

4 August 2023

To: Ministry of Ecology and Environment of the People's Republic of China ("MEE")

From: ASIFMA

Re: ASIFMA's Response to the Consultation on the Draft Measures for the Administration of Voluntary Greenhouse Gas Emission Reduction Trading Scheme.

Dear Sir(s),

The Asia Securities Industry & Financial Markets Association ("**ASIFMA**")¹, on behalf of its members welcomes the opportunity to respond to MEE's Consultation on the Draft Measures for the Administration of Voluntary Greenhouse Gas Emission Reduction Trading Scheme ("**CCER New Rules**").

ASIFMA is an independent, regional trade association with over 170 member firms comprising a diverse range of leading financial institutions. The information and opinion commentary in this letter was prepared by ASIFMA to reflect the views of our members. To support and contribute to MEE's consultation on the CCER New Rules, ASIFMA, on behalf of its members would like to share our suggestions to the CCER New Rules for your consideration.

ASIFMA's members play important roles in global voluntary carbon markets and some have actively engaged in consultations with regulators in different regions and countries. ASIFMA harnesses the shared interests of the financial industry to promote the development of China's voluntary carbon markets. We hope to drive consensus, advocate solutions and effect change around key issues of CCER New Rules through our collective strength and clarity of one industry voice. With our members' extensive participation in the international voluntary carbon markets and our deep understanding of emissions reduction methodologies, we hope our suggestions may contribute to the development of China's voluntary carbon markets. ASIFMA and its members remain committed to engage further and to share our collective knowledge and observations if it would be helpful for us to do so.

Our detailed considerations and suggestions in relation to the CCER New Rules are highlighted in the schedule to this letter². We very much appreciate the opportunity to respond to the **Consultation on CCER New Rules** and look forward to engaging with MEE and any other relevant bodies further as may be helpful.

If you have any questions, or you would like to discuss the points raised in this letter, please feel free to contact us.

Yours faithfully

¹ ASIFMA is an independent, regional trade association with over 170 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive, and efficient Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the Global Financial Markets Association ("GFMA") alliance with the Securities Industry and Financial Markets Association ("SIFMA") in the United States and the Association for Financial Markets in Europe ("AFME"), ASIFMA also provides insights on global best practices and standards to benefit the region.

² ASIFMA believes that the information in this letter, which has been obtained from multiple sources believed to be reliable, is reliable as of the date of submission.



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Schedule

We provide below some key suggestions in relation to the CCER New Rules based on our understanding of the CCER New Rules released on July 7, 2023, for consideration by MEE.

Overall Comments

According to Article 1 of the CCER New Rules, the rules are established with an aim to “encourage voluntary greenhouse gas emission reduction and regulate the voluntary reduction of greenhouse gases nationwide”.

ASIFMA suggestion: Given the global nature of voluntary carbon markets and emissions reduction/removal efforts, it is suggested that cross-border interoperability should be factored in at the design phase. It is worthwhile for the CCER New Rules to be designed in line with the latest prevailing international principles for voluntary carbon markets, for example, the Core Carbon Principles (CCPs)³ developed by the Integrity Council for the Voluntary Carbon Market (ICVCM). We suggest benchmarking the CCER scheme against internationally recognised standards to improve the interoperability of China’s voluntary carbon markets in aspects such as project eligibility conditions, projects transfer, methodologies, criteria for validation and verification agencies and information disclosure.

I. Uniqueness

Article 44 of the CCER New Rules provides relevant definitions used under such Rules, among which, “Uniqueness” means that the project does not participate in other emission reduction trading mechanisms, and there is no project double recognition or double calculation of emission reductions. Article 9 provides that a project that does not meet the Uniqueness requirement are not eligible for registration under the CCER New Rules. Also the CCER New Rules removed the provisions under the existing CCER rules that programs registered under the CDM program but has not been issued any CERs may apply for registration under the CCER rules.

