity with the mandate of the Fund, the history and complexity of decisions by the CMP and the CMA regarding the Adaptation Fund.
8. The independent consultants' work focused on three areas: (1) identification of key issues that may require clarification by the Board for it to successfully serve the Paris Agreement; (2) suggestions regarding what issues the Adaptation Fund Board can or should make proposals on for the consideration of the Parties, and what issues the Adaptation Fund Board should entirely refer for guidance from or decision by the Parties; and (3) suggestions regarding what specific governance features and functions would enable the Board to best serve the Paris Agreement.
9. The Board considered the consultants' report at its 44th meeting and decided to continue considering the matter of the arrangements for the transition of the Fund from the Kyoto Protocol to the Paris Agreement at its 45th meeting.
10. At SB62 in June 2025, the SBI considered the membership of the Board, the arrangements for the Adaptation Fund to exclusively serve the Paris Agreement and the fifth review of the Adaptation Fund, producing a [co-facilitators' informal note](#) and a [conference room paper](#).
11. At its 45th meeting in October 2025, in response to decision 1/CMP.14, the Board as part of work to support the transition of the Adaptation Fund to exclusively serve the Paris Agreement considered a draft new terms and conditions prepared by the World Bank as trustee and the Memorandum of Understanding regarding the provision of secretariat services by the Global Environment Facility (GEF) to the Adaptation Fund Board.
12. At SBI63 in November 2025, the SBI continued to consider the membership of the Board, the arrangements for the Adaptation Fund to exclusively serve the Paris Agreement and the fifth review of the Adaptation Fund. However, the SBI could not conclude its consideration of these matters and therefore agreed to forward this matter to CMP 20 and CMA 7 for further consideration.
13. CMP20 and CMA 7 considered these matters on the basis of the work undertaken at SBI 63 but were also unable to reach a conclusion. Therefore, CMP20 and CMA 7 requested SBI 64 (June 2026) to continue consideration of matters relating to the membership of the Adaptation Fund Board, the matter of the arrangements for the Adaptation Fund to exclusively serve the Paris

Agreement and the fifth review of the Adaptation Fund on the basis of the work undertaken at SBI 63 available [on the UNFCCC website](#). CMP20 and CMA7 also noted that this work does not represent agreement among Parties, does not prejudice further work or prevent Parties from expressing their views in the future, nor does it prejudice the number of draft decisions on these matters that Parties may wish to recommend or consider.

14. Additionally, CMP 20 and CMA 7 acknowledged the continued work of the Adaptation Fund Board at its meeting in October 2025 to support the transition of the Adaptation Fund to exclusively serving the Paris Agreement and requested the Board to complete, as a matter of priority, its consideration of this matter with a view to preparing for a smooth transition and prompt monetization of the share of proceeds under Article 6, paragraph 4, of the Paris Agreement (Decision -/CMP.20 and -/CMA.7)).
15. At its 46th meeting in April 2026, the Board heard an update from the Secretariat regarding recent work in support of the Board's deliberations on this matter, as well as an update from the UNFCCC Secretariat's Article 6 team on its work to develop an Article 6.4 mechanism and an update from the Trustee regarding its work to update draft new terms and conditions for trustee services.
16. At recent 64th session of the Subsidiary Body for Implementation (SBI 64), Parties further considered the matter of the transition of the Fund to exclusively serve the Paris Agreement, with [draft proposed conclusions of the Chair](#) and [draft decision text options](#) forwarded to the next session (SBI 65) for further consideration.
17. In September 2026, the Chair of the Supervisory Body of the Article 6.4 mechanism (SBM) sent a letter to the Chair of the Adaptation Fund Board on behalf of the SBM requesting the views of the Adaptation Fund Board on complexities identified in a concept note the SBM considered at its 22nd meeting held July 27-30, 2026. The letter from the Chair of the SBM, the meeting report of the 22nd meeting of the SBM, and the concept note the SBM considered at its 22nd meeting are attached as Annex A.
18. At the current meeting, the Secretariat will update the Board on recent work to support the Board's consideration of this matter. Representatives of the UNFCCC secretariat supporting the SBM will provide a briefing to the Board on the matters raised by the Chair of the SBM in his letter to the Fund Board Chair and facilitate a consultative discussion with the Board on behalf of the SBM. The Trustee has also been invited to update the Board on its work towards a draft new terms and conditions for trustee services.
19. To support the Board's continued consideration of arrangements for the transition of the Adaptation Fund to exclusively serve the Paris Agreement in response to relevant decisions by CMP and CMA, and without prejudging the outcomes of SBI 65, CMP 21, or CMA 8, confidential addenda submitted to the Board at the 45th meeting, along with the confidential draft Memorandum of Understanding regarding secretariat services which captures the deliberations of the Board at the 45th meeting, are being shared with the Board separately. The confidential addenda are as follows:
 - (a) AFB/B.47/5/Add.1: Trustee's Discussion Note (submitted to the Board at its 45th meeting in October 2025);
 - (b) AFB/B.47/5/Add.2: Draft Agreement on the Terms and Conditions to be provided by the International Bank for Reconstruction and Development as Trustee for the Adaptation Fund

(submitted to the Board at its 45th meeting in October 2025; updated for the Board's 47th meeting);

- (c) AFB/B.47/5/Add.3: Arrangements for the AF Transition (Initially submitted to the Board at its 43rd meeting in October 2024 and recirculated to the Board at its 44th meeting in April 2025 and at its 45th meeting in October 2025];
- (d) AFB/B.47/5/Add.4: Memorandum of Understanding regarding Secretariat Services to the Adaptation Fund Board (Initially submitted to the Board at its 43rd meeting in October 2024 and recirculated to the Board at its 44th meeting in April 2025 and at its 45th meeting in October 2025);
- (e) AFB/B.47/5/Add.5: Memorandum of Understanding regarding Secretariat Services to the Adaptation Fund Board (N.B.: This document captures the deliberations of the Board at its forty-fifth meeting regarding the Memorandum of Understanding regarding secretariat services in the context of the arrangements for the Fund's transition to exclusively serving the Paris Agreement. While it has not been formally adopted by the Board it captures work the Board did at its 45th meeting in October 2025 and is being shared for information as a working document without limiting or prejudging the future work, views, or decisions of the Board or the CMP and the CMA);
- (f) AFB/B.47/5/Add.6: Rules of Procedure of the Adaptation Fund Board (Initially submitted to the Board at its 43rd meeting in October 2024 and recirculated to the Board at its 44th meeting in April 2025 and at its 45th meeting in October 2025);
- (g) AFB/B. 47/5/Add.7: Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund (OPG) (Initially submitted to the Board at its 43rd meeting in October 2024 and recirculated to the Board at its 44th meeting in April 2025 and at its 45th meeting in October 2025);
- (h) AFB/B.47/5/Add.8: Strategic Priorities, Policies, and Guidelines of the Adaptation Fund (SPPG) (Initially submitted to the Board at its 43rd meeting in October 2024 and recirculated to the Board at its 44th meeting in April 2025 and at its 45th meeting in October 2025);
- (i) AFB/B.47/5/Add.9: Compilation of the Intersessional (B.43-43) Survey on Rules of Procedure, the MOU regarding secretariat services, and SPPG, in the context of the Fund's transition to the Paris Agreement (Initially submitted to the Board at its 43rd meeting in October 2024 and recirculated to the Board at its 44th meeting in April 2025 and at its 45th meeting in October 2025).

