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on the harmonized free allocation methodology for the EU-ETS -
2024 revision

Verification of FAR Baseline Data Reports and Annual Activity Level Reports

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The guidance does not represent an official position of the Commission and is not legally binding. However, this guidance aims to clarify the requirements established in the EU ETS Directive and the FAR and is essential to understanding those legally binding rules.

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1 Introduction

1.1 Status of the Guidance Documents

This guidance document is part of a group of documents, which are intended to support the Member States, and their Competent Authorities, in the consistent implementation throughout the Union of the new allocation methodology for the fourth trading period of the EU ETS, following the revision of the EU ETS Directive¹ and the Delegated Regulation of the Commission (EU) 2019/331 on “Transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of the EU ETS Directive” (FAR)², its revised version Regulation (EU) XXX³, and the subsequent implementing acts such as the Commission Implementing Regulation (EU) 2019/1842 “laying down rules on annual activity level data”.⁴

The guidance does not represent an official position of the Commission and is not legally binding. However, this guidance aims to clarify the requirements established in the EU ETS Directive and the FAR and is essential to understanding those legally binding rules.

This guidance document is based on a draft provided by a consortium of consultants (SQ Consult, Umweltbundesamt) and builds on the guidance documents developed for Phase 3⁵ and for the first allocation period in Phase 4. It takes into account discussions within several meetings of the Expert Group on Climate Change Policy, as well as written comments received from stakeholders and experts from Member States in 2018-2019 as well as in 2023-2024.

¹ Directive (EU) 2023/959 of the European Parliament and of the Council of 10 May 2023 amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union and Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading system (Text with EEA relevance), PE/9/2023/REV/1, OJ L 130, 16.5.2023, p. 134–202, see: <http://data.europa.eu/eli/dir/2023/959/oj>.

² Commission Delegated Regulation (EU) 2019/331 of 19.12.2018 determining transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC of the European Parliament and of the Council, Official Journal 27 February 2019, L 59/8; <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0331>.

³ The revised version of the FAR has been adopted on 30 January 2024 and can be found here: [https://ec.europa.eu/transparency/documents-register/detail?ref=C\(2024\)441&lang=en](https://ec.europa.eu/transparency/documents-register/detail?ref=C(2024)441&lang=en). The scrutiny period is still on-going at the time of publication of this guidance.

⁴ Commission Implementing Regulation (EU) 2019/1842 “laying down rules for the application of the EU ETS Directive as regards further arrangements for the adjustments to free allocation of emission allowances due to activity level changes, Official Journal of 4 November 2019, L 282/20.

⁵ By a consortium of consultants (Ecofys NL, Fraunhofer ISI, Entec).

1.2 Legal Requirements

The EU ETS Directive⁶ was revised in 2023. Compared to the 2018 version of the Directive, new requirements have been introduced in Articles 10a and 10b of the Directive on the allocation of allowances. One of the key differences is that for the allocation period starting from 2026 to 2030 eligible installations have to meet certain conditions before the final amount of allowances can be allocated to installations. This concerns the following conditions:

1. Installations that are subject to an energy audit or certified energy management system according to Article 8 of the Energy Efficiency Directive (EED)⁷ have to implement recommendations from energy audits or certified energy management systems.
2. Installations whose sub-installation has specific emissions higher than the 80th percentile of their benchmark curve shall set-up a climate neutrality plan accepted by their Competent Authority.

If one or both of the conditionality points above have not been met, the free allocation of allowances will be reduced by 20% (according to Article 22c of the FAR). In addition, Article 10b of the Directive allows district heating operators in Member States with relatively high emissions originated from district heating to receive an additional 30% of emission allowances if they have a compliant climate neutrality plan in place and sufficient investments have been made to implement significant emissions reduction measures before 2030.⁸

Information on **conditionality point 2**, regarding the establishment of the climate neutrality plan is included in GD11 “Guidance on Climate-neutrality plans as a condition to free allocation”. With respect to **conditionality point 1**, guidance can be found in GD12 “Guidance on conditionality of free allocation on implementation of energy efficiency improvement measures”.

Other key differences in the legislative framework include: differences in the way the cap is reduced⁹, the gradual phase-in of the Carbon Border Adjustment Mechanism (CBAM) for some goods replacing the approach to determine the carbon leakage status, changes in the calculation of historical levels for some benchmarks, and changes in the definition and system boundaries of some benchmarks. These

⁶ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC, including all amendments, in particular Directive (EU) 2018/410 of the European Parliament and of the Council of 14 March 2018 amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments, and Decision (EU) 2015/1814. Download consolidated version: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02003L0087-20180408>.

⁷ Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC, OJ 14 November 2012, L 315/1.

⁸ This conditionality applies only to district heating, i.e., only to the district heating sub-installation in case the installation conducts other activities.

⁹ Until 2027 the cap will be reduced by 4.3% and from 2028 onwards by 4.4%.

differences are explained in GD 1 “General Guidance on the harmonised free allocation methodology for the EU ETS 2023 revision”.

Because of the new requirements in the Directive, revisions had to be made in the delegated act that the Commission has adopted to provide harmonised rules for the allocation of free allowances. This delegated act is Regulation 2019/331 (hereinafter referred to as “Free Allocation Rules (FAR)”) which includes more detailed requirements on the definition of sub-installations, determination of historical activity levels per sub-installation and the collection, monitoring and reporting of data needed to calculate the amount of free allocation of allowances¹⁰. Compared to the Community-wide Implementing Measures (the CIMs¹¹) that were valid in the third trading period, the FAR is a regulation that is directly applicable to operators. Member States no longer have to implement the requirements through their national legislation. The new 2024 revisions to the FAR include more detailed requirements on the procedural steps for the implementation of the conditionality requirements, revisions in the calculation of historical activity levels and changes in the definition and system boundaries of some of the benchmarks.

Baseline data reports and annual activity level reports have to be verified by accredited verifiers. The requirements for verification of the allocation data in these reports are included in the Accreditation and Verification Regulation¹² (AVR) that is also applicable to annual emission verification. As a result of revisions in the Directive and the FAR, amendments had to be made in the AVR.

Table 1 shows what amendments have been made to the AVR in relation to verification of allocation data and what impact this has on related guidance.

¹⁰Note that this document only covers the transitional harmonised free allocation to industry under Article 10a of the EU ETS Directive. Any allocation under Article 10c (“Option for transitional free allocation for the modernisation of the energy sector”) is outside the scope of this document.

¹¹Commission Decision 2011/278/EU of 27 April 2011 determining transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC of the European Parliament and of the Council.

¹²Regulation (EU) 2018/2067 on the verification of data and on the accreditation of verifiers pursuant to Directive 2003/87/EC of the European Parliament and of the Council, replacing Regulation (EU) 600/2012.

Table 1- Impact of 2023/2024 Amendments in the Directive and the FAR on the AVR and guidance

Revision in Directive and FAR	AVR amendment	Impact on guidance
Article 22a(1) of the FAR requires the verifier to check as part of the verification of baseline data reports and, where appropriate, the verification of annual activity level reports, whether the implementation of energy efficiency recommendations is completed, and if not, whether one of the exceptions to conditionality applies.	To ensure that the verifier checks are carried out in a harmonised manner, Article 17a and 17b have been added to the AVR specifying the checks on completion of the implementation of energy efficiency recommendations and the application of any exceptions.	Section 7 of GD12 “Guidance on conditionality of free allocation on implementation of energy efficiency improvement measures” explains Article 17a and 17b AVR.
	To ensure that the verifier can perform checks described in Article 17a and 17b, the operator has to provide certain information to the verifier. Requirements have been included in Article 10(1) (lb), (lc) and (ld) of the AVR.	Section 7 GD12 and section 4.3 of this guidance provide more information
	To provide transparency on results of the confirmation checks described in Article 17a and 17b AVR, requirements have been included in Article 27(3) AVR on how verifiers report on results of confirmation check in their verification report.	Section 7 GD12 and section 9 of this guidance provide more information.
Article 4 and 6 FAR requires monitoring methodology plans to be approved by the CA.	As the MMP has to be approved by the CA, it is no longer allowed for the verifier to validate non-approved MMPs. Requirements in the AVR related to verifier’s validation of non-approved MMP have become obsolete and are deleted.	The relevant explanations related to verifier’s validation of the MMP have become redundant and have been deleted in this guidance.
Several revisions have been made in the definitions and Annex I of the FAR on benchmark definitions and system boundaries.	No impact on the AVR but the verifier has to understand the rule changes so that they can assess implementation of the MMP and check accuracy of the data.	More information on the definitions is provided in GD1 and GD2.
Gradual phase-in of CBAM replacing the current approach for carbon leakage. A CBAM factor will be applied to the preliminary free allocation of allowances for sub-installations producing CBAM goods listed in Annex I of the CBAM regulation. ¹³ This	No impact on the AVR itself but the verifier will check whether a product falls under Annex I of the CBAM regulation, and that the CBAM factor is applied correctly in calculating allocation data. The verifier will look at information and evidence, in particular the combined nomenclature codes on goods produced as set by Council Regulation (EEC) No 2658/87 ¹⁴ .	See section 6.15 and 7.1.7 of the guidance for further explanation.