ASIFMA suggestion: While we generally agree with the principle of “uniqueness”, in line with our above suggestion that the global nature of voluntary carbon markets should be considered, and that the CCER New Rules should be designed in line with the latest prevailing international principles for voluntary carbon markets, we also suggest MEE to consider permitting conversion of projects from other programs, which is the practice of certain international voluntary carbon programs. For example, under the VCS program, an approved GHG program such as CDM, JI, the Climate Action Reserve, or any other GHG program are eligible to register. It is suggested that conversion of projects registered under other greenhouse gas reduction programs such as CDM, JI, or other international voluntary programs be considered, and relevant eligibility conditions be defined.

II. Assessment of negative impacts and Permanence

Article 12 of the CCER New Rules provides that disclosures for carbon reduction projects are required and such projects are expected to meet the following conditions, without covering the consideration of potential negative environmental and social impacts:

- (1) complying with relevant laws, regulations, and national policies;
- (2) its scope complying with the provisions of these Measures;
- (3) appropriate selection and use of project methodologies;
- (4) it being authentic, unique and additional;

³ <https://icvcm.org/the-core-carbon-principles/>

(5) it contributes to sustainable development.

Article 3 of the CCER New Rules provides that “eligible voluntary greenhouse gas emission reduction projects should be authentic, unique and additional”, and that “the emission reductions generated by the project should be measurable, traceable and verifiable.” However, permanence is not emphasized as a key requirement.

ASIFMA suggestion:

It is suggested that the CCPs should be considered in the CCER project eligibility conditions, especially,

- **Sustainable development benefits & safeguards:** Potential negative impacts from the project should also be considered, assessed and disclosed when assessing CCER projects and should be taken into consideration to ensure a do-no-harm approach.
- **Permanence** comprises a key principle of a quality carbon credit as defined by the CCPs. While additionally has been emphasized in a number of places in the CCER New Rules, permanence should also be considered. The GHG emission reductions or removals from mitigation activities shall be permanent (over a specific time horizon, e.g., 100 years), or if they have a risk of reversal, any reversals shall be fully compensated, to ensure integrity of the CCERs and minimize the risk of greenwashing.

III. Regulatory & Supervisory Framework

Article 5 of the CCER New Rules provides that the State Administration for Market Regulation (SAMR) and the competent MEE branches shall, in accordance with the division of responsibilities, supervise and manage the organisations engaged in the activities of validation and verification of greenhouse gas voluntary emission reduction projects (hereinafter referred to as Validation and Verification Agencies) and their validation and verification activities. Article 27 provides that SAMR shall be responsible for approving the qualification for Validation and Verification Agencies, in consultation with MEE. Article 28 provides that both SAMR and MEE may issue regulations regarding Validation and Verification Agencies. Article 29 provides that Validation and Verification Agencies shall submit reports to both SAMR and MEE. Article 30 provides that SAMR and MEE shall jointly establish a technical committee for validation and verification to coordinate the resolution of validation and verification related technical issues, to improve the consistency, scientificity and rationality of validation and verification activities, to provide technical support for the supervision and management of validation and verification activities, and to research and propose work, etc.

ASIFMA suggestion: Based on the above provisions, both MEE and the SAMR are regulators for the regulation of Validation and Verification Agencies. It seems that a majority of the above mentioned functions will be implemented jointly by SAMR and MEE, without specifying the division of responsibility between the two regulators. In addition, it seems SAMR will take the lead in approving the qualifications for Validation and Verification Agencies.

The current drafting may cause concerns on regulatory efficiency in the Validation and Verification Agencies, and may leave gaps between the regulatory areas between the two regulators. We suggest further clarification on the allocation of responsibilities between these two regulators. For example, MEE will take the lead in policy making and standards formulation, while SAMR will take the lead in implementation and enforcement. In addition, regulators may wish to simplify the registration and filing procedures for registrants. Therefore, it is also suggested the annual report by Validation and Verification Agencies only need to be submitted to one regulator, which can be shared with the other regulator via an automatic system. Alternatively, a joint office formed by MEE and SAMR may be set up to implement the regulation and supervision of the CCER market.

