

# GUIDANCE

## Third-Party Verification Under The Output-Based Pricing System Regulations

VERSION 2



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**Where there are any inconsistencies between this Guidance, the *Greenhouse Gas Pollution Pricing Act* (GGPPA) and/or the *Output-Based Pricing System Regulations* (OBPS Regulations), the following shall prevail: the GGPPA enacted by section 186 of chapter 12 of the Statutes of Canada, 2018, in force on assent June 21, 2018 and the OBPS Regulations, as registered by the Clerk of the Privy Council and published in the *Canada Gazette*, Part II, on July 10, 2019.**

## **Purpose**

The [Output-Based Pricing System Regulations](#) (OBPS Regulations) made under the [Greenhouse Gas Pollution Pricing Act](#) (GGPPA) establish the Output-Based Pricing System (OBPS). This document provides guidance on third-party verification requirements set out in sections 173, 176 and 177 of the GGPPA and sections 49 to 52, as well as Schedule 5, of the OBPS Regulations. The material is intended primarily for persons responsible for covered facilities and verification bodies, to clarify third-party verification requirements.

## **What is third-party verification?**

Under the GGPPA, third party verification refers to a process by which an independent accredited third party performs a systematic assessment to confirm, with supporting evidence, the accuracy of the total reported quantity of greenhouse gas from a covered facility and of production from each specified industrial activity occurring within a specified compliance period, and conformance with the OBPS Regulations. The OBPS Regulations put in place specific verification requirements to ensure consistency of application, impartiality and a high degree of confidence in the reported information. Third-party verification is required in international carbon pricing regimes (EU Emissions Trading System, California Cap-and-Trade, etc.) as well as in carbon pollution pricing systems in provinces in Canada.

## **Objective of third-party verification**

Third-party verification increases the credibility and integrity of the overall carbon pollution pricing system and informs, in the context of the OBPS Regulations, the Minister of Environment and Climate Change's review of the reported information.

Under the OBPS Regulations, a verification body is required to make, pursuant to paragraph 49(1)(b), a determination on whether an annual report or corrected report contains a material discrepancy (see section below on [Materiality](#) for further details) with respect to the total quantity of GHGs and the production from each specified industrial activity used in the calculation of the emissions limit, as well as on whether, in the verification body's opinion, the report has been prepared in accordance with the OBPS Regulations.

### Accreditation requirements for verification bodies under the OBPS Regulations

Pursuant to paragraph 49(1)(a) of the OBPS Regulations, a third party is authorized to verify an annual report or a corrected report if:

- it is accredited as a verification body to the ISO Standard 14065<sup>1</sup> by the Standards Council of Canada (SCC), the American National Standards Institute (ANSI)<sup>2</sup> or another accreditation organization that is a member of the International Accreditation Forum;
- it has a scope of accreditation that is sufficient to verify the annual report or the corrected report, *i.e.*, the verification body has sufficient technical expertise relevant to the industrial activity undertaken at the covered facility; and,
- it is not suspended by an accreditation organization that issued the accreditation.

SCC and ANSI both maintain a list of accredited verification bodies:

- [SCC Directory of Accredited Verification Bodies](#)
- [ANSI Directory of Accredited Verification Bodies](#)

### Specific requirements for conducting verifications under the OBPS Regulations

Pursuant to paragraph 49(1)(b) of the OBPS Regulations, an accredited verification body must conduct the verification in accordance with either ISO Standard 14064-3 published by the International Organization for Standardization in 2006 entitled *Greenhouse gases – Part 3: Specification with guidance for validation and verification of greenhouse gas assertions* or published in 2019 entitled *Greenhouse gases – Part 3: Specification with guidance for the verification and validation of greenhouse gas statements*<sup>3</sup>.

Specific verification requirements that must be followed by the accredited verification body include:

#### ***Level of assurance***

Level of assurance relates to the depth and breadth of verification activities and the resulting level of confidence in the accuracy of reported information. Pursuant to paragraph 49(1)(b) of the OBPS Regulations, an accredited verification body must conduct the verification to a reasonable level of assurance, as defined in ISO 14064-3, which is the highest level of verification assurance.

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<sup>1</sup> ISO Standard 14065 means the standard ISO 14065 entitled *Greenhouse Gases –Requirements for greenhouse gas validation and verification bodies for use in accreditation or other forms of recognition*, published by the International Organization for Standardization in 2013.

<sup>2</sup> ANSI accreditation programs are in the process of transitioning under the new unified ANSI National Accreditation Board (ANAB), a wholly owned subsidiary of ANSI. Therefore, third-party verification bodies that are accredited by ANAB will be authorized to verify an annual report and corrected report.