¹³ Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism, Official Journal 16 May 2023, L 130/52.

¹⁴ Council Regulation (EEC) No 2658/87 of 23 July 1987 on the tariff and statistical nomenclature and on the Common Customs Tariff (OJ L 256, 7.9.1987, p. 1).

Revision in Directive and FAR	AVR amendment	Impact on guidance
ensures that free allocation is reduced at the same rate as the CBAM is phased in.		
The export or consumption of heat used for electricity generation is not eligible for free allocation (see Art. 2 (3) (a) and 2 (3) (b) of the FAR).	No impact on the AVR but the verifier should be aware of revisions in the FAR rules and the fact that the definition of electricity generators was removed from the ETS Directive.	See section 7.1.1 of this guidance.
Heat delivered by municipal waste incineration installations to EU ETS installations should not be considered in the determination of activity levels.	No impact on the AVR itself but the verifier should be aware of this when checking the sub-installation boundaries.	See GD1.
Several revisions have been made on the determination of historical activity levels: e.g. clarification on the determination of activity levels in cases where sub-installations only started normal operation during the baseline period; adjustment of the calculation of activity levels for ethylene oxide, ethylene glycol, hydrogen product benchmark.	No impact on the AVR but the verifier should be aware of revisions in the FAR rules.	See GD1 and GD2.
Revisions in the content of the baseline data reports (annex IV FAR): e.g. self declaration on the presence of energy audits or certified energy management systems and outstanding recommendations; revisions in the required data.	Clarification has been provided in the AVR on what type of information is to be provided to the verifier. This includes the information related to the energy efficiency recommendations in the baseline data report.	Section 2.4 and 4.3 of this guidance. For guidance on the content of the baseline data report see GD 3.
Revisions in the monitoring methodology plan (Annex VI FAR) including description of the procedure for implementing energy efficiency recommendations.	Clarification has been provided in the AVR on the checks to be carried out on the procedure for implementing energy efficiency recommendations. The verifier also needs to be aware of the revisions in the MMP and template to this plan.	For guidance on the content of the MMP see GD 1, 2, 3 and 5. For guidance on the procedure for implementing energy efficiency recommendations see GD 12.
Clarification that non-conformities and errors in the baseline data need to be corrected.	No impact on the AVR.	See section 6.6. of this guidance.

Other relevant legislation concerning free allocation of allowances includes:

- The updated Benchmark values: to be applied in the calculation of sub-installation allocation that are provided by the Benchmark Update Implementing act for the first allocation period in phase 4 (2021-2025)¹⁵ and for the second allocation period in phase 4 (2026-2030).¹⁶
- The updated Carbon Leakage List (CLL): identifying the sectors and activities eligible for 100% free allocation under the new carbon leakage rules for Phase 4¹⁷.
- The CBAM Regulation: as of 2026, free allocation for production of goods listed in Annex I of that Regulation will progressively be reduced, reaching a zero allocation in 2034.
- The Climate-Neutrality Plan (CNP) Implementing act¹⁸: includes requirements on the minimum content and format of the plan. According to Article 10b(4) of the EU ETS Directive and Article 22b of the FAR, the verifier has to verify achievement of milestones and targets laid down in the climate-neutrality plan. At this moment no requirements are included in the AVR on this type of verification. The AVR will be updated in the second half of 2024 which will subsequently have an impact on this guidance.
- The Implementing Regulation on Activity Level Change (ALCR)¹⁹: establishing rules outlining how changes to a (sub-)installation's production levels affect its allocation.

More guidance on applicable legislation is included in GD1 on the harmonised free allocation methodology for the EU ETS - 2024 revision, "General Guidance to the allocation methodology".

¹⁵Commission Implementing Regulation (EU) 2021/447 of 12 March 2021 determining revised benchmark values for free allocation of emission allowances for the period from 2021 to 2025 pursuant to Article 10a(2) of Directive 2003/87/EC of the European Parliament and Council.

¹⁶ Commission Implementing Regulation (EU) XX/XX to be updated.

¹⁷ Commission Delegated Decision (EU) 2019/708 of 15 February 2019 supplementing Directive 2003/87/EC of the European Parliament and of the Council concerning the determination of sectors and subsectors deemed at risk of carbon leakage for the period 2021.to 2030, Official Journal 8 May 2019, L 120/20.

¹⁸ Commission Implementing Regulation (EU) 2023/2441 of 31 October 2023 laying down rules for the application of Directive 2003/87/EC of the European Parliament and of the Council as regards the content and format of climate-neutrality plans needed for granting free allocation of emission allowances.

¹⁹ Commission Implementing Regulation (EU) 2019/1842 of 31 October 2019 laying down rules for the application of Directive 2003/87/EC of the European Parliament and of the Council as regards further arrangements for the adjustments to free allocation of emission allowances due to activity level changes, Official Journal 4 November 2019, L 282/20.

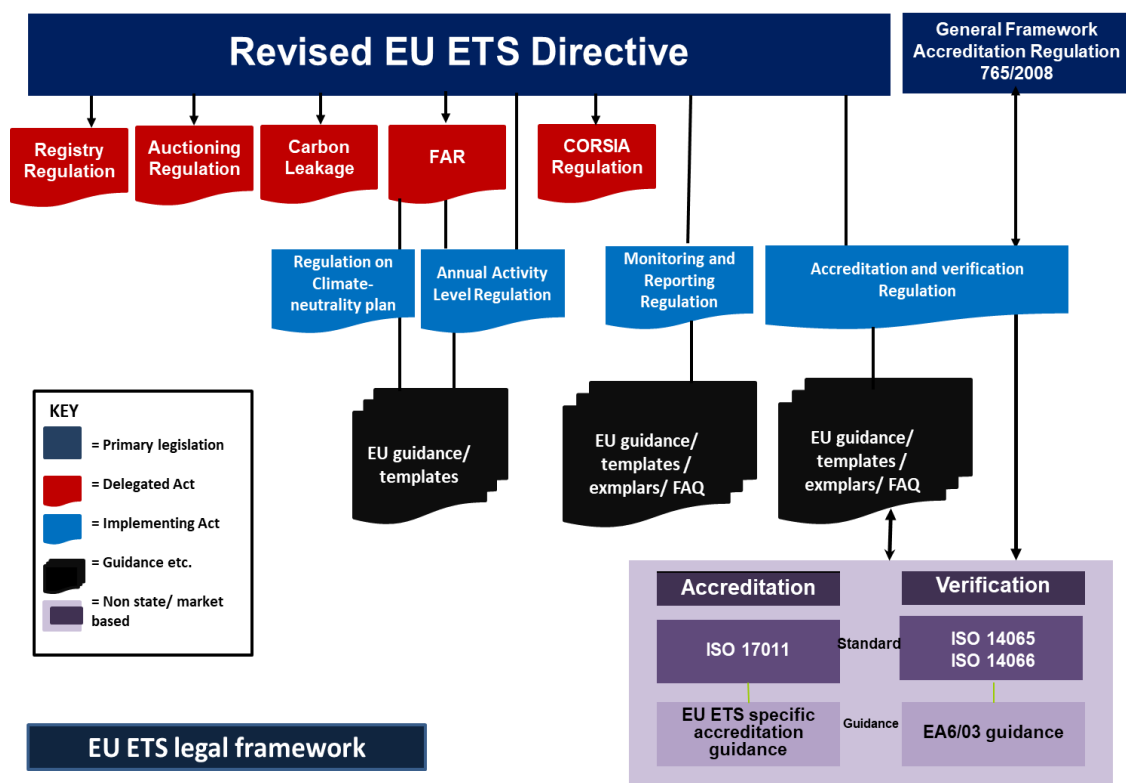


Figure 1 - Relationship of the EU ETS regulations and guidance etc.

1.3 Scope of this guidance document

This document aims to provide guidance on the verification of data relevant to the free allocation of allowances and on the accreditation of verifiers that conduct such verification. For verification of such data, it gives information on:

- What a verifier should check during the verification of relevant data;
- What principles the verifier should apply to such verification;
- The steps in the verification process and the specific rules applicable when verifying relevant data;
- Accreditation of verifiers carrying out such verification, as well as specific competence and impartiality requirements that apply.

This document is relevant for the verification of baseline allocation data for existing and new entrant installations²⁰ that are eligible for free allocation and want to apply for free allocation as well as for new entrants (see section 2.4). It also contains information on the verification of annual activity data.

²⁰ For new entrants receiving a permit before 1 January 2024 an application will need to be made under Phase 4 rules for the allocation period 2021-2025 for 2024 and 2025 and under the rules applicable to the allocation period 2026-2030 for the last 5 years of Phase 4, and subsequently.

References to Articles within this document generally refer to the revised (2023) EU ETS Directive, the FAR, the ALCR²¹ and the revised AVR in their latest version.