Annex A

- A. Letter from the Chair of the Supervisory Body of the Article 6.4 Mechanism to the Chair of the Adaptation Fund Board
- B. Report of the 22nd Meeting of the Supervisory Body of the Article 6.4 Mechanism
- C. Concept note on the Evaluation of the Implementation of the Share of Proceeds



Mr. Ali Daud Mohamed
Chair, Adaptation Fund Board
Email: ali.mohamed@climateenvoy.go.ke

Date: 1 September 2026
Ref: PA/KSU/jma

Request for views of the Adaptation Fund Board on the complexities and possible solutions identified in the concept note on the evaluation of the implementation of the share of proceeds for adaptation under the Article 6.4 mechanism

Dear Mr. Mohamed,

I am writing to you in my capacity as Chair of the Supervisory Body (SBM) regarding the consideration by the Supervisory Body, at its twenty-second meeting, of the concept note on the evaluation of the implementation of the share of proceeds (SOP) for adaptation.

At its twenty-second meeting, the Supervisory Body considered the concept note and took note of the complexities associated with the implementation of the SOP for adaptation, as well as the possible solutions identified therein. The Body agreed to inform the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) of these considerations through its annual report.

In this context, the Supervisory Body requested the secretariat to seek the views of the Adaptation Fund Board on the identified complexities and the possible solutions set out in the concept note, and to report these views back to the Body for its consideration.

In addition, the Supervisory Body agreed that, for the purposes of Article 6.4 mechanism cooperative approach CA 0001, the Adaptation Fund, or its trustee, should be deemed an authorized entity, thereby avoiding the need for individual participating Parties to provide separate authorizations. This would help address one of the operational complexities identified in the concept note by facilitating the receipt and transfer of authorized Article 6.4 emission reductions and supporting their effective monetization for adaptation purposes. This decision will likewise be communicated to the CMA through the annual report of the Supervisory Body.

Against this background, I would be grateful for the Adaptation Fund Board's views on the complexities identified in the concept note and the possible solutions proposed therein. The Board's feedback will be invaluable in supporting the Supervisory Body's further consideration of this matter and in informing any future recommendations to the CMA.



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Noting that the next meeting of the Supervisory Body (SBM 023) is scheduled for 5 to 9 October 2026, while the next meeting of the Adaptation Fund Board (AFB 47) is scheduled for 19 to 23 October 2026, I would be grateful if the Board could advise whether it foresees any possibility of providing views on this matter prior to SBM 023. Should this not be feasible, the Supervisory Body would nevertheless welcome the Board's views at its earliest convenience following AFB 47.

For ease of reference, I am pleased to enclose the report of the twenty-second meeting of the Supervisory Body, in particular paragraph 14 (<https://unfccc.int/sites/default/files/resource/A6.4-SBM022.pdf>), together with the concept note on the evaluation of the implementation of the share of proceeds for adaptation (<https://unfccc.int/sites/default/files/resource/A6.4-SBM022-AA-A04.pdf>).

I thank you in advance for your cooperation and continued collaboration, and I look forward to receiving the Board's views on this important matter.

Yours sincerely,

Mkhuthazi Steleki
Chair of the Article 6.4 Supervisory Body

Enclosure

A6.4-SBM022

Meeting report

Twenty-second meeting of the Article 6.4 mechanism Supervisory Body

Version 01.0

Date of meeting: 27 to 30 July 2026

Place of meeting: Bonn, Germany



United Nations
Framework Convention on
Climate Change

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Agenda item 1. Agenda and meeting organization

Agenda item 1.1. Opening

1. Mr. Mkhuthazi Steleki, Chair of the Supervisory Body of the mechanism established by Article 6, paragraph 4, of the Paris Agreement (Article 6.4 mechanism), opened the meeting and asserted that the quorum requirement was met.
2. The table below shows the attendance of members and alternate members at this meeting.¹

Table. Attendance

Members	Presence	Alternates	Presence
Mr. Michel Ardohain ^b	In-person	Mr. Dexter Lee ^b	In-person
Mr. Eduardo Calvo ^a	In-person	Mr. German Obando Vargas ^a	Absent
Mr. Piotr Dombrowicki ^{a, 1}	In-person	Mr. Imre Bányász ^{a, 1}	In-person
Mr. Gebru Jember Endalew ^a	In-person	Mr. Olivier Ishimwe ^a	In-person
Ms. Olga Gassan-zade ^{b, 2, 3}	Virtual	VACANT ^b	
Ms. Eunhae Jeong ^{b, 4}	In-person	Mr. Mohammed AlNahas ^{b, 5}	In-person
Mr. Richard Muyungi ^b	Absent	Ms. Mominata Elola Compaore ^b	Virtual
Mr. Shao Hua Ng ^b	Absent	Mr. Sumeet Betancourt ^b	In-person
Ms. Marina Moreira Costa Pittella ^b	In-person	Ms. Adriana Gutierrez ^b	In-person
Ms. Jacqui Ruesga ^a	Virtual	Mr. Simon Fellermeier ^a	In-person
Mr. Mkhuthazi Steleki ^a	In-person	Mr. Alick Muvundika ^a	Absent
Mr. Arif Goheer ^{a, 6}	In-person	Mr. Kentaro Takahashi ^a	Virtual

Members and respective alternate members are listed in alphabetical order by member's surname.

^a Term: 2 years, i.e. ending prior to the first meeting in 2027.

^b Term: 2 years, i.e. ending prior to the first meeting in 2028.

¹ Nomination pending from CMA² 6 (Baku). Current member remains in office until nomination is received.

² Nomination pending from CMA 7 (Belém). Current member remains in office until nomination is received.

³ Nomination pending from CMA 5 (Dubai). Current member remains in office until nomination is received.

⁴ The Chair of the Asia Pacific Group (APG) informed the secretariat on 22 November 2025 that APG has agreed on a seat sharing arrangement for the position of member as follows:

¹ For detailed information on nominations and agreements made within each regional group, please refer to the United Nations Framework Convention on Climate Change (UNFCCC) election and membership page, available at: <https://unfccc.int/process-and-meetings/bodies/election-and-membership>.

² Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its sixth session.

Ms. Eunhae Jeong (Republic of Korea) in 2026 and Mr. Mohammed AlNahas (Kingdom of Saudi Arabia) in 2027

⁵ The APG informed the secretariat on 22 November 2025 that APG has agreed on a seat-sharing arrangement for the position of alternate member as follows: Mr. Mohammed AlNahas (Kingdom of Saudi Arabia) in 2026 and Mr. Ahmed Masoon Hassan (Maldives) in 2027.

⁶ Ms. Khalida Bashir resigned effective 18 May 2026.

