



IBRD Carbon Funds Information note

CER* Issuance and Distribution

August 22, 2007*

Note: This document was prepared for participants in the carbon funds managed by the IBRD and is being made accessible for the public solely for information purposes. Please note that it should not be relied upon for any decision involving distribution of CERs in a particular context.

* Throughout the report, CER acronym refers to CER, tCER and ICER.

* Original version was issued on January 12, 2007.

Table of Contents

- I. Receiving CERs directly from the CDM Registry
 - 1. Trustee's Approach
 - 2. Documentation requirements for becoming a Project Participant
 - 2.1 Letter of Approval
 - 2.2 Modality of Communication
 - 2.3 Contact information
 - 2.4 Adding a new Project Participant
 - 3. Opening a registry account in a National Registry
- II. Alternatives for Fund Participants that are unable or unwilling to become a Project Participant

Annexes

- Annex I Summary of the requirements for sovereign Fund Participants to receive CERs directly from the CDM Registry
- Annex II Summary of the requirements for non sovereign Fund Participants to receive CERs directly from the CDM Registry
- Annex III Sample Letter of Approval for sovereign Fund Participants
- Annex IV Sample Letter of Approval for non-Sovereign Fund Participants
- Annex V Statement for Modality of Communication
- Annex VI Addendum to Statement for Modality of Communication
- Annex VII Contact Information on Participants in the Project Activity
- Annex VIII National Requirements for Applying for Letter of Approval
- Annex IX National Requirements for Opening Accounts in National Registries

The International Bank for Reconstruction and Development acting as trustee (“Trustee”) for various carbon funds (“Carbon Funds”) has prepared this general guidance note in order to:

- explain the Trustee’s approach to delivering certified emission reductions (“CERs”) to the participants in the Carbon Funds (“Fund Participants”);
- clarify documentation requirements of the clean development mechanism (“CDM”) for Fund Participants to receive CERs directly from the CDM Registry; and
- provide information on national requirements by some sovereign Fund Participants for issuing letters of approval and opening holding accounts under National Registries.

In addition to this note, the Trustee will provide each individual Fund Participant with separate material providing instructions and documentation for the Fund Participant for each of the projects in the Carbon Funds portfolio for which the Fund Participant is entitled to receive CERs (“Fund Projects”). The Trustee will provide to each individual fund participant instructions and documentation to register the fund participant as Project Participant for the projects from which the fund participant is entitled to receiving CERs.

I. Receiving CERs directly from the CDM Registry

1. Trustee’s Approach

The CDM rules provide that CERs issued by the Executive Board are first held in the “Pending Account” in the CDM Registry, from which CERs are then forwarded to an account(s) of a Project Participant¹ and a Party Involved,² in accordance with the instructions of the focal point designated by Project Participants. Accordingly, in order to receive CERs directly from the CDM Registry, a Fund Participant should:

- **Be a Project Participant and/or a Party Involved; and**
- **Establish a registry account in the CDM Registry and/or in the National Registry.**

Based on these rules, the Trustee intends to list **all Fund Participants as Project Participants** for the Fund Projects unless a Fund Participant advises the Trustee otherwise. In order to list Fund Participants as Project Participants, the Trustee will require the Fund Participants to provide, within the time frame indicated by the Trustee, all the necessary documents as specified in Section 2 and the registry account information indicated in Section 3. To facilitate Fund Participants to prepare these documents, the Trustee intends to group the projects that have been submitted for registration or registered, and send, in due time, each Fund Participant a “Package” which includes, *inter alia*, relevant project information, a sample letter of approval and copies of modality of communication for these projects (“Application Package”).

Once the International Transaction Log (“ITL”) is fully operational, which is currently expected in January 2008, the Trustee will provide instructions to the Executive Board for distributing CERs generated from the Fund Projects to the account designated by the Fund Participant (“CER Distribution”).

¹ According to the CDM rules, Project Participant is defined as (a) a Party Involved; or(b) a private and/or public entity authorized by a Party involved to participate in a CDM project activity.

² Party Involved is a Kyoto country Party that has provided a written approval issued by a designated national authority to authorize an entity to participate in a CDM project.