1.4 Information available

This guidance is not a stand-alone document. It is based on the AVR, the FAR and other relevant legislation and should be read together with other guidance documents. It provides clarification on how those other documents are to be applied in the context of collecting and reporting data relevant to free allocation and the update of the benchmarks.

Since the verification of FAR related data follows the general rules of verification under the AVR, it is implied that the reader of this guidance is familiar with the suite of guidance provided for the AVR²², in particular the AVR Explanatory Guidance (EGD I). Furthermore, the reader should be familiar with the basic concepts of monitoring and reporting under the EU ETS as required by the MRR²² as well as specifically for the FAR as outlined in Guidance Document 5 on “Monitoring and Reporting in Relation to the Free Allocation Rules”.

Furthermore, the following documents must be taken into account for full understanding of the verification tasks and requirements:

- the EU ETS Directive;
- Commission Delegated Regulation (EU) 2019/331 of 27 February 2019 determining transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of the ETS Directive [the Free Allocation Rules] (FAR);
- Other relevant legislation such as the Benchmark Update Implementing Act, the updated carbon leakage list, the Activity Level Change Implementing Regulation (ALCR) and Annex I of the CBAM Regulation;
- Commission Regulation (EU) 2018/2067 on the verification of data and on the accreditation of verifiers pursuant to Directive 2003/87 (AVR);²³
- EA 6/03: European Co-operation for Accreditation document on the recognition of verifiers under the EU ETS Directive;
- The templates provided by the Commission for the Monitoring Methodology Plan (MMP), the baseline data reports, new entrants report, and verification

²¹ The ALCR will be updated later in 2024 to align with the revisions in the EU ETS Directive and the FAR 2023-2024.

²² All guidance material for the annual monitoring and reporting under the MRR and for accreditation of EU ETS verifiers and verification of emissions can be found on the Commission’s website under https://ec.europa.eu/clima/policies/ets/monitoring_en#tab-0-1.

²³ This includes the amendments that were made by Commission Implementing Regulation (EU) 2020/2084 of 14 December 2020 amending and correcting Implementing Regulation (EU) 2018/2067 on the verification of data and on the accreditation of verifiers pursuant to Directive 2003/87/EC of the European Parliament and of the Council.

report (VR), see

https://ec.europa.eu/clima/policies/ets/allowances_en#tab-0-1

- Guidance documents provided by the Commission for the data collection, giving further interpretation of the FAR: see https://ec.europa.eu/clima/policies/ets/allowances_en#tab-0-1. A list of the relevant guidance documents is included in Annex 2;
- Guidance documents provided by the Commission in relation to the AVR. A list of relevant guidance documents is included in Annex 2; and
- Any relevant legislation and/or guidance of the Member State in which the installation is situated.

All these legislations, guidance documents and templates have been or will be updated in the course of 2024.

2 Verification of NIMs baseline data reports

According to Article 4(1) FAR, an operator that is eligible for free allocation of emission allowances may submit an application for free allocation to the competent authority (CA) by 30 May 2024 for the five years beginning on 1 January 2026.²⁴ For the subsequent allocation periods an application must be provided by the required deadlines every five years thereafter. According to the revised FAR, the application consists of:

- The NIMs baseline data report which is verified as satisfactory by an accredited verifier. This report contains the information listed in Annex IV of the FAR covering data relevant for the installation and sub-installation(s), and benchmark update, for each year of the baseline period²⁵.
- The MMP (and any associated documents) supporting the baseline data report. This plan states how data for the baseline data report is collected, monitored and reported in accordance with the FAR. It also defines the installation's sub-installation boundaries as well as quality assurance and internal control measures. Articles 4 and 6 of the FAR require the MMP to be approved.²⁶ If the MMP has already been approved by the CA, and there are no changes, it is not necessary to submit it again. More information can be found in GD5 on "Monitoring and Reporting in relation to the Free Allocation Rules".

²⁴ Member States may set an alternative date for the submission of the application but no later than 30 June and not earlier than 30 April.

²⁵ The Member State may decide based on national administrative practices if this part of the application is a separate file combined with the NIMs baseline report or only the NIMs baseline report.

²⁶ Monitoring methodology plans should be approved by the CA as soon as possible, in principle seeking approval before submission of the application to facilitate the verification of the baseline data report (see section 5.3.1 GD5).

- A verification report giving the conclusions of verification of the baseline data report and, where applicable, the CNP.

Where the CA dealing with allocation is not the same CA that deals with permits and annual emissions, it may be useful for the CA dealing with allocation to request the operator to also submit to it the latest approved monitoring plan under the MRR. The CA may request additional information to be submitted with the application on a case-by-case basis if further information is required in order to assess the completeness and plausibility of the relevant data.

Operators of incumbent installations that received the greenhouse gas permit after 31 December 2023, or every five years thereafter, and have no data to report in the baseline period do not need to verify the BDRs for that period.

2.1 Baseline data report

Annex IV of the FAR defines the content of the baseline data report. The verifier checks all data in the report as well as underlying data that was used to compile it. There are two sets of data on which the verifier will give its opinion as to whether they are free from material misstatements: baseline data used for calculating free allocation and data required for the benchmark updates, e.g. activity level data for each of the benchmark sub-installations. This guidance document will therefore include some information on how a verifier assesses benchmark update data as part of verification of the baseline data report.

Table 2 below gives information on the key data the verifier will express a conclusion on, and Table 3 below provides information what the verifier must evaluate for the purpose of corroborating the key data outlined in Table 2.

Table 2- key data on which the verifier expresses a conclusion

<p>For Free Allocations:</p> <p>For each baseline year, for each sub-installation, the activity level. This includes (as relevant to the installation):</p> <ul style="list-style-type: none"> • Production levels of product benchmark sub-installations; • Amounts of measurable heat eligible under the heat benchmark sub-installations and the district heating sub-installation, as result of the installation’s heat balance; • Amount of energy content of fuels eligible under the fuel benchmark sub-installations; • Amount of emissions eligible under the process emissions sub-installations; • Where applicable to the installation, the additional data listed in section 2.6 of Annex IV of the FAR • Where applicable to the product benchmark sub-installation, the additional data listed in section 2.7 of Annex IV of the FAR <p>In addition, for the update of the benchmark values the following:</p> <ul style="list-style-type: none"> • The attributed emissions arising from fuels, process inputs, measurable heat equivalent, production, import or export of waste gases or transferred CO₂,

Table 3 - Data for corroboration and checking

<p>For Free Allocations:</p>

Information necessary for understanding and corroborating the data in Table 2:

- detailed annual verified emissions data at installation level and per sub-installation;
- installation-wide balance of heat import, production, consumption and export;
- attribution of energy to sub-installations;
- installation-wide balance of electricity import, production, consumption and export;
- installation-wide balance of waste gas import, production, consumption and export.

2.2 Role of the Monitoring Methodology Plan

The MMP provides the basis for the operator to monitor and report all data required under the FAR, i.e. for calculating the free allocation, as well as for updating the benchmark values.

Like the monitoring plan under the MRR, the MMP is intended to ensure consistency of data over time; it is an internal 'rulebook' to be followed by the installation's personnel. For this purpose, the MMP must be approved by the CA and the verifier will then take the approved MMP as a starting point to assess whether the baseline data report is free from material misstatement. For further information, please see section 6.2.

Any non-compliance with the FAR subsequently identified during detailed verification will also be evaluated. GD5 on "Monitoring and Reporting in Relation to the Free Allocation Rules" provides more information on the contents of the MMP, its submission, and how the CA approval of these plans should function.

2.3 Implications for achieving data of 'highest achievable accuracy'

Article 7 and Annex VII of the FAR require that operators use in their baseline reporting data of 'highest achievable accuracy'. A hierarchy of most accurate data sources is defined in section 4 of Annex VII of the FAR for each of the elements of the FAR data collection process. A summary is given in Section 11 - Annex 3 of this document. More detailed guidance on this hierarchy can be found in GD5 on "Monitoring and Reporting in Relation to the Free Allocation Rules".

Verifiers need to consider the context in which data is being compiled in order to assess whether the data being presented meets the definition of 'highest achievable accuracy'. For the data being collected over time building up to the next allocation data gathering process in 2024 and future cycles, the approved MMP will specify what approach the operator intends to use to collect that data. The verifier will check the application of the MMP and will also to some extent perform checks against the FAR. For more information on what checks a verifier carries out please see section 7.

2.4 The verifier's role in checking the application of conditionality

As part of verification of the baseline data report, the verifier shall check and confirm whether the implementation of energy efficiency recommendations from the energy audits or certified energy management systems, under Article 8 EED or national law

implementing Article 8 EED, is completed. Table 4 explains which are the impacts of these activities on steps in the pre-contract stage and the verification process itself.