Agenda item 1.2. Adoption of the agenda

3. The Supervisory Body adopted the agenda of the meeting, which was published as document A6.4-SBM022-AA.³

Agenda item 2. Governance and management matters

Agenda item 2.1. Membership issues

4. Members and alternate members of the Supervisory Body made available statements of actual, potential or perceived conflicts of interest with respect to the issues on the agenda of this meeting, as reflected on the UNFCCC website.⁴

Agenda item 2.2. Strategic planning and direction

5. The Supervisory Body considered the draft annual report of the Supervisory Body to the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its eighth session (CMA 8) and requested the secretariat to:

- (a) Streamline the draft report by avoiding repetition, taking into account the feedback provided by the Supervisory Body at this meeting;
- (b) Further elaborate and clearly communicate the financial status of the Article 6.4 mechanism, including potential recommendations to the CMA;
- (c) Prepare a revised draft report taking into account the feedback provided at this meeting, in consultation with the Chair and Vice-Chair of the Supervisory Body and present it to the Supervisory Body for its consideration at its next meeting.

Agenda item 2.3. Performance management

6. The Supervisory Body took note of the update on the financial status of the 2026-2027 Business and Resource Allocation Plan, acknowledged the funding gap for the 2027 budget, acknowledged the efforts by the secretariat to limit expenditures and seek additional efficiency gains and requested for continued prudent financial management. The Supervisory Body requested the secretariat to continue providing regular updates on the income and expenditures. The Supervisory Body also took note of the information on alternative sources of funding of Article 6.4 mechanism and requested the secretariat to provide additional information on this matter at its next meeting.

³ See <https://unfccc.int/sites/default/files/resource/A64-SBM022-AA.pdf>.

⁴ Twenty-second meeting of the Article 6.4 Supervisory Body, available at <https://unfccc.int/event/Supervisory-Body-22>.

7. The Supervisory Body adopted its updated workplan 2026 as contained in annex 1 to this report, including new mandates provided at this meeting, noting that the expected timeline for them is to be defined. The Supervisory Body also requested the secretariat to include any new mandates arising from future meetings in subsequent iterations of the workplan, and to provide an update on the status of work on a regular basis.
8. The Supervisory Body adopted the updated workplan of the Methodological Expert Panel (MEP) for 2026 as contained in annex 2 to this report, including new mandates provided at this meeting, noting that the expected timeline for them is to be defined. The Supervisory Body also requested the secretariat to include any new mandates in future versions of the workplan, and to provide an update on the status of work on a regular basis.

Agenda item 2.4. Matters related to the Supervisory Body and its support structure

9. The Supervisory Body took note of the report of the eighth meeting of the Accreditation Expert Panel (AEP).⁵ The report summarized the work of the AEP, including an update on applications received from applicant entities (AEs) for accreditation under the Article 6.4 mechanism.
10. The Supervisory Body took note of the reports of the fourteenth and fifteenth meeting of the MEP.⁶ The reports summarize the work of the MEP, including the products related to requirements for the methodologies, activities involving removals, and the revision of clean development mechanism methodologies and methodological tools.

Agenda item 2.5. Designated national authorities

11. The Supervisory Body took note that 129 designated national authorities were established as of 29 July 2026, and 69 countries submitted information on the fulfilment of the host Party participation requirements.⁷

Agenda item 3. Regulatory and procedural matters

Agenda item 3.1. Governance

12. The Supervisory Body considered the concept note “Governance arrangements for the Article 6.4 Supervisory Body and its expert panels” and requested the secretariat to prepare a revised version of the concept note taking into account the feedback provided at this meeting and to present it together with the revised relevant procedures to the Supervisory Body for consideration at a future meeting in 2027.
13. The Supervisory Body took note of the information on actions implemented by the secretariat in support of the MEP.

⁵ See <https://unfccc.int/sites/default/files/resource/A6.4-AEP007.pdf>.

⁶ See <https://unfccc.int/sites/default/files/resource/A6.4-MEP012.pdf> and https://unfccc.int/sites/default/files/resource/A6.4_MEP013.pdf.

⁷ See <https://unfccc.int/process-and-meetings/the-paris-agreement/article-64-mechanism/national-authorities>.

14. The Supervisory Body considered the concept note on the Evaluation of the implementation of the share of proceeds (SOP) and agreed to the following:
- (a) Administrative SOP:
 - (i) Inform the CMA, due to lack of practical implementation experience the Supervisory Body agreed to postpone consideration of this matter with a view to undertaking an assessment and making recommendations for consideration by the CMA at its ninth session, and to report this in its annual report to the CMA;
 - (ii) Request the secretariat to prepare a revised “Procedure: Article 6.4 Activity Cycle Procedure for Programmes of Activities” regarding the exemption from administrative fees, limiting the exemption only to component projects hosted in least developed countries or small island developing States, and to present the revised procedure to the Supervisory Body for its consideration at a future meeting.
 - (b) Adaptation SOP:
 - (i) Took note of the complexities associated with the implementation of the SOP for adaptation and of the proposed solutions presented in the concept note and agreed to inform the CMA through its annual report;
 - (ii) Request the secretariat to seek feedback from the Adaptation Fund Board on the identified complexities and possible solutions and to report back to the Supervisory Body;
 - (iii) Considering the lack of practical implementation experience gained from the operation of the Article 6.4 mechanism, it agreed to postpone consideration of this matter with a view to undertaking an assessment and making recommendations for consideration by the CMA at its ninth session, and to report this in its annual report to the CMA; and
 - (iv) Agreed to deem the Adaptation Fund (or its trustee) an authorized entity for the Article 6.4 mechanism cooperative approach (CA 0001), thereby avoiding the need for each participating Party to separately authorize the Adaptation Fund (or its trustee) as an authorized entity, and to report this in its annual report to the CMA.
15. The Supervisory Body also considered the information on the “Evaluation of the implementation and possible improvements to optimize the delivery of overall mitigation in global emissions” set out in Chapter VIII of the annex to decision 3/CMA.3. Considering the lack of practical implementation experience gained from the operation of the Article 6.4 mechanism, it agreed to postpone consideration of this matter with a view to undertaking an assessment and making recommendations for consideration by the CMA at its ninth session, and to report this in its annual report to the CMA.
16. The Supervisory Body considered the recommendation of the AEP and agreed to launch the first regular surveillance assessment, for those designated operational entities (DOEs) and AEs which have been assessed based on the accreditation standard (version. 01.0) within one year after accreditation is granted to ensure compliance with

the Accreditation Standard (version. 02.0). Furthermore, the Supervisory Body requested the secretariat to:

- (a) Establish a declaration form to be submitted by DOEs along with related implementation evidence in compliance with the Accreditation Standard (version 02.0);
- (b) Indicate in the declaration form that any DOE that submits false, misleading or inaccurate information, or conceals relevant information, during the declaration process, shall immediately be liable for withdrawal of Article 6.4 accreditation as per section 14 of the Accreditation Procedure (version 02.0);
- (c) Ensure on-site assessments of the first regular surveillance assessments to be conducted after 10 October 2026;
- (d) Summarize declaration and implementation evidence provided in assessment workplans for assessment teams to review prior to conducting office visits of the regular surveillance assessments as per paragraph 145 of the Accreditation Procedure (version 02.0).

Agenda item 3.2. Activity cycle

- 17. The Supervisory Body took note of the information on “Incorporation of Know-Your-Customer (KYC) process within the Article 6.4 mechanism regulations”. The Supervisory Body also requested the secretariat, subject to availability of resources, to proceed with a coordinated approach to developing the SOP and risk management policy and report back as needed at a future meeting.