In the event that a Fund Participant is not able to provide the required documentation to the Trustee before the CER Distribution, the share of the CERs to which a Fund Participant is entitled will be held in the Pending Account of the CDM Registry until the Trustee has received the required documentation from the Fund Participant, at which time the Trustee will provide instructions to the Executive Board for distribution of those CERs to the account designated by the Fund Participant.

2. Documentation Requirements for becoming a Project Participant

The CDM rules require the following documents for becoming a Project Participant:

- **A Letter of Approval** issued by a designated national authority of a Party to the Kyoto Protocol;
- A signed statement for **modality of communication**; and
- **Contact information** for the Project Participant

2.1 *Letter of Approval*

The Letter of Approval (LoA) is the document that authorizes an entity to participate in a CDM project. Fund Participants are responsible for obtaining LoAs and providing them to the Trustee within a timeframe indicated by the Trustee.

At the time a project is submitted for registration, the Trustee will request LoAs only from some or all **sovereign Fund Participants** in order to avoid undue delay in the registration period. Typically, the LoA will authorize the participation of the Trustee in the project and, by issuing such LoA, the authorizing sovereign Fund Participant will become a Party Involved and have a choice to elect to become a Project Participant as well. Should a sovereign Fund Participant decide not to be a Project Participant for a Fund Project, it should inform the Trustee of its intention, in which case it should not sign the statement of Modality of Communication for the project (see Section 2.2) and will be instead listed as a Party Involved. A model of such LoA is included in Annex III.

A **non-sovereign Fund Participant** needs to obtain a LoA from any Kyoto Party to become a Project Participant. A sample of a LoA for non-sovereign Participants is attached in Annex IV. Please note, however, that the governmental authority from which you request a LoA may have its own form of LoA.

It should be noted that since the CERs can only be forwarded from the CDM Registry to a Project Participant's registry account in the National Registry of the government from which the LoA is issued. The LoA obtained by a non-sovereign Fund Participant must be from the national government in whose registry it will establish the account to hold CERs from the project.

To facilitate Fund Participants to obtain LoAs, the Trustee has gathered information on the requirements from those sovereign Fund Participants that have provided such information to the Trustee regarding issuance of LoAs (see Annex VIII)³. As you can see, many of these national authorities require the application for a LoA to be accompanied by a number of documents such as a project design document and a copy of the LoA issued by the project's host country. The Trustee will make such information and indicate the web link for each project to the UNFCCC. In addition, upon request by the Fund Participant, the Trustee will, subject to disclosure and confidentiality requirements under the relevant legal

³ While the Trustee has verified the accuracy of this information as of the date of this note, such requirements may be subject to change. Before applying to a sovereign Fund Participant for a LoA, Fund Participants should always check with such sovereign Fund Participant to verify the then current requirements for issuance of the LoA.

instruments, provide additional information on the relevant Carbon Fund and the Fund Project if needed by a Fund Participant to obtain a LoA.

The Executive Board of the CDM accepts one LoA to authorize participation in multiple projects provided that the project reference number and title are clearly identified. In the Application Package for each individual Fund Participant, a form of LoA for multiple projects is included to facilitate application of LoA by Fund Participants.

2.2 Modality of Communication

According to the CDM rules, Project Participants must sign and submit a statement indicating who is the point of contact (the “Focal Point”) for communicating with the Executive Board. The Focal Point will provide instructions with respect to, among other items, how and in which account CERs are distributed. Typically, the Trustee is the Focal Point for the Fund Projects. A model document for modality of communication is contained in Annex V.

For the purpose of simplifying the process of adding new Project Participants (see section 2.4 below), the Trustee proposes to include a statement in the Modality of Communication to the effect that the Fund Participant gives an irrevocable power of attorney to the Trustee as a Focal Point for the project to add to or withdraw Project Participants from the project. Such power of attorney would allow the Trustee to add a Fund Participant (or a third party upon the request of the project entity) as a Project Participant promptly, avoiding the need to obtain a new Modality of Communication from those Fund Participants that are already Project Participants when additional Fund Participants or third parties are added as new Project Participants.