Table 4 – Verifier’s role in the verification process related to checking the implementation of energy efficiency recommendations

Steps in the verification process	Activities related to the check of the implementation of energy efficiency recommendations and, if applicable, the application of exceptions
Time allocation	<p>The verifier has to take into account that performing checks on the completion of implementation of energy efficiency recommendations requires some additional time for the verification process. The amount of additional time needed depends on the type and number of recommendations as well as on whether any recommendations are outstanding. If the installation’s procedure for implementing recommendation²⁷ is clear on the status of implementation, this would facilitate checks being carried out. Other factors that might influence time to be allocated include:</p> <ul style="list-style-type: none"> • The clarity and robustness of evidence provided by the operator on implementation of energy efficiency recommendations or the application of exceptions to conditionality; • Whether recommendations were issued by an energy auditor for an energy audit or from an energy management system process; • Whether recommendations are generic or specific in nature; • Whether recommendations are directly applicable to the installation or are framed at a more corporate level and further evidence from the operator needs to be analysed on whether the recommendation is applicable to the installation’s industry processes; • Whether a certificate of completion (or equivalent) was issued regarding implementation of individual recommendations; • The application of some exceptions is relatively easy to check such as whether recommendations were issued in the first four years of the baseline period or whether pay-back time is included in an energy audit report. Other exceptions may require more time for example, if pay-back time is not clearly defined or recorded.
Information to be provided by the operator to the verifier	<p>The operator has to provide sufficient information so that the verifier can perform checks required by Articles 17a and 17b of the AVR. This includes all evidence the verifier needs for confirmation checks, such as:</p> <ul style="list-style-type: none"> • the baseline data report which includes a self declaration on whether there were energy audits or certified energy management systems and whether there are outstanding recommendations; • the energy audit reports, or recommendations issued from the energy management system process; • the procedure(s) for implementing recommendations; • evidence of implementation of recommendation or application of an exception. <p>For more information see section 7 of GD12.</p>
Strategic analysis	<p>The verifier assesses the evidence provided by the operator to determine the risks associated with it and plans what specific checks need to be carried out.</p>

²⁷Guidance on the operator’s procedure for implementing energy efficiency recommendations is included in GD12.

Steps in the verification process	Activities related to the check of the implementation of energy efficiency recommendations and, if applicable, the application of exceptions
Verification plan	The verifier describes in the verification plan the specific checks it needs to carry out according to Articles 17a and 17b AVR.
Process analysis	<p>The verifier carries out planned checks and confirms whether the implementation of recommendations is completed, and if the implementation of recommendations is not completed, whether some of the conditionality exceptions apply. Please see GD12 for information on what specific checks are carried out.</p> <p>During the site visit carried out as part of baseline data report verification, the verifier will interview personnel involved in implementation of energy efficiency recommendations and perform the checks described in GD12 by analysing documentations, procedures and processes. If there are suspicions that the implementation of energy efficiency recommendations is not completed, it can, based on the verifier's risk analysis, be necessary to check completion on site.</p>
Internal verification documentation	The verifier needs to record all information related to the checks carried out according to Articles 17a and 17b of the AVR including the results of checks and any observations.
Verification reporting	<p>The verifier states in its verification report that:</p> <ul style="list-style-type: none"> • it has carried out the required confirmation checks; • it has confirmed completeness of the implementation of recommendations or the application of exceptions; • any other observations, including whether there were outstanding recommendations whose implementation is not completed, and any justification provided by the operator. <p>Please see section 9 of this guidance.</p>

3 Verification of New Entrants' data

A new entrant that wants to apply for free allocation of allowances for Phase 4 has to submit to the CA an application after the start of normal operation of the new installation. When applying for free allocation the operator must provide:

- All relevant information (for the application for free allowances) and a new entrant's data report that contains the data required in accordance with Annex IV of the FAR split out for each sub-installation. The new entrant's report relates to the first calendar year after the start of normal operation.
- A MMP that is approved by the CA.
- A verification report that states that the new entrant report is verified as satisfactory, containing conclusions on the new entrant's data report.

The application must specify the date of start of normal operation. Verification of the new entrant's report follows the same procedure as the verification of a baseline data report. A verifier will carry out similar checks and activities to assess whether the new entrant's data report is free from material misstatements and to check the implementation of the MMP. However, there are specific elements concerning new entrants that a verifier will have to consider. This includes, for example, an assessment

to confirm the start date of normal operation. Where the verification of new entrants differs from verification of the baseline data report, this will be highlighted in this guidance.

4 Verification of Annual Activity Data

According to Article 3 of the ALCR, operators are required to report annual activity level data by the 31st of March of each year, unless the Member States have set an earlier time-limit. To accurately report these data, operators have to monitor and collect the annual data in accordance with the FAR and the approved MMP. The activity level report must contain at least the following information:

- the activity level of each sub-installation;
- general installation data set out in section 1 of Annex IV of the FAR (excluding section 1.3(c));
- each of the parameters listed in sections 2.3 to 2.7 of Annex IV of the FAR;
- whether any sub-installation has ceased to operate;
- additional parameters where the Member State requires this.

In 2021 the report shall include data from 2019 and 2020 whereas in subsequent years it will only cover the data from the preceding year.

4.1 Requirements on verification of annual activity level data

Each annual activity level report has to be verified by an accredited verifier in accordance with the AVR and submitted together with the corresponding verification report to the CA. In principle the same requirements that apply for verification of baseline data reports and new entrants reports are applicable to verification of annual activity level reports. However, there are some additional – or different – requirements for verification of annual activity level data. These are outlined in section 8.

4.2 Accreditation and competence of verifiers

Verifiers verifying annual activity level report are required to be accredited against scope 98 and the scope of the technical sector activity referred to in Annex I of the AVR for which the verifier is carrying out verification (see section 5). As the verifier needs to largely assess the same data sets for verification of annual activity level data and for verification of baseline data, similar competence requirements as described in section 5 and 7.2 apply to verifiers verifying annual activity level reports. Verifiers need to know the requirements in the ALCR, the FAR, the applicable guidance as well as what additional checks to carry out for verification of annual activity level report, how to deal with site visits and how to report issues in their verification report.

4.3 Role of verifiers checking the application of conditionality

If recommendations have not all been implemented by 30 May 2024²⁸, emission allowances have to be reduced. A recovery of allowances is possible if, by submission of the first verified annual activity level report for the allocation period 2026-2030, implementation of all recommendations is completed. The first verified annual activity level report is due by 31 March 2026. The operator has to demonstrate that implementation of energy efficiency recommendations is completed, and that the verifier has confirmed this during the verification of the annual activity level report. The verifier will carry out similar activities in that verification as described in section 2.4. To support this annual cycle of checking implementation of recommendations, the verifier will assess whether observations were made by the verifier about the implementation of energy efficiency recommendations in the previous verification report, whether these observations were followed-up by the operator, and how this impacts confirmation that the implementation of outstanding recommendations is completed. In addition, the verifier will check the annual activity level report itself, as well as the procedure for implementing the recommendations.

5 Accreditation of verifiers

5.1 Accreditation

As the requirements for verification of data relevant to free allocation are included in the AVR, the approaches and requirements for annual emissions verification also apply to the verification of free allocation data unless it is specifically stated in the AVR to be different. This also applies to accreditation of verifiers of allocation data. A verifier is a legal entity or part of another legal entity carrying out verification activities according to the AVR and being accredited by a national accreditation body (NAB) pursuant to Accreditation Regulation 765/2008 and the AVR²⁹.

According to Article 44 of the AVR a verifier that wants to carry out verification of baseline data reports, new entrants report and annual activity level data must be accredited for the following scopes:

- Scope 98 listed in Annex I of the AVR (other activities pursuant to Article 10a of Directive 2003/87/EC). This is the scope that relates to the verification of data relevant to free allocation of allowances; and
- The scope of the technical sector activity referred to in Annex I of the AVR for which the verifier is carrying out verification. An installation can require that

²⁸ The FAR sets 30 May 2024 as the deadline, and MS may choose to give another deadline which may be between 30 April and 30 June that year.

²⁹ The AVR allows a Member State to set up a certification system provided verifiers meet the same requirements as accredited verifiers. Certification is currently not applied by any Member State. Therefore, the requirements on certification in the AVR are not further discussed in this guidance document.

the verifier is accredited against multiple sector scopes, if the installation carries out more than one of the activities listed in Annex I of the Directive.

For example, if the installation is a cement factory, the verifier must be accredited at least for scope 6 which includes cement production and scope 98.

The accreditation of the verifier must be granted by, and still be valid at, the time the verification report is issued to the operator.

The same steps and procedures for the accreditation process in relation to annual emissions verification apply to the accreditation of verifiers wanting to carry out verification of free allocation data. The NAB has to assess whether the verifier and its personnel undertaking the verification activities:

- have the competence to carry out verification and understand the requirements of the FAR;
- are performing the verification in line with the AVR;
- meet the requirements in Chapter III of the AVR which cover competence, impartiality, procedures, documentation, and further requirements stated in EN ISO 14065.

