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Document reference number and title: (Recommendation from the MEP to SBM020)

Concept note: Options for implementing the provisions in paragraph 62 of the "Standard: Requirements for activities involving removals under the Article 6.4 mechanism (version 01.0)

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1	-	Paragraphs 41-81	Section 3.2 sets out four alternatives to the Reversal Risk Buffer Pool Account: activity-level insurance (3.2.1, paragraph 42), a Party guarantee (3.2.2, paragraph 63), Party remediation of reversals through NDC accounting (3.2.3, paragraph 67), and a Monetary Permanence Reserve (3.2.4, paragraph 73). Each is a single mechanism, and each operates only after a reversal has occurred. No listed option combines instruments, and none of them acts on the underlying storage. We propose a fifth option, developed more fully in a working paper submitted separately: a diversified, actively managed portfolio vehicle that assumes the remediation obligation for a group of activities and holds carbon positions, a monetary reserve and insurance cover together. On a reversal, the vehicle can maintain or restore storage at source, draw its reserve, call insurance, or buy replacement units, and select whichever is cheapest for that event. Maintenance is frequently cheaper than replacement and preserves the original removal instead of substituting a different one. Neither the Reversal Risk Buffer Pool Account nor the Monetary Permanence Reserve can do this, because neither has an operational relationship with the underlying activity. This also responds to a concern the concept note raises about itself. Paragraph 60 anticipates that activities with lower reversal risk will preferentially take insurance; paragraph 91 states that the resulting concentration raises the probability that the Reversal Risk Buffer Pool Account becomes insolvent; and paragraph 99(e) asks the Supervisory Body to evaluate precisely that effect. A portfolio vehicle's economics depend on holding a spread of reversal risk ratings, so it internalises the distribution instead of selecting from it. It is the only alternative under consideration that does not worsen the problem. One limitation should be stated. The vehicle holds carbon positions and therefore carries some of the same correlation exposure as the Reversal Risk Buffer Pool Account. The difference is that the correlation is managed, through the uncorrelated reserve, the insurance component and the option to maintain storage, instead of being the vehicle's sole exposure.	Paragraph 62 of the Removals Standard is non-exhaustive. Its chapeau commits the Supervisory Body to consider other appropriate measures and procedures that may provide suitable alternative means to remediate reversals, and introduces subparagraphs (a) and (b) with "including the following". The measure proposed here therefore falls within the existing mandate and requires no further decision. We propose a new subsection 3.2.5, "Diversified portfolio vehicle", constructed on the same pattern as subsections 3.2.1 to 3.2.4. Description. A diversified, professionally managed vehicle assumes the reversal remediation obligation for a portfolio of Article 6.4 activities, replacing the obligation of participating activity participants to contribute A6.4ERs to the Reversal Risk Buffer Pool Account. The vehicle holds carbon positions across activities, a monetary reserve and insurance cover together, and discharges its obligation by selecting among maintenance or restoration of storage at source, drawdown of the reserve, an insurance claim, or the purchase of replacement units. Remediation results in the cancellation of the appropriate amount and type of A6.4ERs through the mechanism registry administrator, consistent with paragraphs 53 to 57 and with the procedure contemplated at paragraph 32(b)(i). Primary advantage. The vehicle can select the lowest-cost effective response to each reversal. Maintenance at source is frequently cheaper than replacement and preserves the original removal. Because the vehicle's economics depend on holding a spread of reversal risk ratings, it does not aggravate the concentration effect identified at paragraph 91. Its remediation capacity is demonstrable in advance, which supports the stress-testing regime at paragraphs 60 and 61. Primary disadvantages. (a) The vehicle holds carbon positions and therefore retains partial correlation with the risk it covers, mitigated by the uncorrelated reserve and insurance components. (b) Approval requires equivalence criteria and prudential supervision covering capital adequacy, segregated reserves, valuation, insolvency remoteness and successor arrangements, extending the considerations raised at paragraphs 50 and 51. (c) The structure is at an early stage of development, as the concept note observes of activity-level insurance at paragraph 45(b), so
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				staged approval or piloting may be appropriate. Consequential changes. Add the vehicle to the evaluation actions at paragraphs 92 and 99, in particular under 99(d) concerning the performance of alternative measures and learnings from pilots, and 99(e) concerning concentration. Mandate. Extend paragraph 103 to mandate the MEP to develop equivalence criteria for a diversified portfolio vehicle alongside the Reversal Risk Buffer Pool Account stress-test procedure.

2	3. Key issues and proposed solutions	paragraphs 73-81	Section 3.2.4 sets the design objective for the Monetary Permanence Reserve as delivering the same assurance as the Reversal Risk Buffer Pool Account (paragraph 74). On two dimensions, the reserve is structurally stronger, and the concept note states neither. Correlation. The Reversal Risk Buffer Pool Account is denominated in the same asset class as the risk it covers. It holds Buffer A6.4ERs (paragraph 55 of the Removals Standard) against the possibility that A6.4ERs reverse. In a correlated stress event, such as a severe fire season, a regional drought, or a measurement or methodology restatement affecting an entire activity type, the account must remediate at precisely the moment its own holdings are impaired and the price and availability of qualifying replacement units are at their least favorable. The concept note approaches this at paragraph 81, which records uncertainty in the future price and availability of A6.4ERs with negligible or no reversal risk, and again at paragraph 91, where concentration raises the probability of insolvency. A reserve invested in assets uncorrelated with ecosystem and carbon-market risk does not carry that failure mode. This is a first-order argument for the Monetary Permanence Reserve and it is currently absent from the analysis. Compounding. Paragraph 78 establishes that the reserve must collect funds expected to grow over time through sound financial management, and that the expected timing of reversals therefore determines the initial fee. The corollary is worth stating explicitly: because an invested reserve compounds while Buffer A6.4ERs held in the account do not, a smaller contribution at entry can stand behind a larger future remediation obligation. That is a cost argument at equal assurance, and it bears on the cost comparison the concept note makes for alternatives at paragraph 44. External expertise. Paragraph 80 invites external expertise drawing on analogous financial management practices, and paragraph 79 compares the problem to the management of pension funds and endowments. Three analogues apply directly: liability-driven investment, in which the reserve's asset duration is matched to the modelled timing distribution of reversals at paragraph 76(b);	First change: section 3.2.4 currently has no advantage or disadvantage paragraphs, whereas every other measure in the concept note has them (paragraphs 38 and 39, 44 and 45, 65 and 66, 71 and 72). We propose that section 3.2.4 be completed on the same pattern, and that the primary advantage record the absence of correlation between the reserve's assets and the reversal risk being remediated. Second change: add a sub-paragraph under paragraph 79 specifying that the investment mandate of a Monetary Permanence Reserve be liability-driven, with asset duration matched to the modeled timing distribution of expected reversals referred to at paragraph 76(b), and that prudential practice be drawn from established fiduciary regimes. Third change: paragraph 77 defers detailed consideration of the Monetary Permanence Reserve until the Reversal Risk Assessment Tool is complete. Only the calibration of the fee structure depends on that tool. The governance, custody, investment mandate and eligibility questions do not. We propose that paragraph 77 be revised to allow those workstreams to proceed in parallel, and that paragraph 103 be extended to mandate the MEP accordingly.
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			endowment and pension governance for the prudential practices at paragraph 79(a); and a first-loss or tranching capital structure, in which catalytic capital absorbs early losses while the reserve accumulates, which addresses the critical-mass concern raised at paragraph 30.	