Each Fund Participant will receive in its Application Package an individual Modality of Communication for its signature for each of the Fund Projects that have been submitted for registration or registered but for which the Fund Participant has yet to become a Project Participant.

2.3 Contact information

In accordance with the CDM rules, a Project Participant needs to provide its contact information in the form as specified in Annex V. Fund Participants are therefore required to fill out the information contained in the form.

2.4 Adding a new Project Participant

According to the CDM rules, a change of Project Participants is to be immediately communicated to the Executive Board through the CDM Secretariat in accordance with the Modality of Communication. The indication of change shall be signed by all Project Participants of the previous communication (“Existing Project Participants”) and by all new Project Participants.

Following the precedent established by other CDM projects, the Trustee intends to submit to the Executive Board, in addition to the documents specified in sections 2.1 to 2.3, a statement in the form of an Addendum to the Modality of Communication (“Addendum”), indicating that all the Existing Project Participants agree to add the Fund Participants as Project Participants and reaffirming the arrangement for the Focal Point. The Addendum contained in Annex VI will be signed by the project entity from which the Fund contracts to purchase CERs and which is the Existing Project Participant, and the Trustee on behalf of the Fund Participants which are the Existing Project Participants and have given the power of attorney to the Trustee for this purpose. If a Fund Participant is an Existing Project Participant but has not given such power of attorney to the Trustee, it will also need to sign the Addendum.

3. Opening a Registry Account in a National Registry

The Trustee does not intend to open an account under its own name in the CDM Registry or in any National Registry. It is the responsibility of each Fund Participant to open an account(s) in a national registry(ies). Annex IX includes information on the requirements and cost for opening an account in the national registries of some sovereign Fund Participants that have provided the information to the Trustee.⁴

Each Fund Participant must provide the Trustee with the account information to which it wishes to forward CERs of a project from the CDM Registry, preferably together with documents for becoming Project Participants. As noted above, the account to hold CERs for the project must be under the national registry of the government that has issued a LoA to the Project Participant for that project.

Temporary Holding Account

According to the CDM rules, a Project Participant could request the CDM Executive Board to open a Temporary Holding Account (THA) in the CDM Registry to receive CERs forwarded from the Pending Account before the ITL is in place. Any such THA would need to be associated with the government that has issued a LoA to the Project Participant. After the ITL is operational, according to the CDM Secretariat, those CERs in the THA will be automatically forwarded to a corresponding account in the National Registry. **In consultation with Fund Participants, the Trustee has concluded that there is little merit in requesting Fund Participants to open THA in the CDM Registry. In any event, CERs will not be transferable out of the CDM registry until the ITL is in fully operational.** Nevertheless, if a Fund Participant has already established a THA, the Trustee could request the Executive Board to forward CERs from a project to that THA, provided the THA is associated with a government that authorized the Fund participant's participation in the project.

II. Alternatives for Fund Participants that are unable or unwilling to become Project Participants

Some Fund Participants have indicated that they do not wish to become a Project Participant, in which case such Fund Participants may wish to consider the following alternatives:

- *Use of third party nominees or an escrow agent*

The Fund Participant may nominate a third party or escrow agent to receive CERs on its behalf, in which case the Trustee needs to receive a formal letter signed by the representative of the participant notifying the designation and indicating that the nominee will fully cooperate in providing all the assistance as may required by the Trustee. The nominee will then need to submit to the Trustee all necessary documentation required for receiving CERs from the CDM Registry.

- *Trustee Agreement with another Fund Participant*

A Fund Participant could agree with another Fund Participant that the CERs will be issued initially to this participant and then transferred to the Fund Participant once international emissions trading under Article 17 of the Kyoto Protocol is allowed.

⁴ While the Trustee has verified the accuracy of this information as of the date of this note, such requirements and costs may be subject to change. Before applying to a sovereign Fund Participant to open a registry account, Fund Participants should always check with such sovereign Fund Participant to verify the then current requirements and costs.