Once accreditation is granted, the NAB will monitor the performance and competence of the verifier through annual surveillance and reassessment. The AVR requirements on surveillance and reassessment, which are used for verifiers active in annual emissions verification, will also apply to the monitoring of verifiers that are carrying out verification of free allocation data. Article 54 AVR regulates when a NAB can impose sanctions such as suspension, withdrawal of the accreditation certificate and reduction of scope. More guidance is provided in Chapter 6 of the AVR Explanatory Guidance on verification (EGD I).

5.2 Competence requirements for verifiers

The verifier and its personnel involved in verification activities have to be competent to perform verification. Competence is not only knowledge but also the skills to apply that knowledge and to carry out prescribed activities. The AVR contains EU ETS specific competence requirements for the verification team as a whole, as well as for the EU ETS auditors, lead auditors and technical experts individually.

EU ETS auditors and EU ETS lead auditors carrying out verification of allocation data need to have:

- Knowledge of the Directive, the FAR, the ALCR, the AVR and applicable guidelines and legislation issued by the Commission and the Member State in which the verifier is carrying out verification. This includes legislation and guidance mentioned in sections 1.2, 1.4 and 10 (Annex 2) of this guidance.
- Knowledge and experience of data and information auditing.
- The ability to perform verification activities.
- Knowledge and experience in the sector specific technical monitoring and reporting aspects that are relevant to the specific scope of accreditation. This

includes not only the sector in which the operator is active but also the monitoring and reporting aspects in relation to free allocation data.

The requirements for EU ETS lead auditors are included in AVR Article 38. In addition to requirements on the knowledge and experience of EU ETS auditors, the lead auditor should be able to lead the team and be responsible for carrying out verification activities and reaching verification conclusions.

The requirements for the verification team (e.g. on composition and competence) are listed in Article 37 AVR. Each team member should have a clear understanding of its individual role in the verification process and have the ability to communicate effectively in the language necessary to perform the assigned verification activities. The Article also contains competence requirements for the verification team as a whole:

- At least one person in the verification team must have the technical competence and understanding required to assess the installation's activities in the sector and the monitoring and reporting process for that sector. Please see AVR Key Guidance Note (KGN) II.7 for further information.
- Where the verifier carries out verification of free allocation data at least one person in the team should also have the competence and understanding required to assess the technical aspects of collecting, monitoring and reporting allocation data.
- At least one person in the verification team needs to be able to communicate in the language required for the verification of the operator's report.

AVR KGN II.7 explains the specific requirements for verifiers carrying out annual emission verification. These requirements are also applicable to verifiers carrying out verification of allocation data. The following sections of this guidance outline requirements for assessing MMPs and baseline data report, new entrant data reports or annual activity level reports. NABs and verifiers need to be aware of any additional competence requirements necessary to complete identified activities and make all necessary provisions to ensure that those competence requirements are met. Examples of additional competences required for auditors and verification teams checking free allocation data are included in section 7.2. These additional competences will depend on the circumstances of the individual installation and the benchmark applicable. For assessing data relevant for the heat benchmark sub-installation, a different skill set may be needed as compared to assessing data in relation to the fuel benchmark or process emission sub-installation. For product benchmark sub-installations in particular, the focus of work (the activity level) may be an area not normally addressed by verifiers in annual emissions verifications³⁰. Therefore, additional technical understanding of the details of the production process may be required to ensure that assignment of products is made to the correct

³⁰ Annual emissions verification is likely to have already encompassed checks on the quantity of fuels and materials and on NCV; these parameters also feed into the baseline activity level data for fuel and process sub-installations; similarly, elements of heat sub-installation activity level data may also have been checked, where relevant to annual emissions reporting.

benchmark etc.

Checking the implementation of energy efficiency recommendations or the application of conditionality exceptions do not require additional competencies for the verifier. As described in section 7 of GD12, the verifier does not check whether the recommendations are implemented correctly and whether energy auditor's recommendations are justified. Instead, the verifier assesses the operator's evidence whether the implementation of the recommendations is completed.

As with annual emission verification, each baseline data and annual activity level verification must include review by an independent reviewer that meets the requirements laid down in AVR Article 39. An independent review includes every element of the verification including the assessment and validation of the MMP where this is required. Please see AVR KGN II.7 for further information.

If the EU ETS auditor, lead auditor or independent reviewer needs support on a specific subject matter, technical expert(s) may be added to the verification team to provide detailed knowledge and expertise on relevant subject matters. As explained in AVR KGN II.7, this could concern many different types of issues. In relation to the verification of free allocation data technical experts³¹ could in particular be useful for more technical issues at individual installations such as:

- the determination of product quantities through mass balance;
- steam/heat measurement, associated accounting and the rules on attributing emissions of CHP³² units;
- in relation to attribution to sub-installations under section 3.2(1)(b) of Annex VII of the FAR: verifying “estimates based on the ratio of free reaction enthalpies of the chemical reactions involved or based on another suitable distribution key that is corroborated by a sound scientific methodology”;
- in relation to measurement instruments or procedures not under the operator's control under Annex VII 3.3(c) of the FAR: evaluation of “*empirical correlations*” provided by third parties, such as equipment suppliers, engineering providers or accredited laboratories;
- in relation to indirect determination methods under section 3.3. of Annex VII of the FAR: verifying calculations based on:
 - “known chemical or physical process including appropriate accepted literature values for the chemical and physical properties of substances; appropriate stoichiometric factors; and thermodynamic properties such as reaction enthalpies”;
 - “installation's design data such as the energy efficiencies of technical units or calculated energy consumption per unit of product”;

³¹ Given the short timeframe available for the first baseline report verification this may especially have been needed when a verifier was not able to develop all the relevant competencies within the verifier's personnel in time.

³² Combined heat and power; also referred to as “Cogeneration”.

- “empirical tests for determining estimation values for the required data set from non-calibrated equipment or data documented in production protocols”.

The technical expert must have:

- the competence and expertise required to effectively support the EU ETS auditor, lead auditor or independent reviewer on the subject matter for which their knowledge and expertise is requested;
- sufficient understanding of EU ETS specific legislation including the FAR, the ALCR and associated guidance, data and information auditing and the activities needed to carry out assigned tasks. The technical expert does not have to possess full competence on all these issues but they should understand them sufficiently to be able to provide the necessary support during the verification.

Article 36 of the AVR requires the verifier to establish, document, implement and maintain a competence process to ensure that all verification personnel are competent for the tasks that are allocated to them. This competence process includes establishing general and specific competence criteria for each person involved in verification, training, monitoring performance of personnel etc. For further explanation please see Chapter 5 of AVR EGD I, the explanatory guidance on EU ETS verification. The verifier needs to ensure that the elements of its continuous competence process are updated to encompass the FAR, use of associated templates and the relevant guidance material. The competence process should be designed in such a way that the verifier can select a competent team covering EU ETS lead auditors, auditors and, where relevant, technical experts.

5.3 Impartiality requirements for verifiers

The AVR contains EU ETS specific provisions on the impartiality and independence of a verifier and its personnel undertaking verification activities. These provisions include restrictions and prohibitions for both the verifier and its personnel. The verifier must be independent from an operator and bodies that are trading emission allowances. An explanation of the applicable impartiality requirements is given in Chapter 5 of AVR EGD I.

As for annual emissions verification, verification of free allocation data means that provision of technical support/consultancy to the operator in relation to its FAR accounting process is not allowed. The same requirements apply to consultancy in relation to the annual activity level accounting process. The verifier or any part of the same legal entity must not provide services to develop any part of the monitoring and reporting process that is described in the MMP, including development of the monitoring methodology, the baseline data report, new entrant data report, the annual activity level report and the drafting of the plan itself. This includes advice on any element in the approved MMP including consultancy on setting up control activities and procedures that are listed in the MMP.

A verifier or any part of the same legal entity that provides technical assistance to develop or maintain the system implemented to collect, monitor and report allocation data, including data management systems etc. would have a conflict of interest.

The elements mentioned above are not exhaustive. This means that other activities can also lead to an unacceptable risk to impartiality. However, checking compliance with underlying regulations is a normal part of the verifier's work so this would not be considered a conflict of interest in the verification of baseline data reports and annual activity level reports. The AVR also contains requirements on rotation of lead auditors that are relevant for verifiers carrying out verification of baseline data reports, new entrants reports and annual activity level data. If the lead auditor undertakes verification of allocation data and/or emissions report verifications for a period of five consecutive years for an installation, the lead auditor has to take a break of three consecutive year from providing verification services to the installation.

Further guidance on impartiality requirements, rotation of lead auditors and how to set up a process to ensure continuous impartiality and independence is included in Chapter 5 of AVR EGD I.

