LEAF Coalition Transactions in the Context of Article 6 Negotiations at COP26

Overview

The COP26 negotiations held in November 2021 resulted in the adoption of a set of decisions related to Article 6 of the Paris Agreement. Article 6, among other things, includes provisions guiding the credible use of international carbon markets in relation to the implementation and achievement of nationally determined contributions (country-level climate targets known as "**NDCs**"). The decisions taken at COP26 establish the basic accounting and reporting guidance that all Parties must follow with respect to the transfer of mitigation outcomes, as well as the rules, modalities and procedures for the sustainable development mechanism established under Article 6.4 of the Paris Agreement.

Relevant Article 6 Negotiation Outcomes

- "**Corresponding adjustments**" **(adjustments in accounting for NDCs) are required** where mitigation outcomes are authorized by participating Parties to the Paris Agreement ("Parties") for the following uses.
    - (1) **Use towards an NDC.** For example, this would include a bilateral government-to-government carbon credit transaction; such cases involve corresponding adjustments by both the host and acquiring Parties.
    - (2) **Use for international mitigation purposes other than an NDC**. For example, this would include an airline using carbon credits to meet offsetting requirements under the International Civil Aviation Organization's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA); the host country must undertake a corresponding adjustment.
- **For mitigation outcomes transacted for "other purposes"[1] (e.g., voluntary carbon credits)**, the Party in which the emissions reduction occurs (referred to as the "**host country**", or the "**supplier country**" under LEAF) decides whether to apply corresponding adjustments or not. The supplier country may generate and transact credits without authorizing their use under Article 6 Guidance and so without applying corresponding adjustments. If the supplier country decides to authorize outcomes for "other purposes" consistent with Article 6 Guidance, and thereby treat them as internationally transferred mitigation outcomes ("ITMOs") for the purposes of the accounting guidance, it will apply corresponding adjustments in accounting for its NDC.
- "**Corresponding adjustments**" **are not required** for transactions of mitigation outcomes except as identified in Article 6 guidance. For example, it has been suggested that governments may wish to provide results-based payments or companies may wish to purchase credits for voluntary purposes where the supplier country has not elected to authorize the use of the mitigation outcomes in accordance with Article 6 guidance. These transactions may occur without corresponding adjustments.

For a complete discussion of these and other matters, please refer to Article 6 of the Paris Agreement and Article 6 Guidance.

[1] As defined in the Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement (UNFCCC, 2021)

COP26 and LEAF transactions

There are four transaction pathways available to parties engaged in the Lowering Emissions by Accelerating Forest Finance ("**LEAF**") Coalition transactions, which are coordinated by Emergent Forest Finance Accelerator, Inc. ("**Emergent**"). **All four pathways are intended to be compatible with host country accounting guidance included in the Article 6 negotiation outcomes from COP26**.

Participants in LEAF Coalition transactions may select the pathway that best suits their needs on a transaction-by-transaction basis and based on their own goals and objectives. The following is an overview of the processes involved in each pathway. For a complete description of each Pathway, please refer to Appendix 1, which contains the pathway descriptions set forth in the April 2021 Call for Proposals and to the final legal agreements that will govern the sale and purchase of emission reductions for the LEAF Coalition.

- **Pathways 1, 2, 3:** The supplier country will not be expected to authorize the use of emission reductions sold in a LEAF Coalition transaction as ITMOs, nor to make a corresponding adjustment in accounting for its NDC.
    - Under pathways 1 and 2, respectively, sovereign and corporate purchasers elect not to take title to the associated emission reductions.
    - Under pathway 3, corporate purchasers may take title to the associated emission reductions, and will transparently communicate that the underlying mitigation counts towards the supplier country's NDC implementation and achievement.
- **Pathway 4:** The supplier country elects to authorize the use of the relevant mitigation outcomes for "other purposes," "international" or otherwise, and to undertake a corresponding adjustment in accounting for its own NDC. The supplier country will apply corresponding adjustments for these outcomes in fulfilling its national reporting requirements under the Paris Agreement. Transactions under Pathway 4 will be clearly labelled as authorized by the supplier country in the Architecture for REDD+ Transactions (ART) Registry. Once the ART Secretariat has confirmed that the supplier country has undertaken a corresponding adjustment for the relevant emission reductions, consistent with Article 6.4 guidance, the units will be labelled as adjusted in the ART Registry.

Appendix 1:

LEAF Coalition transaction pathways:

- *#1: Sovereign contributors will provide results-based payments (RBPs) and neither take title to the ERs nor use them towards their NDC targets. Supplier receiving RBPs will be required to retire the ERs on the ART registry, but the Supplier Country may include the underlying mitigation in accounting for its NDC.*
- *#2: Private sector buyers may replicate the sovereign approach (e.g., RBPs without taking title). Supplier receiving RBPs will be required to retire the ERs (emissions reductions) on the ART registry, but the Supplier Country may include the underlying mitigation in accounting for its NDC.*
- *#3 Private sector buyers may provide results-based finance and take title to the ERs. If private sector buyers take title to the ERs under this option, the Supplier will transfer the ERs to the buyer on the ART registry, but the Supplier Country will include the underlying mitigation in accounting for its NDC. The private sector buyer will transparently communicate that the underlying mitigation counts towards the Supplier Country's NDC implementation and achievement.*
- *#4 Private sector buyers may take title to ERs, including for use towards compliance targets, for which the Supplier Country is willing to make a corresponding adjustment. Under this option the Supplier will transfer the ERs to the buyer on the ART registry, and the Supplier Country will apply corresponding adjustments for the underlying mitigation in accounting for its NDC and report on it to the UNFCCC.*