CDP Technical Note

"Retirement" and "Cancellation" of instruments

CDP Corporate Questionnaire

Version

Version number	Release / Revision date	Revision summary
1.0	June 25, 2013	• First published version.
2.0	January, 2014	• “Introduction” and “Carbon credits use and registries” sections revised.
2.1	2016	• “I-RECS” added to instruments used to track electricity.
2.2	2017	• Sources of definitions added.
3.0	2018	• Formatting updated to align with the 2018 CDP climate change questionnaire.
4.0	2021	• IPCC definition of Annex B Party, and AIB EECS definition of cancellation added.
5.0	January 21, 2022	• Minor editorial updates
6.0	June 28, 2024	• Updated to align with the 2024 CDP Corporate Questionnaire.
7.0	May 21 2025	• Updates to use ICVCM’s definitions of “Retirement” and “Cancellation” throughout

Contents

About this technical note

The objective of this document is to clarify terminology related to the use of carbon credits and other instruments frequently used by companies.

1. Carbon credits use and registries

States and companies use a variety of instruments to manage their carbon obligations and commitments. Examples of such instruments are:

- Carbon units, established by either international or national regulatory mechanisms for purposes of accounting, compliance and trading between parties. These include:
- Units created under the UNFCCC:
  - AAU – Assigned Amount Unit
  - RMU – Removal Unit
  - ERU – Emission Reduction Unit
  - CER – Certified Emission Reduction
  - tCER – temporary Certified Emission Reduction
  - lCER – long-term Certified Emission Reduction
- Units created under the European Union Emission Trading Scheme (EU ETS):
  - EUA – European Unit Allowance
- Carbon credits, established by voluntary mechanisms or standards
- ICVCM – Integrity Council for the Voluntary Carbon Market: a multi-stakeholder led independent governance body that establishes and maintains the highest standards of ethics, sustainability, and transparency for the global voluntary carbon market.
- Instruments used to track electricity, such as:
- GO – Guarantee of Origin
- REC – Renewable Energy Certificate
- I-REC – International Renewable Energy Certificate

These instruments convey information that entitles their users to make certain claims. They can be sold in the market, which then enables others to claim (what is conveyed by) the instrument. Often instruments are created and managed under an electronic registry, rather than in physical form. These electronic registries have specific mechanisms in place to track the ownership of the instrument, whether the instrument can still be traded or if it has been used against a specific use case. Such use cases include:

- An organization fulfilling a regulatory obligation, e.g. companies under the EU ETS are required to surrender an amount of allowances equal to their verified emissions from the previous year by 30th April.

- An organization fulfilling a voluntary commitment, e.g. a company has a voluntary target to offset 100% of its emissions during 3 years using CER's.
- A state fulfilling a regulatory obligation.

To fulfill these use cases, organizations are required to undertake certain actions that permanently remove the instruments from the market. After taking those actions it is no longer possible to use the instrument for any other purpose. This mechanism is fundamental for the environmental integrity of the system ensuring that a unit shall not be accounted twice.

These important actions are often referred to as "retirement", "cancellation" or "surrendering". Even though these terms are often used interchangeably in the marketplace, they actually have different meanings, as detailed in the table below.

Action	ICVCM	EU ETS[1]
Retirement	The permanent removal of a carbon credit in a registry for the purpose of claiming the associated emission reductions or removals towards compliance requirements or voluntary goals.	"Retirement" means the accounting of a Kyoto unit by a party to the Kyoto Protocol against the reported emissions of that Party
Cancellation	The permanent removal of a carbon credit in an electronic registry without claiming the associated emission reductions or removals towards any voluntary or mandatory targets or other purposes.	"Cancellation" means the definitive disposal of a Kyoto unit by its holder without accounting it against verified emissions
Surrender	[Not defined]	"Surrender" means the accounting of an allowance by an operator or aircraft operator against the verified emissions of its installation or aircraft

From the table above, it is evident that these registries (ICVCM, EU ETS) use different terminology depending on the actors that perform the actions. The actions are similar in nature in that their purpose is to ensure that the instrument ceases being available for use by anyone else. For example:

- A company "retires" a carbon credit in the relevant registry and claims the associated emissions reductions for a voluntary contribution goal.
- An operator (company) under the EU ETS "surrenders" an equal amount of allowances to its verified emissions to fulfill its legal obligations.

[1] The source for these definitions is COMMISSION REGULATION (EU) No 389/2013 of 2 May 2013 establishing a Union Registry pursuant to Directive 2003/87/EC of the European Parliament and of the Council, Decisions No 280/2004/EC and No 406/2009/EC of the European Parliament and of the Council and repealing Commission Regulations (EU) N. 920/2010 and N. 1193/2011that can be find at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:122:0001:0059:EN:PDF

Different regulatory initiatives might use and introduce different terminology for actions that are similar in nature. To the extent possible CDP will attempt to analyze and document the use of such terminology. Companies are welcome to contact CDP to share information about such instances.