5.4 Information exchange requirements

Chapter VI of the AVR contains requirements on information exchange between NABs and CAs. These requirements also apply to issues in relation to verifiers that are active in the verification of baseline data reports, new entrant reports and annual activity level data. This means that:

- by 15 November each year, verifiers carrying out verification of free allocation data need to notify the NAB of the planned time and place of verification, and provide details on operators they are verifying, if this data is available. If there are subsequent changes in the data the verifier must notify their updated plans within a timeframe agreed with the NAB (Article 77 of the AVR);
- by 31 December, the NABs have to submit a work programme to the CA of the country in which verifiers accredited by that NAB are carrying out verification of allocation data. This programme includes information on the NAB's planned activities in relation to those verifiers. If there are changes in the planned activities, an update of the work programme is required by the 31st of January (Article 71(1) of the AVR);
- by 1 June, the NABs have to submit a management report to the CA of the country in which verifiers accredited by that NAB are carrying out verification of free allocation data. This report contains information on the NAB's activities in relation to those verifiers. This includes, for example, accreditation details, changes in the scope, summarised results of surveillance and reassessment (Article 71(3) of the AVR);
- NABs have to share information on administrative measures imposed on verifiers with the CA of the country in which verifiers accredited by the NAB are carrying out verification of free allocation data as well as to the CA of the country where those verifiers are established (Article 72 of the AVR);
- CAs of the Member State where the verifier is carrying out verification of free allocation data have to submit an information exchange report to the NAB that has accredited the verifier (Article 73 AVR). That information exchange report includes information on issues that the CA found during their assessment of

baseline data reports, new entrants reports and annual activity level reports, together with the corresponding verification reports. It can also include information on issues found during inspection, assessment of verifier's internal verification documentation in accordance with Article 26(3) of the AVR or information on complaints. The recommended date for submitting such a report is the 30th of September.

More information for understanding information exchange requirements and the use of the Commission templates for the aforementioned reports can be found in Chapter 10 of AVR EGD I and AVR KGN II.10 on information exchange.

6 The verification process

6.1 General approach

In principle, verification of FAR baseline data reports, new entrants reports and annual activity level reports follows the approach defined in Chapter II AVR. The process will be consistent with the approach that is already used for verification of annual emissions data that forms one of the input to the baseline data reports. This approach facilitates efficient verification of the data required for free allocation of allowances (i.e. for product, heat, fuel or process emissions sub-installations).

When carrying out activities required for baseline data verification, the verifier will take into account that it is not installation level emissions, but historic activity levels at sub-installation level and other relevant data that are subject to verification. For verification of fuel benchmark and process emissions sub-installation data this may mean repeating some work done during annual verification of fuel and process emissions data if this data is structured differently for sub-installation(s).

Furthermore, the requirements in the MMP have to be considered instead of the annual emissions monitoring plan. Where the verifier finds non-conformance with the MMP (or non-compliance with the FAR or ALCR) the operator is required to correct the data coming from the collection process and update the MMP if a change to the MMP is required.

Applying those considerations, the main activities outlined in Figure 2 below are to be carried out during verification. These activities are interconnected and interdependent. This means that findings during the verification process can result in the need to reconsider one or more steps taken earlier in the verification process and subsequently adjust those steps.

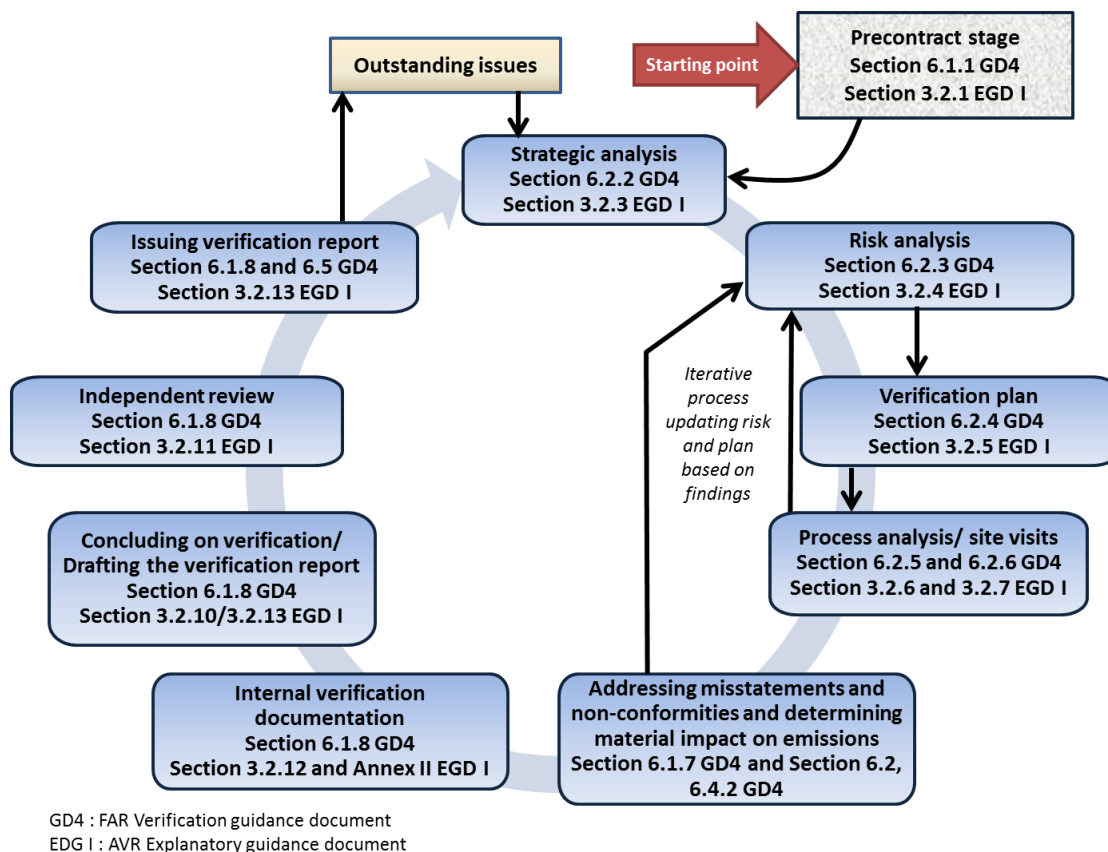


Figure 2 - Verification cycle

6.1.1 Pre-contract obligations

According to the AVR the verifier shall analyse, based on documents provided by the installation operator, if it is able to carry out the verification tasks for that installation. For this determination the verifier has to decide inter alia if it holds the necessary accreditation for the applicable scopes of work; and whether it has the competence, personnel and resources to set up a verification team suitable for that installation.

Furthermore, the verifier shall determine the amount of time needed for the verification tasks to be carried out. The verifier should ensure that the scope of verification work and the time allocated in the contract is consistent with the verification risks identified. Insufficient contracted time may not be used to reduce the amount of work needed to satisfactorily complete the verification in line with its risks. When determining the time needed for verification, the verifier shall take into account factors including the installation's complexity, the number and nature of the applicable benchmarks, and the complexity of individual sub-installation(s). The verifier will also assess whether the documentation provided by the operator is sufficient for making a quotation, and if the business risks involved with the verification can be mitigated sufficiently by developing a suitable verification approach. As indicated in section 4.3, if installations are subject to energy audits or energy management systems, under the Energy Efficiency Directive, and relevant recommendations have been issued in an energy audit report or from certified energy management systems, additional time needs to be allocated to verification of the baseline data report or annual activity level report.

Documents to be provided by the operator at this stage shall include at least:

- the MMP (with evidence of the CA's approval);
- the installation's GHG annual emissions permit and associated approved monitoring plan;
- a description of the installation (including a simple flow chart, where it helps to improve clarity) if this is not included in one of the documents above;
- the verified emission reports and verification statements (where these are separate documents) for the baseline years and prior annual activity level periods and a commentary on any corrections made to relevant data post-submission of the verified report to the CA;
- the verified baseline data report for the previous allocation period³³;
- the baseline data report and/or annual activity level report (in the format applicable in the Member State where the installation is situated);
- information on whether there was a relevant energy audit or certified energy management system, and whether there are any applicable energy efficiency recommendations (this information can for example be obtained from the baseline data report or annual activity level report).

Depending on the timing of establishing the contract³⁴, the baseline data report, the latest annual activity level report or the latest verified emission report may not be available in the pre-contract stage. In those situations, the verifier may use baseline data reports from the previous allocation cycle, annual verified emission reports and annual activity level reports from earlier years. Once the current period reports are available, the verifier will need to re-assess the information to ensure that the contracted time and the verification plan are still appropriate.

During the pre-contract stage the verifier will sign a contract with the operator. Article 9 AVR and EA 6/03 contain requirements on including certain conditions in the contract. One key aspect in the contract is time allocation. The time allocated cannot be a fixed number; if during the detailed verification the verifier finds that additional time is needed to properly carry out necessary activities, the time allocation initially given in the quotation must be adjusted accordingly. Therefore, the contract must have a provision for this adjustment. Please see KGN II.12 on time allocation for further information.

6.1.2 Strategic analysis

According to Article 11 of the AVR the verifier shall analyse, based on the information provided by the operator, the nature, scale and complexity of verification activities to

³³ This was not applicable to the first baseline data report in 2019 as it was not generally available at the time verifiers were conducting pre-contract work.