Agenda item 3.3. Methodologies

- 18. The Supervisory Body considered and adopted the “A6.4-AMM-003: Mechanism methodology: Electricity generation from renewable sources connected to an electricity system”, as contained in annex 3 to this report.
- 19. The SBM further requested the MEP to review the methodology, as appropriate, taking into account the experience gained through the application, scientific analysis of activities undertaken under this methodology, improved data availability, and relevant methodological developments; including the common-practice assessment, the appropriateness of the applicable thresholds, restrictions and technology-specific provisions, and to recommend any revision of the methodology that may be warranted at a future meeting. In doing so, the MEP should consider whether greater differentiation among comparable activities, indicators, and thresholds could better reflect relevant technological, national, and market circumstances, while ensuring consistency, environmental integrity, and practical applicability.
- 20. The Supervisory Body requested the MEP to conduct further work on the GHG emissions from hydropower plants reservoirs and to make recommendations for the inclusion of provisions to estimate these emissions in the methodology referred to in paragraph 19 above.
- 21. While considering the methodology referred to in paragraph 19 above, the Supervisory Body took note that the approach of a relative downward adjustment was applied in the mechanism methodology and requested the MEP to reflect such approach in a future

revision of the "Standard: Setting the baseline in mechanism methodologies" (A6.4-STAN-METH-004) once the standard will be reviewed.

22. The Supervisory Body considered the "Draft mechanism methodology: Energy efficiency measures in household cooking" and requested the MEP to review its recommendation and provide its views on the following questions for its consideration at its next meeting.
- (a) Benefits and drawbacks of considering reversal risk and the application of non-permanence provisions for improved cookstove activities, independent of the existing Article 6.4 rules and regulations, taking into consideration the best available science and practical implications;
 - (b) The rationales on the 4.5% threshold of "households in the target population with a functional cooking technology that is assessed to have the same or a higher efficiency as the project cookstoves (i.e., equivalent to the project cookstoves)" as set out in paragraph 13(j) of the proposed methodology and whether this is possible under Article 6.4 rules and regulations. The MEP should further consider: (i) the benefits and drawbacks of expanding the scope of exclusions in paragraph 46(a) and (ii) whether the assumptions take into account potential non-linear growth rates of autonomous adoption;
 - (c) Whether the approach in paragraph 57(a), associated with paragraph 52(i) of the baseline standard, is appropriate in specific instances where data exhibits heavily skewed distributions, and whether alternative approaches such as calculating "the median performance of all the best performing comparable activities including and beyond the selected percentile" may be a more representative metric.
23. The Supervisory Body agreed to request the secretariat to consider ways, including exploring publishing the "A6.4-FORM-METH-001: New baseline and monitoring methodology or methodological tool proposal form" as soon as it is received by the secretariat, to allow stakeholders to collaborate with proponents of proposed mechanism methodologies, should they wish.

Agenda item 3.4. Registry

24. The Supervisory Body adopted the revision to "Procedure: Article 6.4 mechanism registry", as contained in annex 4 to this report with the understanding that the procedure will be further revised. The Supervisory Body requested the secretariat to continue work on matters requiring further policy discussion, including, post issuance authorization, matters relating to the first transfer from a Party that is not the host Party, and present a revised procedure to the Supervisory Body for its consideration at a future meeting.
25. The Supervisory Body considered the information on "Considerations for repurposing the voluntary cancellation platform" and agreed not to repurpose the platform for operations under Article 6.4 mechanism registry.

Agenda item 3.5. Policy matters

26. The Supervisory Body took note that no policy matters were considered at this meeting.

Agenda item 4. Rulings

Agenda item 4.1. Accreditation

27. The Supervisory Body considered the recommendation of the AEP and agreed to accredit for five years the applicant entity A6.4E-0019 Limited Liability Company Small Innovative Enterprise “NES Profexpert” for validation, verification and certification functions for sectoral scopes 1–15 in accordance with paragraph 86 of the “Procedure: A6.4 accreditation” (version 02.0).
28. The Supervisory Body took note of notifications from the AEP on the completion of performance assessments of two DOEs in accordance with paragraph 125 of the “Procedure: A6.4 accreditation” (version 02.0).

Agenda item 4.2. Registration

29. The Supervisory Body noted that no transition requests were considered at this meeting.

Agenda item 4.3. Issuance

30. The Supervisory Body noted that no issuance rulings were considered at this meeting.

Agenda item 4.4. Other rulings

31. The Supervisory Body noted that no other rulings were considered at this meeting.

Agenda item 5. Relation with forums and other stakeholders

32. The Supervisory Body interacted with registered observers during the meeting. The observers presented views in relation to items on the agenda of this meeting. The Supervisory Body took note of the inputs and thanked the observers for their interactions. The list of registered observers to this meeting is contained in annex 5 to this report.
33. The Supervisory Body also interacted with Mr. Javier Castro, Chair of the DOE/AE Coordination Forum during its meeting and took note of the Forum’s input. The Supervisory Body thanked the Chair for his input.
34. The Supervisory Body considered the letter submitted by stakeholders and agreed to respond in accordance with the “Procedure: Direct communication with stakeholders”.
35. The Supervisory Body considered public comments on the documentation of this meeting, which were made publicly available on the UNFCCC website, and thanked stakeholders for their comments.⁸
36. Observers to SBM 023 shall register with the secretariat three weeks before the start of that meeting. Any change to the meeting date will be communicated as appropriate.

⁸ See <https://unfccc.int/process-and-meetings/the-paris-agreement/article-64-mechanism/calls-for-input>.

Agenda item 6. Other matters

37. The Supervisory Body agreed to the provisional agenda for SBM 023, to be held in Bonn, from 5 to 9 October 2026, as contained in annex 6 to this report.

Agenda item 7. Conclusion of the meeting

38. The Chair summarized the main conclusions.
39. The proceedings of the open sessions of the meeting can be accessed via on-demand broadcast.

Annexes to the report

- Annex 1 - Information note: Workplan of the Supervisory Body 2026 (version 02.0)
- Annex 2 - Information note: Workplan of the Methodological Expert Panel 2026 (version 03.0)
- Annex 3 - A6.4-AMM-003: Mechanism methodology: Electricity generation from renewable sources connected to an electricity system (version 01.0)
- Annex 4 - Procedure: Article 6.4 mechanism registry (version 03.0)
- Annex 5 - Information note: List of registered observers at the twenty-second meeting of the Supervisory Body (version 01.0)
- Annex 6 - Provisional agenda: 23rd meeting of the Supervisory Body (version 01.0)

List of documents that have been edited or issued since the last meeting

This list sets out the regulatory documents issued or revised since the last meeting (SBM 020), in accordance with the “Decision and Documentation Framework” ([A6.4-INFO-GOV-005](#)), to enhance transparency and facilitate access to regulatory information under the Article 6.4 mechanism.

Users are encouraged to consult the [Article 6.4 rules and regulations](#) webpage to ensure that they are using the most recent versions of the documents, particularly forms required for submission processes. For ease of reference, click on each type of document link below to access these and other regulatory documents.