IV. Foreign Participants and Cross-border Transactions

Articles 4 of the CCER New Rules provides that eligible applicants for emission reduction programs and emission reduction units shall be domestically registered legal entities and other organizations, and

eligible participants for trading of emission production units shall be “legal persons, other organizations or individuals that meets the relevant requirements of the State” without providing guidance on whether and how foreign entities or individuals are allowed to participate in trading.

Article 26 further provides that cross-border transactions and use of CCERs will be regulated by separate regulations to be promulgated by MEE and other regulatory authorities.

ASIFMA suggestion: While only domestically registered entities are allowed to apply for developing CCER programs and registration of CCERs, MEE may wish to clarify whether foreign entities are allowed to participate in the trading of emission reduction credits under CCER program. Also, we believe that the market will expect detailed eligibility requirements or conditions for legal entities, other organizations or individuals to participate in the trading to be included in the CCER New Rules or to be issued separately.

While the CCER New Rules do not prohibit cross-border transactions and use of CCERs, such transactions and use are not possible without detailed regulations and guidance. It is suggested that MEE issue such regulations governing the cross-border transaction of CCERs as soon as practicable.

For CCERs intended for cross-border carbon-crediting purposes under Article 6 of the Paris Agreement which provides for the principles and corresponding adjustment mechanisms for the use of internationally transferred mitigation outcomes to achieve nationally determined contributions, perhaps in the future, such authorizations should be clearly identifiable and mechanisms for a corresponding adjustment for the host country should be clearly defined. It is suggested that the CCER New Rules shall reflect such flexibility.

V. Detailed Rules and Valuation Standards of Specific Voluntary Emission of GHG Project

Article 8 of the CCER New Rules states that GHG voluntary emission reduction projects should come from carbon reduction and sinks enhancement projects such as renewable energy, forestry carbon sinks, methane emission reduction, energy saving and efficiency.

ASIFMA suggestion: It is suggested that MEE issue detailed rules and valuation standards for each type of carbon reduction and sinks enhancement projects listed under Article 8, including the relevant methodologies.

VI. Qualification standards for Validation and Verification Agencies

Chapter V of the CCER New Rules provides qualification requirements for Validation and Verification Agencies. While there are a few requirements that are specific, such as a Validation and Verification Agency shall have at least 10 full-time personnel with validation and verification capabilities, 5 personnel out of whom should have two or more years or more of greenhouse gas emission reduction project verification and verification work experience, there are also a few requirements that are quite general, such as “having the technical capability to conduct the relevant validation and verification activities, meeting the relevant standards required for validation and verification agencies”, “having established complete management mechanisms relating to validation and verification activities”, and “equipped with capability to provide stable financial support for conducting valuation and verification activities, setting up risk funds or insurance that suitable for its business, and having the capability to handle the relevant risks”.

ASIFMA suggestion: The above standards are general in nature. We believe that market will expect further guidance or verification standards (such as, the licensing standards of the CCER professional individuals) for Validation and Verification Agencies to be implemented by the regulators and certification authorities. Given the core roles that the Validation and Verification Agencies play in ensuring the integrity of carbon credits, the credibility of such Validation and Verification Agencies are critical. The qualification requirements for such Validation and Verification Agencies are important to ensure their credibility, and it is suggested that MEE provide more detailed guidance for determining the Validation and Verification Agencies under Chapter V.

Reference can be made to the CCPs for principles on Robust Independent Third-Party Validation and Verification, to help provide detailed requirements to help the Validation and Verification Agencies ensure impartiality and avoid conflict of interest, and to enhance to credibility of CCERs. ISO 14065:2020 (General principles and requirements for bodies validating and verifying environmental information) and ISO 14064-3:2019 (Greenhouse gases — Part 3: Specification with guidance for the verification and validation of greenhouse gas statements) are other international standards that are regularly referred to when discussing the requirements of validation and verification bodies.