³⁴ Pragmatically contracts are likely to be negotiated well before the year-end for the relevant reporting cycles, therefore – realistically – it may not be possible to review a copy of the baseline report (even in draft) at the time that pre-engagement evaluation is being conducted; and waiting to negotiate a contract till the draft report is available means that operators may not be able to contract a verifier in time for the submission deadline.

be carried out. It shall gain an understanding of how the operator has collected and determined the free allocation data (and benchmark data, if relevant) to be verified. The information will not only include the documents listed above but other relevant information including:

- the GHG emission permit and other environmental permits where these give relevant information on production processes;
- copies of documented procedures associated with the MMP concerning, for example:
 - Assigning responsibilities for monitoring and reporting;
 - Regular evaluation of the appropriateness of the MMP and the effectiveness of monitoring;
 - Keeping track of NACE and PRODCOM codes, and products produced by each sub-installation;
 - Keeping track of the Combined Nomenclature (CN) codes for the products produced within the boundaries of the sub-installation to determine whether these are listed in Annex I of the CBAM regulation;
 - Keeping track of MMP modifications;
- data flow activities and control activities to ensure that data contains no anomalies, including in relation to:
 - Internal review and validation of data;
 - Corrections and corrective actions;
 - Quality assurance of IT and measurement systems;
 - Control of outsourced processes;
 - Control of documents and records;
- the operator's risk assessment;
- how the operator has corrected non-conformities or addressed recommendations for improvements that were reported in the verification report for an annual activity level report from the previous year or a relevant baseline data report;
- where relevant, correspondence with the CA on how the operator has addressed non-compliance issues that were reported in prior years by the verifier;
- if the MMP was changed, a record of all changes;
- an energy audit report or relevant information from the certified energy management system as well as the procedure for implementing energy efficiency recommendations, so that the verifier may determine what type of energy efficiency recommendations were issued and what the status of implementation of these recommendations are;

- evidence whether one of the exceptions to conditionality applies. The type of evidence needed depends on the applicable exception and circumstances³⁵;
- any other relevant information which supports the verifier in understanding the activities carried out at the installation.

When analysing the information, the verifier will specifically look at the complexity of the accounting for individual sub-installations and the way aggregate data is apportioned to them, the applicable benchmark, specific details on the calculation approach etc. given in the MMP and the associated data flow and internal control activities.

In addition, where the MMP specifies different internal controls for data that has been subject to control under the MP for prior annual reporting and verification, the verifier must establish why the controls are different and whether that has an impact on any data that has previously been verified.

Where the verifier has in previous years conducted verification of relevant annual emissions reports or annual activity data for the same installation, the verifier will as part of the strategic analysis assess what evidence and data it already holds in its internal verification documentation for the reporting years being assessed for the baseline to ensure that verification of the historic baseline data is conducted efficiently. For example, some data for fuels and process sub-installations will likely already have been evaluated during the course of annual emissions verifications (e.g. fuel/material quantities, NCV etc.); associated instrumentation will have already been inspected, and the maintenance status of instruments etc. will have been checked during annual site visits. In those cases, the verifier should consider to what extent these earlier verifications cover the data being verified for the current baseline and whether the scope(s) of the earlier verifications coincide(s) with the current verification.

6.1.3 Risk analysis

The verifier must assess the risk of misstatements, non-compliances and non-conformities, and their material effect on the reported data. The outcome of the risk analysis determines how and to what extent the verification activities should be designed, planned and implemented. The risk analysis centres on identifying and

³⁵ For example, in order to assess whether the pay-back time of three years is exceeded, the following evidence is needed: e.g. definition of the pay-back time included in the energy audit report or sworn statement of energy auditors regarding the pay-back time. If such information is not available, the operator's calculations of the pay-back time and input data used for the calculation. The verifier's strategic and risk analysis will determine if further information is necessary.

assessing two types of risks: i.e. inherent risks³⁶ and control risks³⁷. Together with detection risks, these risks form the overall verification risk: i.e. the risk that the verifier issues an inappropriate verification opinion. Please see the key guidance note on risk analysis for more information (AVR KGD II.2).

According to the AVR the verifier shall assess the likely inherent risks, control risks and detection risks based on the outcome of the strategic analysis. In addition, the verifier will assess the verification risk associated with reliance upon evidence:

- obtained during prior year site inspections and interviews etc. (if relevant) to determine if additional visits are necessary to facilitate evidence gathering; and
- provided by other third-party auditors, such as financial auditors in the case of product information.

The risk analysis is an iterative process and must be updated if detailed verification activities during the process analysis show that the risks are higher or lower than initially assessed. In that case the verification plan also needs to be updated.

6.1.4 Verification plan

The risk analysis determines how the verifier sets up the verification plan, which consists of three elements:

- a verification programme³⁸ describing the nature and scope of verification activities, as well as the time and manner in which these activities are to be carried out. It also involves planning of all activities. According to Article 26 of the AVR justifications for exclusion of activities, based on the verifier's risk analysis shall be fully documented in the internal verification documentation;
- a test plan setting out the scope and methods of testing specific control activities and procedures for control activities;
- a data sampling plan setting out the scope and methods of data sampling related to data points underlying the aggregated data; the tests to be performed on sampled data; and the planning response if testing of that sample raises issues.

³⁶ Inherent risks are linked to the operator's data flow activities assuming that there are no related control activities to mitigate these risks, and without considering the operator's control environment. Examples of inherent risk include: significant manual input and transfers of data; complex data management systems for collecting and quantifying product or emissions data, multiple sub-installations, complexity and number of emissions sources and fuels used – especially where these relate to more than one sub-installation, malfunctions, shut-downs or changes in the production process etc.

³⁷ Control risks are linked to the operator's internal control environment and the potential for internal controls to fail or break down. Examples of control risk include: automated controls in the IT system that are missing or not functioning properly, no calibration of measurement equipment, internal data reviews and the checking of the manual transfers of data that are not carried out, or not carried out to the rigour required in view of the level of associated inherent risk.

³⁸ The verification programme is not just an agenda for the site visit but should provide sufficient detail of planned tests and activities to inform the team members what activities should be carried out.

Please see the key guidance note on risk analysis (AVR KGD II.2) on how the risk analysis impacts the set-up of the verification plan.

Please note that if installations are obliged to perform energy audits or certified energy management systems, under Article 8 EED or national law implementing that Article, and audits were carried out between 2019-2022, the verification programme should include activities for checking the implementation of energy efficiency recommendations and, where relevant, the application of exceptions to the energy efficiency conditionality.

6.1.5 Process analysis (detailed verification)

The objective of this stage of the verification is to collect and document detailed evidence upon which the verifier can base its verification opinion. During the process analysis the verifier must implement the verification plan. During this stage the verifier will:

- assess the implementation of the MMP: assessing data flow activities, control activities and procedures as well as checking sub-installation boundaries and application of the methodologies
- assess the MMP against the requirements of the FAR in order to confirm that the MMP is in compliance with requirements
- do substantive data testing consisting of data verification, analytical procedures and checking the monitoring/data collection methodology
- where applicable, check and confirm whether the implementation of energy efficiency recommendations is completed and if not, whether one of the exceptions to this conditionality applies (please see GD12 “energy efficiency” regarding what checks the verifier carries out).

The verifier will use different techniques and methods to carry out these checks: e.g. conducting interviews, observing how operators apply control activities, tracing data back to primary source(s), etc. More information is provided in AVR EGD I and AVR KGN II.3 on process analysis. Section 7 of this document contains more information on the specific checks the verifier will do on data that is relevant for free allocation. Section 8.1 contains guidance on what additional checks should be carried out for the verification of annual activity level data.

The verifier will use the approved MMP as a starting point for planning its activities. In some cases, data sets may be too extensive to test all of them. If it is justified by the verifier’s risk analysis, the verifier can apply sampling to the data or control activities to focus attention on the material aspects. Please see AVR KGN II.4 on the principles that apply to sampling.

If misstatements, non-conformities and non-compliance are found, the verifier will adapt the strategic and risk analyses and the verification plan accordingly.

6.1.6 Site visits

According to AVR Articles 21 and 31, site visits are required for the verification of baseline data reports. The purpose of a site visit is to gather sufficient evidence to

conclude with reasonable assurance that the operator's data report is free from material misstatements. Activities during site visits include:

- interviewing staff, reviewing documents and assessing operator's procedures in practice
- checking the installation and sub-installation boundaries, the data flow and assessing the completeness of source streams and emission sources
- actual testing of control activities and assessing the application of procedures mentioned in the approved MMP
- obtaining physical evidence through assessment of measurement equipment, monitoring systems and processes³⁹.

The verifier's risk analysis determines whether additional locations need to be visited and at what times a site visit will be carried out.