**Summary of the requirements for
Sovereign Fund Participants to receive CERs
directly from the CDM Registry**

- Issue a LoA to authorize the Trustee (or a Fund Participant) to participate in the project; Indicate whether or not it wishes to become a Project Participant. If so, sign a statement of Modality of Communication (in some case, the statement of communication is included in the LoA).
- Before CER Distribution, inform the Trustee of the information of the account where it wishes to receive CERs.
- If a sovereign Fund Participant has been listed as a Project Participant for a Fund Project at the time of registration but has not given power of attorney to the Trustee, sign an Addendum of the statement of Modality of Communication.

**Summary of the requirements for
Non-Sovereign Fund Participant to receive CERs
directly from the CDM Registry**

- Obtain LoA from a Party to the Kyoto Protocol
- Sign a statement of communication for a Fund Project
- Fill out the contact information
- Open an account in a National Registry, noting that the account must be under the National Registry of the government that has issued LoA for that project if it wishes to receive CERs generated from that project directly from the CDM Registry
- If a non Sovereign Fund Participant does not wish to become the Project Participant, inform the Trustee of the alternative it wishes to take in order to receive CERs

Letter of Approval
(for sovereign Fund Participant)
[Ministry/DNA Letterhead]

Written Approval for [insert project name] Project

The [Annex I country], acting through the [Annex I country]'s Designated National Authority (*insert additional description of location of DNA as required*), hereby declares that:

- (i) [Annex I Country] ratified the Kyoto Protocol on [###];
- (ii) [Annex I Country] participates voluntarily in the Clean Development Mechanism;
- (iii) in accordance with the guidance issued by the Executive Board contained in the CDM glossary of terms, [Annex I country] hereby approves and authorizes the voluntary participation of the International Bank for Reconstruction and Development as Trustee of the [insert the name of the fund] (the "Trustee") as a project participant[s] in the [###] project activity[or project activities if there are more than one project activity] (the "**Project[ies]**");

[if a sovereign Fund Participant elects to become a Project Participant, insert the following statement; alternatively sign a separate statement of Modality of Communication for the project:]

- (iv) [Annex I country] recognises that the Trustee [*and the name of the project entity in the case of joint focal points*], is [are] the [joint] focal point for the Project Activity with respect to all communications with the Executive Board and the United Nations Framework Convention on Climate Change, including, without limitation to instructions regarding allocation of certified emission reductions (CERs) upon issuance of CERs.
- (v) [Annex I country] hereby grants an irrevocable power of attorney to the Trustee with regard to adding new project participants to the Project and/or withdrawing the project participant from the Project.

For the [insert reference to authority of DNA]

[insert name and position of appropriate signatory]

Date: _____

Letter of Approval
(For non-sovereign Participants)

[Ministry/DNA Letterhead]

Written Approval for [insert project name] Project

The [Annex I country], acting through the [Annex I country]'s Designated National Authority (*insert additional description of location of DNA as required*), hereby declares that:

- (vi) [Annex I Country] ratified the Kyoto Protocol on [###];
- (vii) [Annex I Country] participates voluntarily in the Clean Development Mechanism;
- (viii) in accordance with the guidance issued by the Executive Board contained in the CDM glossary of terms, [Annex I country] hereby approves and authorizes the voluntary participation of the [insert the name of other project participant] as [a] project participant[s] in the [###] project activity[or project activities if there are more than one project activity] (the "**Project Activity[ies]**");

Done at [insert location of DNA] on [insert date]

For the [insert reference to authority of DNA]

[insert name and position of appropriate signatory]

Statement for Modality of Communication

[Appropriate Letterhead]

Statement on The Modalities For Communicating With the Executive Board and The UNFCCC Secretariat

The undersigned Project Participant agrees that the International Bank for Reconstruction and Development as Trustee of the [*insert the name of the fund*] (the “Trustee”) [*and the name of the project entity in the case of joint focal points*], is [are] the [joint] focal point for the [*name of the project*] (the “Project”) with respect to all communications with the Executive Board and the United Nations Framework Convention on Climate Change, including, without limitation to instructions regarding allocation of certified emission reductions (CERs) upon issuance of CERs.

The undersigned Project Participant hereby grants an irrevocable power of attorney to the Trustee with regard to adding new project participants to the Project and/or withdrawing the project participant from the Project.

This statement shall be valid until a new Statement superseding this Statement has been submitted to the Executive Board and the UNFCCC Secretariat.