[Information notes](#)

- A6.4-INFO-GOV-029: Workplan of the Methodological Expert Panel 2026 (version 02.0)
- A6.4-INFO-GOV-030: Calendar of meetings of the Supervisory Body for 2026 (version 03.0)

[Forms](#)

- A6.4-FORM-METH-005: New baseline and monitoring methodology or methodological tool expert review form (version 02.0)

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Document information

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A6.4-SBM022-AA-A04

Concept note

Evaluation of the implementation of the
Share of proceeds

Version 01.0



United Nations
Framework Convention on
Climate Change

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1. Background

1. Article 6, paragraph 6, of the Paris Agreement provides that the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) shall ensure that a share of the proceeds from activities under the mechanism established by Article 6, paragraph 4, of the Paris Agreement, is used to cover administrative expenses (share of proceeds (SOP) for administrative expenses) as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation (SOP for the Adaptation Fund).
2. The CMA, through decision 3/CMA.3,¹ adopted the rules, modalities and procedures for the Article 6.4 mechanism (RMPs), as contained in the annex to the decision. The decision requested the Supervisory Body of the Article 6.4 mechanism to develop provisions for various processes necessary to operate the mechanism, and provided that a levy of 5 per cent and 2 per cent of issued Article 6, paragraph 4, emission reductions (A6.4ERs) are to be provided to the Adaptation Fund and the cancellation account for overall mitigation, respectively.² In relation to the administrative expenses of the Article 6.4 mechanism, the decision provided that the SOP for administrative expenses shall be set in monetary terms at a level and implemented in a manner to be determined by the CMA³.
3. Also through decision 3/CMA.3, the CMA requested the Supervisory Body to evaluate the implementation of the SOP no later than in 2026 and every five years thereafter and, following such review, to make recommendations on possible improvements in order to optimize the resources available to the Adaptation Fund for consideration and adoption by the CMA.⁴

1.1. Background on the SOP for administrative expenses

4. With regard to SOP for the administrative expenses, decision 7/CMA.4 provides:
 - (a) That the levels of the SOP for administrative expenses are to be reviewed periodically for the sound operation of the Supervisory Body and for enabling a periodic contribution of funds to the Adaptation Fund;⁵
 - (b) That the secretariat is to take necessary steps to establish a separate trust fund for the receipt of the SOP for administrative expenses charged as fees under the mechanism and other contributions;
 - (c) That transitioning clean development mechanism (CDM) activities shall be subject to the SOP for administrative expenses;⁶

¹ Decision 3/CMA.3. "Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement" Available at: https://unfccc.int/sites/default/files/resource/cma2021_10a01E.pdf#page=25.

² Decision 3/CMA.3, annex, Sections VII and VIII.

³ Decision 3/CMA.3, annex, paragraph 68.

⁴ Decision 3/CMA.3, paragraph 8.

⁵ Decision 3/CMA.3, paragraph 13.

⁶ Decision 3/CMA.3, paragraph 14.

- (d) The composition of the SOP for administrative expenses,⁷ as detailed in Appendix I, and that all fees shall be paid at the time of submission of the respective requests,⁸ that the paid fees may be reimbursed partially or fully under certain circumstances to be specified by the Supervisory Body,⁹ and that all fees shall be waived for activities in least developed countries (LDCs) and small island developing States (SIDS);¹⁰ and
- (e) That the Supervisory Body may adjust and implement the fee structure and levels within a boundary to be set by the CMA, on the basis of the guiding principles of balancing income and expenditure, enabling long-term sound operation of the Article 6.4 mechanism, being fair to activity participants, ensuring administrative efficiency and providing predictability to activity participants and the Supervisory Body.¹¹

1.2. Background on the SOP for the Adaptation Fund

1.2.1. Background on relevant CMA decisions

5. Decision 2/CMA.3 provides the process for the application of corresponding adjustments. Specifically, host Parties must apply corresponding adjustments to the emissions covered by their nationally determined contribution (NDCs) by adding the quantity of internationally transferred mitigation outcomes (ITMOs) authorized and first transferred for the calendar year in which the mitigation outcomes occurred.¹² Participating Parties using ITMOs towards their NDCs must subtract the quantity of the ITMO used for the calendar year in which the mitigation outcomes are used towards the implementation and achievement of the NDCs, ensuring the mitigation outcomes are used within the same NDC period as when they occurred.¹³ The CMA specified that additions and subtractions for an NDC implementation period shall be considered final, prior to the initiation of the review of the first biennial transparency report (BTR) that contains information on the end year or the end of the period of the NDC (final BTR), by a date to be determined by the CMA.¹⁴ Additionally, the CMA specified that in its initial report, each participating Party must provide, for each cooperative approach, the authorized entities for the cooperative approach.
6. In decision 7/CMA.4, the CMA clarified that where the A6.4ERs forwarded to the SOP account held by the Adaptation Fund are authorized, the mechanism registry administrator shall distinguish the forwarding as effecting a first transfer, subject to a corresponding adjustment.¹⁵ It also provided that the Adaptation Fund Board and its support structure

⁷ Decision 3/CMA.3, annex, section A.

⁸ Decision 3/CMA.3, annex, paragraph 56

⁹ Decision 3/CMA.3, annex, paragraph 57

¹⁰ Decision 3/CMA.3, annex, paragraph 58

¹¹ Decision 3/CMA.3, annex, paragraph 59.

¹² Decision 2/CMA.3, paragraph 8(a).

¹³ Decision 2/CMA.3, paragraph 8(b).

¹⁴ Decision 2/CMA.3, annex, paragraph 12.

¹⁵ Paragraph 39 of decision 7/CMA.4, annex I.

shall develop and implement a strategy on monetizing A6.4ERs received by the Adaptation Fund and inform the state of monetization annually to the CMA.

7. The CMA provided further guidance on the final recording of corresponding adjustments in decision 4/CMA.6, providing that for mitigation outcomes authorized for use towards other international mitigation purposes (OIMP), the first transfer of the mitigation outcome must be recorded no later than 31 December of the year prior to the submission of the final BTR for the NDC period in which the mitigation outcome occurred.¹⁶ Further, in this decision the CMA provided that:
- (a) The authorization of an ITMO may be time bound, and that the participating Party shall include in their authorization of use of ITMOs the date and duration of the authorization, including the final date for mitigation outcomes to be issued, or to be used or cancelled, in connection with the first transfer specified by the Party as per decision 2/CMA.3, annex, paragraph 2(b), as applicable;¹⁷
 - (b) Each participating Party must provide the names of the participating Parties and/or entities, if known, covered by the authorization;¹⁸
 - (c) Where changes to the authorization of ITMOs may occur, the participating Party must provide information on the circumstances in which such changes may occur and a description of the process for managing them in a way that avoids double counting;¹⁹
 - (d) Any changes to authorization of the use of ITMOs from a cooperative approach shall not apply to, or affect, mitigation outcomes that have already been first transferred, unless otherwise specified by the Parties participating in the cooperative approach in the applicable terms and conditions of the authorization that specify the circumstances for such changes and the process for managing them, in order to ensure the avoidance of double counting;²⁰
 - (e) Changes to authorization shall be consistent with the terms and conditions of the authorization that specify the circumstances for such changes and the process for managing them;²¹
 - (f) Each participating Party shall apply robust accounting to ensure that any changes to authorization of the use of ITMOs from a cooperative approach do not lead to double counting.²²

¹⁶ Paragraph 14 of decision 4/CMA.6

¹⁷ Paragraph 5(c) of decision 4/CMA.6

¹⁸ Paragraph 5(b) of decision 4/CMA.6

¹⁹ Paragraph 5(g) of decision 4/CMA.6.