<sup>3</sup> ISO 14064-3:2019, replacing ISO 14064-3:2006, was published in April 2019, and a transition period is underway. For more details and information about the transition arrangements and timeline, please contact SCC or ANSI.

## Materiality

Materiality is the concept that an individual discrepancy<sup>4</sup> (*i.e.*, errors or omissions), or the aggregation of discrepancies could affect significantly the accuracy or completeness, and therefore the reliability of reported information. The OBPS Regulations set materiality thresholds for quantitative discrepancies for both GHGs and production from specified industrial activities.

Subsection 49(2) of the OBPS Regulations specifies when a material discrepancy exists, with the associated formula, with respect to the total quantity of GHGs from a covered facility during the compliance period, and the production from each specified activity, as shown in Table 1 below.

**Table 1: Applicable thresholds for material discrepancies by total facility GHGs levels**

<b>GHGs emitted during the compliance period (kt CO<sub>2e</sub>)</b>	<b>Individual and aggregated errors or omissions for GHGs</b>	<b>Individual error or omission for production from each specified industrial activity</b>
< 50	8%	5%
≥ 50 but < 500	5%	5%
≥ 500	2%	5%

In the situation where a person responsible for a covered facility (person responsible) submits an annual report or corrected report that contains a material discrepancy, the Minister can intervene by establishing the emissions limit or determining the GHGs emitted from the covered facility based on all available information, pursuant to subsection 53(1) and paragraph 53(1)(a) of the OBPS Regulations.

## Conflict of interest

The independence and impartiality of an accredited verification body in relation to a person responsible (and vice-versa) helps ensure the verification process is credible and that the findings and conclusions are based only on objective evidence. To this end, the person responsible must comply with the provisions of subsection 50(1) of the OBPS Regulations and ensure a Conflict of Interest (COI) Declaration<sup>5</sup>, signed and dated by the lead verifier, as per sub-item 3(l) of Schedule 5 to the OBPS Regulations is submitted as part of the Verification Report.

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<sup>4</sup> “Discrepancy” in the OBPS Regulations has the same meaning as “misstatements” in ISO 14064-3:2019.

<sup>5</sup> Environment and Climate Change Canada will make available a conflict of interest checklist and declaration template for the purpose of complying with sub-item 3(l) of Schedule 5 of the OBPS Regulations.

### ***Consecutive verifications***

To help ensure the independence of accredited verification bodies, the OBPS Regulations specify under subsection 50(2) that a verification body must take a three-year break if they have verified six consecutive annual reports with respect to the same facility under the OBPS Regulations. However, this requirement does not apply to corrected reports, which can always be verified by the verification body if it is in relation to an annual report verified by that verification body.

### ***Facility visits***

The person responsible must ensure that their covered facility is visited by an accredited verification body in the circumstances outlined in subsection 51(1) of the OBPS Regulations.

According to subsection 51(2) of the OBPS Regulations, if buildings that are used for legal, administrative or management purposes are not located where an industrial activity is carried out, the person responsible must ensure that the verification body visits those buildings if data or information necessary for verifying an annual report or a corrected report is kept in those buildings.

In accordance with paragraph 49(1)(b) the accredited verification body must conduct the verification in accordance with ISO standard 14064-3 published in 2006 or 2019 based on their accreditation. On that basis, note that ISO 14064-3:2019 specifies additional circumstances requiring a site or facility visit and considerations for site selection. Verifications conducted using ISO 14064-3:2019 must follow these requirements, in addition to the OBPS Regulations' facility visit requirements.

### **Verification report for an annual report or corrected report**

In accordance with section 13, subsection 62(1) and paragraph 63(1)(b) of the OBPS Regulations, a verification report, containing all the information required under section 52 and Schedule 5 of the OBPS Regulations, and prepared using the Verification Report template<sup>6</sup>, must be submitted:

- with an annual report by June 1 of the year following the end of the compliance period; or,
- with a corrected report within 90 days after
  - the day on which a notice is submitted under subsection 176(1) of the GGPPA, if the notice indicated that the individual or aggregated errors or omissions would have constituted a material discrepancy under subsection 49(2) of the OBPS Regulations; or
  - the day on which the Minister requires that it be submitted, in accordance with subsection 177(2) of the GGPPA.

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<sup>6</sup> Environment and Climate Change Canada will make available a Verification Report template for the purpose of complying with section 52 of the OBPS Regulations.

## How can I learn more?

Please refer to the [OBPS Website](#) for further information on the [GGPPA](#), the [OBPS Regulations](#); and related policy and guidance. For questions or comments on the federal OBPS, including on [registration](#) please email the Carbon Markets Bureau, Operations Office, at [ec.stfr-obps.ec@canada.ca](mailto:ec.stfr-obps.ec@canada.ca) or call 1-833-849-9160.