[Insert name of Project Participant]

Authorized Representative

Title:

Date:

Addendum to Statement for the Modality of Communication

The Project Participants in the *[name of the project]* (the “Project”) agree the entities identified in the annex to this addendum to be added as project participants to the Project.

The Project Participants reaffirm that the International Bank for Reconstruction and Development as Trustee of the *[insert the name of the fund]* (the “Trustee”) *[and the name of the project entity in the case of joint focal points]*, is [are] the [joint] focal point for the *[name of the project]* (the “Project”) with respect to all communications with the Executive Board and the United Nations Framework Convention on Climate Change, including, without limitation to instructions regarding allocation of certified emission reductions (CERs) upon issuance of CERs.

This statement shall be valid until a new Statement superseding this Statement has been submitted to the Executive Board and the UNFCCC Secretariat.

[In the case that a sovereign Fund Participant has been listed as a project participant but has not given power of attorney to the Trustee, insert the following statement:

The undersigned Project Participant hereby grants an irrevocable power of attorney to the Trustee with regard to adding new project participants to the Project and/or withdrawing the project participant from the Project.]

Authorized Representative

Title:

Date:

Contact Information on Participants in the Project Activity

| | |
|------------------|--|
| Organization: | |
| Street/P.O.Box: | |
| Building: | |
| City: | |
| State/Region: | |
| Postfix/ZIP: | |
| Country: | |
| Telephone: | |
| FAX: | |
| E-Mail: | |
| URL: | |
| Represented by: | |
| Title: | |
| Salutation: | |
| Last Name: | |
| Middle Name: | |
| First Name: | |
| Department: | |
| Mobile: | |
| Direct FAX: | |
| Direct tel: | |
| Personal E-Mail: | |

National Requirements for Applying for Letter of Approval

| Participants | Issuance of Letter of Approval for Non Resident Entities | Requirements for Letters of Authorization (LoA) | Costs to Obtain Letter of Approval | Sources |
|--------------|--|--|--|--|
| Canada | No | <ol style="list-style-type: none"> Written Request for authorization to participate and approval of voluntary participation must be submitted to Canada's CDM Office Proof of a private or public entity's Legal Status in Canada. Final Project Design Document (PDD) Validation Report. In cases where the validation report is not yet available, a request for approval may still be submitted in order to initiate the approval. <i>A Provisional Letter of Voluntary Participation in a CDM Project may be issued in the absence of the Validation Report.</i> Environmental Assessment may be required under the Canadian Environmental Assessment Act Official Development Assistance- Where Canadian Public Funds have been contributed to a CDM project, the project participants will need to provide a letter from the public body that provided such funding. Additional Information may be required by the CDM Office | No Costs | Canada's Clean Development Mechanism and Joint Implementation Office. Available: http://www.dfait-maeci.gc.ca/cdm-ji/vol-part-en.asp |
| Finland | No | Project Design Document (PDD) is required | Yet to be Determined by the Finnish Foreign Ministry | Ministry of Foreign Affairs, Departments for Development Policy, October 2006. |
| Italy | No | <ol style="list-style-type: none"> A copy of the Letter of Approval (LoA) from the Host Country The final version of the PDD, The validation report (or, in its absence, the pre-validation report), A declaration, from the private entity applying for the LoA, on the completeness and correctness of the documents provided. | No Costs | Italian Ministry for the Environment, Land and Sea, August 2007. |
| Norway | No | Norway only issues written approvals (this written approval constitutes authorization, according to the CDM modalities and procedures). | N/A | Norway's Ministry of Environment, October 2006. |
| Sweden | Yes | <ol style="list-style-type: none"> Validation Report PDD Host Country Letter of Approval | No Costs | Swedish Designated National Authority, August 2007. |