²⁰ Paragraph 7 of decision 4/CMA.6.

²¹ Paragraph 8 of decision 4/CMA.6.

²² Paragraph 9 of decision 4/CMA.6.

8. The CMA, through decision 6/CMA.6, clarified that:
 - (a) Parties may allow mitigation contribution A6.4ERs (mitigation contribution units (MCUs)) to be issued for the underlying activity, while noting that the host Party may authorize the A6.4ERs at a later stage;²³ and
 - (b) The ability for host Parties to provide post-issuance authorization to MCUs is subject to the host Party providing the Supervisory Body with a revised statement of authorization with which the host Party authorizes the A6.4ERs that have already been issued within the time frame to be set by the Supervisory Body, if necessary, which applies from the date of issuance prior to any transfer of the MCUs in or out of the mechanism registry, and applying the requirements for corresponding adjustments with respect to the corresponding MCUs already forwarded for the SOP for adaptation pursuant to decision 7/CMA.4, annex I, paragraph 39, and cancelled to deliver overall mitigation in global emissions pursuant to decision 7/CMA.4, annex I, paragraph 40.²⁴
9. Decision 6/CMA.6 also requested the secretariat, with the approval of the Supervisory Body, to establish necessary guidelines and operationalize the process for post-issuance authorizations, ensuring that:
 - (a) Respective MCUs are still held by the mitigation activity participants and have not been transferred in or out of the mechanism registry;
 - (b) Corresponding adjustments pursuant to decision 2/CMA.3, annex, chapter III (Corresponding adjustments), are applied by the host Party as if the authorization had been provided no later than at issuance; and
 - (c) Respective SOPs for adaptation received by the Adaptation Fund pursuant to decision 3/CMA.3, annex, chapter VII (Levy of share of proceeds for adaptation and administrative expenses), are comprised of authorized A6.4ERs (AERs) rather than MCUs.

2. Purpose

10. The purpose of this information note is to inform the Supervisory Body of challenges and considerations for the Adaptation Fund in operationalizing SOP from Article 6.4 mechanism activities.

3. Key issues and proposed solutions: SOP for administrative expenses

3.1. Issues

11. The Article 6.4 mechanism is at a very early stage of implementation. Thus far, there has been limited experience in implementing the SOP for administrative expenses for projects and programmes of activities (PoAs). Until more experience is gained, it is not possible to analyse whether the fee levels are appropriately set for the self-financing of the mechanism.

²³ Paragraph 11(c) of decision 4/CMA.6.

²⁴ Paragraph 12 of decision 4/CMA.6.

12. One issue has been identified regarding the implementation of the SOP for administrative expenses that may require action by the Supervisory Body at this stage. Paragraph 4 of Appendix 1 of the “Procedure: Article 6.4 activity cycle procedure for programmes of activities” provides that all fees related to activities under the Article 6.4 mechanism shall be waived for PoAs and component projects (CPs) therein hosted in LDCs and SIDS or for multi-country PoAs where at least one of the host Parties is an LDC or SIDS.
13. Notably, this paragraph enables CPs which are not hosted in LDCs and SIDS to be exempt from all fees for the SOP for administrative expenses provided the PoA contains one CP within an LDC or SIDS. This exemption to the administrative expenses has the potential to undermine the effective self-financing operation of the mechanism.
14. The Supervisory Body may wish to reconsider this fee waiver for the next revision of the “Procedure: Article 6.4 activity cycle procedure for programmes of activities”.

3.2. Proposed solutions

15. In respect of the broader implementation of the SOP for administrative expenses and any review of fee levels for the self-financing of the mechanism, the Supervisory Body may wish to (i) defer the evaluation of these issues until next year (or the year after) once more experience is gained and informed decisions can be made; and (ii) inform the CMA of this deferral in its annual report.
16. In respect of the issues related to the SOP for administrative expenses for PoAs, the Supervisory Body, upon the next revision of the “Procedure: Article 6.4 activity cycle procedure for programmes of activities”, may wish to reconsider this fee waiver for CPs hosted in non-LDCs and SIDS to ensure its application to only CPs hosted within LDCs and SIDS, and ensure processes for collecting the fees facilitate this limited application of the fee waiver. This proposed solution is within the administrative functions of the Supervisory Body and can be implemented without referral to the CMA for any additional guidance or amendment of the RMPs.

4. Key issues and proposed solutions: SOP for the Adaptation Fund

4.1. Key issues

17. There are two main issues relating to the SOP for the Adaptation Fund, as follows:
 - (a) Pursuant to decision 2/CMA.3,²⁵ and as reiterated in decision 4/CMA.6,²⁶ only authorized entities of a cooperative approach may hold ITMOs. In other words, in respect of AERs, the Adaptation Fund must be an authorized entity and will only be able to transfer to other authorized entities; and

Complications of different types of A6.4ERs reducing the likely effective monetization for the Adaptation Fund.
18. These issues relating to the SOP for the Adaptation Fund are explored in turn in the following sections.

²⁵ Paragraph 18(g) of the annex to decision 2/CMA.3.

²⁶ Paragraph 3 of decision 4/CMA.6.

4.1.1. Requirement for the Adaptation Fund to be an authorized entity for the receipt of AERs

19. As discussed in paragraph 5 and 7(b) above, pursuant to decision 2/CMA.3²⁷ and as reiterated in decision 4/CMA.6,²⁸ each participating Party must provide in its authorization the entities authorized for the cooperative approach, which are therefore eligible to receive ITMOs from a cooperative approach. AERs once first transferred are ITMOs. Therefore, to be eligible to receive AERs from activities under the Article 6.4 mechanism as part of the SOP for the Adaptation Fund, the Adaptation Fund (or its trustee) must be provided as an authorized entity of the cooperative approach by the participating Parties. While not explicitly stated by the CMA, given that the RMPs mandated that the Adaptation Fund shall receive ITMOs (i.e., A6.4ERs from an activity that has an “authorized” status), the RMPs imply that the Adaptation Fund (or its trustee) is a “deemed authorized entity” for the PACM cooperative approach (CA0001).
20. Further, as discussed above, the Adaptation Fund trustee is to develop and implement a strategy for monetizing A6.4ERs. This strategy is likely to involve the further transfer of the A6.4ERs it receives, either to the accounts of purchasers, or to cancellation or use accounts, as applicable (i.e., in exchange for payment the Adaptation Fund transfers the MCUs to a cancellation account, with the paying entity claiming the cancellation on their behalf).
21. Notably, the Adaptation Fund will only be able to further transfer AERs onto other authorized entities of the cooperative approach (i.e., entities whose account in the mechanism registry is approved to receive MCUs and AERs (and ITMOs)). This significantly limits the market for monetizing the AERs received by the Adaptation Fund. For example, where the participating Parties have only authorized the activity participants of a cooperative approach, the only entities eligible to receive the AERs from the Adaptation Fund will be the activity participants that were originally levied the SOP for the Adaptation Fund.