VII. Methodologies

Article 7 of the CCER New Rules provides that MEE shall be responsible for leading the formulation of methodologies for voluntary greenhouse gas reductions emission projects. The methodologies shall be amended from time to time based on economic and social development, adjustment of industry structures, stages of industry development, etc. MEE shall solicit the opinion of the relevant departments of the State Council, enterprises, public institutions, and the public when formulating such methodologies.

ASIFMA suggestion:

It is suggested that MEE also take into consideration of international standards when formulating the methodologies, including, but not limited to, the CORSIA Emissions Unit Eligibility Criteria issued by the International Civil Aviation Organization (ICAO), ICROA's Standards Endorsement Procedure as well as CCPs.

It is also suggested that MEE formulate a standard procedures and timeline for formulating and revising the methodologies to provide the market with a more stable expectation.

A bottom-up approach, i.e., voluntary submission/request for recognition of methodologies by individuals/entities to MEE is worth to consider.

Besides, it is suggested that the CCER New Rules should clearly distinguish carbon reduction CCERs from carbon removal CCERs, to encourage the generation and trading of higher quality removal credits, and innovation in carbon removal technology development. For example, the European Commission recently adopted a proposal setting out rules for certification of high-quality carbon removals⁴.

VIII. Information Disclosure

Article 36 of the CCER New Rules provides that "Registration platforms and trading platforms shall establish project archives for registered projects, and record and maintain all information in respect of voluntary greenhouse gas emission reduction projects and related voluntary emission reductions."

ASIFMA suggestion:

We believe transparency is one of the core principles that underpin the voluntary carbon market. Exchanges, brokers and other market intermediaries, as well as carbon registries are all essential to the smooth operation of carbon voluntary markets and, at all levels (from project development, to certification, to registration, to transfer, to retirement), transparency is key.

Although the title of Article 36 is "Information Disclosure", it only provides the requirements for registration and trading platforms to establish files for registered projects and record and retain project and emission reduction information, but it does not contain requirements for information disclosure by such registration and trading platforms. MEE may wish to make further clarification on the information disclosure requirements for the above-mentioned institutions, including the disclosure of transaction information by trading institutions to improve market transparency, and the disclosure of project registration and deregistration results by registration institutions for market entities to verify and prevent the abuse of verified emission reductions. At the same time, it is recommended to add information

⁴ https://ec.europa.eu/commission/presscorner/detail/en/ip_22_7156

disclosure requirements for approved Validation and Verification Agencies, which can be disclosed periodically to facilitate the market participants understanding and use of third-party agencies.

Further, the New CCER Rules contain a general provision that CCER may be used for carbon neutrality purpose or offset in the national mandatory market, and CCER shall be deregistered after being used. However, the New CCER Rules do not contain detailed provisions on information to be disclosed for such deregistration. From the perspective of enterprises, it may offset their own carbon emissions by retiring/ deregistering a certain amount of CCERs. With a lack of supporting rules requiring disclosure of purpose of the de-registration, there is a risk of misuse and abuse of this mechanism, which increases greenwashing and double counting risks. We suggest to include in the CCER New Rules provisions on detailed requirements for information disclosure in the case of de-registration. Relevant international practices, such as VCS or Golden Standards, may be used as a reference.

IX. Legal Liability

Chapter VII of the CCER New Rules provides rules about legal liabilities with regard to CCER generation, validation and verification, registration and trading.

ASIFMA suggestion:

Further to our comment under **VIII. Information Disclosure** above, to enhance the transparency, and accountability of a voluntary carbon markets and to address the risk of false statements by ensuring market participants have sufficient data publicly available, the responsibility for information disclosure by project developers should be included in the CCER New Rules, in addition to the project developers' responsibility for submission of false information for project registration or reduction verification. In particular, the responsibility for voluntary deregistration of emission reductions declared by project developers and the related information disclosure after deregistration, as discussed in **VIII. Information Disclosure** above, has not yet been included in the New Rules.

It is suggested that the MEE consider clarifying the legal liability and penalties to the project developers for improper information disclosure under Chapter VII.