| | | | | | |
|--------------|-----------------|---|--|---|---|
| Participants | The Netherlands | <p>Issuance of Letter of Approval for Non Resident Entities</p> <p>Yes</p> | <p>Requirements for Letters of Authorization (LoA)</p> <p>An Application as well as the following documentation pursuant to <i>The Decree of the State Secretary for Housing, Spatial Planning and the Environment and the Minister of Economic Affairs of 13 April 2006, no. KV2006247416</i> :</p> <ol style="list-style-type: none"> 1) If the project participant is not a natural person- an extract from commercial register with participant's name or an equivalent document. 2) Registered projects- must include the name and registration number of the project activity and the date of registration in the application. 3) Non registered projects- name of the project activity, the website and date that PDD was made publicly available for commentary. 4) If the PDD does not contain the name of project participant- a written declaration by all participants referred to in the PDD endorsing the project participant's inclusion 5) Declaration- A declaration by the project participant that participation in the project activity will meet the requirements imposed on such participation under the terms of the Kyoto Protocol 6) Where projects generating hydroelectricity with a capacity exceeding 20MW are concerned: a declaration by the project participant that the recommendations of the World Commission on Dams referred to in EC Emissions Trading Directive will be taken into account in project activity and implementation 7) Letter of Consent- A letter of Consent which adds the applicant as a project participant and which is signed by all the project participants listed in the PDD. For the fund participants of the Prototype Carbon Fund and the Community Development Carbon Fund administered by the World Bank, this requirement will not apply. These participants should instead provide reference to their respective fund websites where the names of the fund participants are specified. | <p>Costs to Obtain Letter of Approval</p> <p>€350.00 per project</p> | <p>Sources</p> <p>Ministry of Housing, Spatial Planning and the Environment (VROM), January 2007. Available: http://international.vrom.nl/pagina.html?id=9716</p> |
|--------------|-----------------|---|--|---|---|

National Requirements for Opening Accounts in National Registries

| Participants | Procedures for Opening Holding Accounts | Related Costs for Opening Holding Accounts | Eligible Entities |
|--------------|---|---|---|
| Canada | Canada has not yet developed this system, though it is currently being discussed by the Ministry of Environment | N/A | N/A |
| Finland | A foreign citizen would have to contact the local Finnish embassy and show identification in order to apply for the account. Following this, one would then send the Energy Market Authority an application by post. The application form can be found on the registry web page: http://www.paastokaupparekisteri.fi/ | For Finnish non-sovereign Participants: €50 to open an account and €0.0085 per allowance/year, calculated from the average number of allowances held in the account annually, but at a minimum €50 and a maximum of €1000 annually. | Anyone |
| Italy | An account may be opened online at: http://www.greta-public.sinanet.apat.it/ Once opened, an account may be managed at: http://www.greta.sinanet.apat.it/ultimohelp_01_06_eng/Site_Manual.htm Note: The Chamber of Commerce must give a company its registration number prior to opening an account. | No fees are involved | You may register the following groups with Emissions Trading Registry: An operator, A person (individual), an Organization, and an additional Account Representative with an organization |
| Norway | The applicant must state either the National identity No. (if applicant is a private person) or the National organization number (if applicant is an enterprise) in the application form it submits to Norwegian Pollution Control Authority (SFT). Available: http://www.sft.no/aktuel/29292.aspx | NOK 200 | As of today, only Norwegian citizens and companies based in Norway may open an account. However, in 2007 will connect to the International Transaction Log (ITL) using the same registry software as at least 15 EU member states and it is expected that foreign companies and private persons will be allowed to open accounts in the Norwegian registry as of 2008 |

| Participants | Procedures for Opening Holding Accounts | Related Costs for Opening Holding Accounts | Eligible Entities |
|-----------------|--|--|---|
| Sweden | <p>Compliance with the Following:</p> <ol style="list-style-type: none"> 1) Application for a user account and digital id. 2) At least two people must be registered as authorized representatives of each personal holding account. 3) Companies must issue a power of attorney for those persons who are handling accounts in the Swedish Emissions Trading Registry 4) Send power of attorney to Swedish Energy Agency Further information is available on the web at: http://www.utslappshandel.se/index_eng.html | 1000 SEK to open an account (€65) and 500 SEK annually to have the account (€65) | Companies and individuals located in EU Member States |
| The Netherlands | Compliance with Annex V of the Directive 2003/87/EC of the European Parliament and of the Council and Decision 280/2004/EC of the European Parliament and of the Council. Available: http://www.co2e.nl/docs/registerverordening.doc | €50 per commitment period | Anyone |