4.1.2. Complications of different unit types

22. As discussed in paragraph 2 above, the CMA provided that the SOP for the Adaptation Fund is levied to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation. The ability of the SOP to do this effectively depends on the effective monetization of the A6.4ERs the Adaptation Fund receives. This system was an effective model for raising funds for the Adaptation Fund under the CDM established by the Kyoto Protocol via which the Adaptation Fund received certified emission reductions from activities via a SOP upon issuance.
23. Notably, the monetization of A6.4ERs varies significantly from the similar system under the CDM due to the different authorization possibilities for A6.4ERs, which determine their possible uses and thereby their marketability. Pursuant to CMA decisions, there are 22 variations of A6.4ERs under the Article 6.4 mechanism:
 - (a) MCUs which cannot be post-issuance authorized;
 - (b) MCUs which can be post-issuance authorized; and

²⁷ Paragraph 18(g) of the annex to decision 2/CMA.3.

²⁸ Paragraph 3 of decision 4/CMA.6.

- (c) AERs authorized for use towards NDCs only, without terms and conditions;
 - (d) AERs authorized for use towards international mitigation purposes (IMP) only, without terms and conditions;
 - (e) AERs authorized for use towards other purposes (OP) only, without terms and conditions;
 - (f) AERs authorized for use towards OIMP only, without terms and conditions;
 - (g) AERs authorized for use towards NDC use and/or OIMP, without terms and conditions;
 - (h) A further five variations of AERs as in (c) to (g) above, but for which terms and conditions have been provided, enabling a change of authorization after the AER has been first transferred;
 - (i) A further list of variations of units that are now ITMOs (i.e., AERs listed in (c) to (h) that have been first transferred).
24. While on the one hand, the Adaptation Fund will only receive the variations of A6.4ERs in paragraph 23(a), (b) and (i) above, the Adaptation Fund's monetization strategy will need to be specific to each authorization possibility of the A6.4ERs they receive so as to navigate their marketability and therefore their income potential. The complexities that must be considered for each possible authorization category of A6.4ERs is detailed in sections 4.1.2.1 – 4.1.2.5 below.
25. The secretariat notes that the Adaptation Fund has not yet prepared their monetization strategy for A6.4ERs received from the SOP for the Adaptation Fund and is still considering the complications explored in this paper.

4.1.2.1. Complexities pertaining to MCUs which cannot be post-issuance authorized

26. The Adaptation Fund will be able to market MCUs which cannot be post issuance authorized to any account holder in the mechanism registry, or to purchasers on behalf of whom the MCUs will be cancelled (i.e., in exchange for payment, the Adaptation Fund transfers the MCUs to a cancellation account and with the paying entity claiming the cancellation on their behalf).

4.1.2.2. Complexities pertaining to MCUs which may be post-issuance authorized

27. Where the Adaptation Fund receives MCUs which may be post-issuance authorized, if the MCUs are post-issuance authorized while held in the Adaptation Fund account, the additional complexities pertaining to them as AERs will apply. The Adaptation Fund may wish to navigate the issues which would arise upon the MCU's post-issuance authorization so as to avoid complication upon the event of post-issuance authorization.
28. The Supervisory Body has not yet developed and adopted the necessary guidelines and operationalized the process for post-issuance authorizations as referred to in paragraph 9 above. Further issues may arise depending on the guidance the Supervisory Body develops regarding MCUs eligible for post-issuance authorization that have been transferred to the Adaptation Fund.

4.1.2.3. Complexities pertaining to AERs authorized for use towards NDCs only

29. When developing their strategy for monetizing A6.4ERs (ITMOs) authorized for use towards NDCs alone, the Adaptation Fund must be cognizant of the limited market given that the only possible end users of the ITMOs are:
- (j) Participating Parties with intention to use ITMOs towards their NDCs; and
 - (k) Entities authorized by the Parties in (j).
30. The size of this market will directly correspond to the available Parties which are able to undertake the necessary corresponding adjustment to use the A6.4ER as an ITMO towards their NDCs pursuant to the accounting rules for NDC periods as provided in decision 2/CMA.3 and 4/CMA.6. As the final date for corresponding adjustments passes for more Parties, the market of potential purchasers of ITMOs authorized for use towards NDCs only shrinks. Once there are no eligible purchasers of ITMOs authorized for use towards NDCs only, any of these ITMOs still held by the Adaptation Fund will effectively be stranded assets, unable to be monetized.

4.1.2.4. Complexities pertaining to AERs authorized for use towards OIMP (OIMP only, or in combination with use towards NDC)

31. As discussed above, pursuant to decision 2/CMA.3²⁹ and as reiterated in decision 4/CMA.6,³⁰ in respect of ARs authorized for use towards OIMP only, the Adaptation Fund will only be able to further transfer these AERs to authorized entities. However, the Adaptation Fund can cancel them for a beneficiary (i.e., an airline or other corporation) that is not an authorized entity.
32. In relation to the implication of the final date for corresponding adjustments, in comparison to AERs that are authorized for use towards NDCs only, those authorized for use towards OIMP (OIMP alone, or in combination with an authorization for use towards NDCs) are not as severe and do not necessarily result in the same stranded asset outcome. This is because the use by a purchaser towards OIMP is not time bound given that the purchaser is not undertaking a corresponding adjustment to their NDC accounting, as the only corresponding adjustment in respect of OIMP is that of the host Party triggered by the first transfer to the Adaptation Fund upon issuance. This means that even after all Parties have finalized their accounting for the NDC period, the OIMP-authorized AERs may still be monetized, irrespective of NDC period dates, where a market demand for them exists.

4.1.2.5. Complexities pertaining to AERs for which the host Party provided terms and conditions enabling a change of authorization after first transfer (those authorized for use towards NDCs only, OIMP only, or NDCs and OIMP)

33. Pursuant to decision 6/CMA.6, all AERs forwarded to the Adaptation Fund's account will be first transferred, meaning they can only have their authorization changed if the host Party provided terms and conditions enabling this at the time of authorizing the AERs.
34. This means, in addition to the complexities discussed above in respect of their authorized uses, AERs for which the host Party provided terms and conditions enabling a change of authorization after first transfer have the additional complexity, to be considered by the

²⁹ Paragraph 18(g) of the annex to decision 2/CMA.3.

³⁰ Paragraph 3 of decision 4/CMA.6."

Adaptation Fund, whereby any AERs that have their authorization changed after monetization by the Adaptation Fund, which were purchased by a buyer with the intention to use towards OIMP, OP or an NDC, will pose a double-counting risk³¹. The Adaptation Fund will likely need to manage this complexity so as to avoid any commercial liabilities associated with their monetization of the A6.4ERs, and any actions the Adaptation Fund may need to take in order to fulfil the Parties' processes to avoid double-counting (i.e., if the authorizing Party determined the Adaptation Fund responsible for notifying any entities to which they transferred the affected A6.4ERs).

4.2. Proposed solutions

35. Given the early stage of the Article 6.4 mechanism's development, there is no "real-world" experience yet with the complexities associated with the A6.4ERs provided to the Adaptation Fund and their monetization. This noted, these complexities associated with each variation of the A6.4ERs the Adaptation Fund may receive will increase the complexity of their processes to monetize the A6.4ERs and associated administration costs. The costs of monetizing A6.4ERs will need to be funded by the Adaptation Fund, meaning these complexities will directly impact the funding ultimately made available to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.
36. As discussed in paragraph 3 above, in decision 3/CMA.3, the CMA requested the Supervisory Body to evaluate the implementation of the SOP for adaptation this year (2026) and every five years thereafter, and make recommendations on possible improvements in order to optimize the resources available to the Adaptation Fund for consideration by the CMA. In light of these complexities, their associated administrative burden and related costs, and the resulting impact on funding to assist developing country Parties with adaptation costs, the Supervisory Body may wish to recommend to the CMA a simpler system which would optimize the provision of resources for the Adaptation Fund.
37. If the Supervisory Body sought to make a recommendation for a simpler system, this early stage of the mechanism's development is the optimum time given that significant resources have not yet been invested into the processes for monetizing A6.4ERs and, as of the preparation of this concept note, no A6.4ERs have been transferred to the Adaptation Fund account in the mechanism registry.
38. Noting the Supervisory Body's mandate to evaluate the implementation of the SOP for adaptation and make recommendations on possible improvements in order to optimize resources available to the Adaptation Fund,³² the Supervisory Body may wish to consider the following options:
 - (a) **Option 1: Delay evaluation and recommendation** – Assume that the complexity was by design and the CMA indented it to be so. In response to the mandate in decision 3/CMA.3,³³ the Supervisory Body may, in its annual report, inform the CMA of the lack of "real-world" experience in monetizing A6.4ERs by the Adaptation Fund and defer the evaluation until [2027][2028];

³¹ Decision 4/CMA.6, paragraph 7.

³² Paragraph 8, decision 3/CMA.

³³ Paragraph 8, decision 3/CMA.

- (b) **Option 2: Inform the CMA and recommend it develop a simpler system –** Pursuant to the decision 3/CMA.3 mandate,³⁴ inform the CMA, through the Supervisory Body' annual report, of the complexities pertaining to the SOP for the Adaptation Fund and implications on the resources of the Adaptation Fund, and recommend that the CMA consider a simpler system to optimize resources available to the Adaptation Fund;
 - (c) **Option 3: Inform the CMA and recommend it consider a simpler system proposed by the Supervisory Body –** Pursuant to the 3/CMA.3 mandate,³⁵ inform the CMA, through the Supervisory Body' annual report, of the complexities pertaining to the SOP for the Adaptation Fund and implications on resources of the Adaptation Fund, and recommend:
 - (i) Option 3A – The SOP for the Adaptation Fund is changed to a fee charged for each issuance, which is directly passed on to the Adaptation Fund. The fee could be a single flat fee, or a fee determined by different factors pertaining to the activity and/or issuance request;
 - (ii) Option 3B – The CMA creates a unique variation of A6.4ERs (e.g., Adaptation A6.4ERs). These are generated for the SOP for the Adaptation Fund (instead of the Adaptation Fund receiving all other variations of A6.4ERs) and are by nature equivalent to MCUs that are not eligible for post-issuance authorization, and which therefore have significantly reduced complexities for monetizing. The Supervisory Body may wish to note that the funds generated from monetizing this variation of A6.4ERs would depend on their market demand;
 - (iii) Option 3C – The CMA creates a unique variation of A6.4ERs (e.g., Adaptation A6.4ERs). These are generated for the SOP for the Adaptation Fund (instead of the Adaptation Fund receiving all other variations of A6.4ERs) and are by nature uniquely deemed authorized for all uses irrespective of the authorization of other A6.4ERs issued from the activity, and which may be monetized by the Adaptation Fund for NDC use by Parties irrespective of NDC accounting period rules. These unique authorized A6.4ERs would therefore have significantly reduced complexities for monetizing. The Supervisory Body may wish to note that the funds generated from monetizing the variation of A6.4ERs would depend on their market demand.
39. In respect of options 2, 3A, 3B and 3C, the Supervisory Body would need to provide additional guidance on the processing of A6.4ERs determined for the SOP for the Adaptation Fund in the meantime. The Supervisory Body may wish to consider the following options:
- (a) Pending CMA guidance, the Supervisory Body proceeds to apply the currently designed system for the SOP for the Adaptation Fund, forwarding/first transferring the SOP to the Adaptation Fund account upon issuance;

³⁴ Paragraph 8, decision 3/CMA.³⁵ Paragraph 8, decision 3/CMA.

- (b) Pending CMA guidance, the Supervisory Body provides guidance that all A6.4ERs designated for the Adaptation Fund are to be held in the pending account and not forwarded/first transferred to the Adaptation Fund.

5. Impacts

- 40. In respect of the SOP for administrative expenses, the current wording of the SOP exemption applicability of the SOP to CPs and POAs could have a significantly adverse impact on the amount of funding received to support the operation of the mechanism. Limiting the exemption for the SOP for administrative expenses to only CPs hosted within LDCs and SIDS, pursuant to paragraph 58 of annex I to decision 7/CMA.4, will ensure funding for administrative expenses is received in respect of CPs held in non-LDCs and SIDS, thereby contributing to the successful self-financing of the mechanism.
- 41. In respect of the SOP for the Adaptation Fund, the complexities of monetizing A6.4ERs provided to the Adaptation Fund as part of the SOP will have direct impacts on how much funding is made available to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.

6. Subsequent work and timelines

- 42. At SBM 023, the Supervisory Body will be finalizing its annual report to the CMA, which will include information on the Supervisory Body's evaluation of the SOP for the Adaptation Fund and recommendations on possible improvements to optimize resources for the Adaptation Fund, pursuant to decision 3/CMA.3.³⁶ If the Supervisory Body decides to seek clarity from the CMA in respect of the SOP for the Adaptation Fund, this will be included in the draft annual report for the Supervisory Body's consideration.
- 43. If the Supervisory Body decides to revise the exemption for administrative fees to limit the exemption only to those CPs hosted in LDCs and SIDS, this revision will be incorporated into the next version of the "Procedure: Article 6.4 Activity cycle procedure for programmes of activities".

7. Recommendations to the Supervisory Body

7.1. Recommendations relating to the SOP for administrative expenses

- 44. In relation to the SOP for administrative expenses, the secretariat recommends that the Supervisory Body consider a revision to the "Procedure: Article 6.4 activity cycle procedure for programmes of activities" in respect of the exemption provided from administrative fees to limit the exemption only those CPs hosted in LDCs or SIDS.
- 45. The secretariat recommends that the Supervisory Body inform the CMA in its annual report that it has deferred the assessment of the implementation of SOP for administrative expenses, pursuant to the decision 3/CMA.3 mandate,³⁷ until 2027.

³⁶ Paragraph 8, decision 3/CMA.

³⁷ Ibid.

7.2. Recommendations relating to the SOP for the Adaptation Fund

46. The secretariat recommends that the Supervisory Body take note of the complexities related to the SOP for the Adaptation Fund and consider the options provided in section 4.2 above in respect of its decision 3/CMA.3 mandate³⁸ to evaluate the implementation of the SOP for the Adaptation Fund and make recommendations on possible improvements in order to optimize the resources available to the Adaptation Fund.

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³⁸ Ibid.