An aspect to consider when verifying baseline data reports for installations that have fuel benchmark and process emissions sub-installations – and some elements of the heat benchmark sub-installation – is that the data related to the baseline period will in some cases have already been verified during annual emission verification or annual activity level verification. Where the sub-installation covers the whole or a substantial part of the installation, e.g. offshore installations, and all data has been verified by the same verifier during annual emission verification or annual activity level verification, it may not be necessary to carry out further site visits during the verification of the baseline data report if this is justified by the verifier's risk analysis and all relevant documentation can be accessed at a centralised location. This does not constitute a waiver of site visit. A visit was carried out during annual emission verification and a further visit to the centralised location where all documentation and data can be accessed is still required in those cases. The verifier has to pay particular attention as to whether:

- the scope(s) of verification of the historic emissions data or activity levels for annual reporting in the past covers the same scope(s) as for verification of the baseline data report;
- the free allocation data to be verified, the methodologies and installation boundaries, as well as data flow activities, control activities and procedures were assessed during annual emission verification or annual activity level verification;
- the installation is subject to energy audits or certified energy management systems under Article 8 EED. In those cases, the verifier must check the implementation of energy efficiency recommendations. This may require an additional site visit (see section 2.4).

³⁹ It should be noted that the type and status of control systems and measurement instruments in use at the time that the data was gathered is what is important. So, checks on systems and instrumentation etc. during a site visit need to reflect the historic nature of baseline data for the first cycle; inspection of controls and instruments currently in place may not be relevant to the dataset.

If these scopes are not covered and not all relevant data has been verified before, additional visits will be necessary. For information on site visits relating to verification of annual activity level data please see section 8.3.

The site visits have to be carried out physically. However, in the case of force majeure circumstances the AVR allows the verifier to carry out “virtual” site visits⁴⁰ if all conditions have been met. Please see Key Guidance note II.5 on site visits for further information on the applicable conditions.

6.1.7 Addressing misstatements, non-conformities and non-compliance

The verifier must inform the operator, on a timely basis, if it has identified misstatements, non-conformities or non-compliance.

Misstatements	Omission, misrepresentation or error in the operator’s baseline data report, the new entrants report or annual activity level report. This does not include any uncertainty permissible under the FAR.
Non-conformities	Any act or omission of an act that is contrary to the MMP. Examples of non-conformity include not correctly applying the methodology to calculate the baseline or annual activity data. If a non-conformity results in an error, misrepresentation or omission in the reported data, it shall also be regarded as a misstatement.
Non-compliance	Any act or omission of an act that is not in line with the FAR, the ALCR or other relevant legislation. This includes national legislation. In some cases, non-conformities can also be a non-compliance with the FAR or ALCR.

The operator is required to correct all misstatements, non-conformities and non-compliance identified by the verifier. This can, for example, be done by correcting the data in the baseline data report or the annual activity level report, and updating the MMP if relevant, addressing omissions in the MMP etc.

Where non-compliance has been identified by the verifier, the operator has to notify the CA. This also applies if the approved MMP is not in line with the FAR or the ALCR. Subject to CA approval the operator is required to correct the non-compliance and the verifier will note any remaining non-compliance in its report.

Corrected misstatements, non-conformities and non-compliances must be documented in internal verification documentation.

⁴⁰ A virtual site visit is a site visit that is carried out in an online environment allowing EU ETS (lead) auditors, experts and operator’s personnel to execute activities and processes on a remote basis irrespective of physical locations.

If misstatements, non-conformities and non-compliance are not corrected, the verifier has to assess the material impact of these issues on the reported data (please see section 6.4.2).

The verifier will undertake additional activities if data gaps are identified (please see section 7.3).

6.1.8 Concluding on the findings of verification

When completing the verification and considering all the evidence gathered during the verification, the verifier is required to carry out the activities listed in Article 24 of the AVR. A key aspect of this step is that the verifier has to ensure that it has gathered sufficient evidence to support the verification opinion statement. For further information please see section 3.2.10 of AVR EGD I.

After evaluation of the evidence and before completion of the verification, good practice is for the verifier to obtain from the installation's senior management a signed 'Management Declaration' in which management confirms that they have provided all information and evidence that the verifier needs to complete their work. This declaration could also confirm in writing any justifications made for exceptions to the application of FAR rules etc. (for example, in relation to the application of highest accuracy data requirements).

Such 'Management Declarations' provide support to verifiers in managing their verification risks and potential liabilities. An example of such a Management Declaration is provided in Annex 4. It should be noted that such a declaration does not exempt the verifier from doing detailed checks on the data and compliance with the MMP and the FAR; nor does it exempt the verifier from further checks and sanctions (if relevant) by the NAB.

Independent review

Before issuing the verification report, the internal verification documentation and verification report must be subject to an independent review. For further information please see section 3.2.11 of AVR EGD I.

Internal verification documentation

The verifier must compile internal verification documentation to provide a complete trail of evaluations and decisions that enabled the verifier to reach its verification opinion with reasonable assurance. All relevant documents used and all findings of previous verification steps are included in the internal verification documentation with an appropriate audit trail linking them. Please see section 3.2.12 of AVR EGD I.

Verification report

According to Article 27 of the AVR the verifier shall issue the verification report including the final verification opinion to the operator. Please see section 6.5.

6.2 Scope of verification

For each individual data report submitted by an operator, the verifier is required to issue an opinion - on the basis of reasonable assurance – that the baseline data (or

annual activity level data) reported are free from material misstatement⁴¹. This work is conducted on the basis of Articles 6, 7(2) and 7(3) of the AVR which means that the verified baseline data report, new entrant data report or annual activity level report must be reliable – a faithful representation of reality. Verifiers must plan and deliver their work with an attitude of professional scepticism, in the public interest, and independent of other parties in the FAR process.

The scope of verification is defined by the tasks the verifier must perform to achieve the objective of verification: i.e. to ensure that the data for free allocation have been monitored in accordance with the FAR and ALCR and that reliable and correct baseline data and allocation data are reported. According to Article 7(4) of the AVR the verifier must assess whether:

- The baseline data report, new entrants report or annual activity level report is complete and meets the requirements of Annex IV of the FAR;
- The operator has acted in conformance with the requirements of the approved MMP⁴²;
- Data in the baseline data report, new entrants report or annual activity level report is free from material misstatements. In order for the verifier to conclude this, it must obtain clear and objective evidence from the operator to support the total data to be reported. To obtain the evidence required for a reasonable level of assurance and making this assessment on the material correctness of the data and associated information, the verifier will use analytical procedures, carry out data verification and assess the implementation of the monitoring methodology in accordance with Articles 15, 16 and 17 of the AVR. Materiality thresholds for specific elements of the baseline and benchmark data are given in Article 23(4) of the AVR and an explanation of the application of materiality analysis for the FAR is given in section 6.4.2;
- Information can be provided in relation to the operator's data flow activities, control system and associated procedures to improve the performance of their monitoring and reporting. This activity is strongly linked with Articles 27(3)(p) and 30 of the AVR. The verifier has the responsibility to consider and assess whether there are areas for improvement in an operator's monitoring and reporting process with the intent of improving the rigour, robustness and quality of reported data. This relates especially to the data flow activities, the operator's risk assessment, the control activities, evaluation of the control system and the procedures mentioned in the MMP. If there are areas for improvement, the verifier must include a recommendation for improvement in the verification report⁴³.

⁴¹'Material misstatement' means a misstatement that, in the opinion of the verifier, individually or when aggregated with other misstatements, exceeds the materiality level or could affect the treatment of the operator's or aircraft operator's report by the competent authority.

⁴² See section 2.2 on approval of the MMP in relation to the timing of the application for free allocation.

⁴³ However, whilst the verifier should identify weaknesses in control activities as part of the recommendations and inform the operator why it is considered a weakness, the verifier must not

One of the most important tasks of the operator is to develop a methodology for compiling existing available data – supplemented by (conservative) assumptions and estimations where necessary – for determining the historic baseline data and attributing that data to sub-installations. The aim is that only “data sources of highest achievable accuracy” are used. This means that where several sources for the same historic data set are available for the operator to select from, the operator is required to choose the data of the highest accuracy and attach data from other sources for corroboration purposes. The essence of this data compilation process has to be documented in the MMP with justification as to why the data selected is deemed ‘highest accuracy’ (see section 2.3).

The MMP assessment by the verifier is therefore a key aspect of the verification. The following applies with respect to the verifier’s assessment of the MMP:

- The verifier checks in the strategic analysis whether the MMP is the latest version approved by the CA, whether there have been changes to the MMP in the reporting period(s), whether these changes have been significant, and if yes, whether they have been approved by the CA. More information on which changes are significant is provided in GD5 on “Monitoring and Reporting in Relation to the Free Allocation Rules”.
- When assessing implementation of the MMP, the verifier will also check the CA correspondence on MMP approval.
- During its approval, the CA shall check the MMP against the FAR.
- The verifier uses the approved MMP as a starting point to assess the accuracy of the data.
- The verifier checks the implementation of different elements of the MMP and assesses whether the actual situation for each sub-installation reflects what is recorded in the MMP.
- To some extent, the verifier will perform cross-checks between the MMP and the FAR: e.g. assessing the sub-installation boundaries, checking the appropriateness and implementation of control activities and procedures, etc.
- When the verifier identifies non-compliance, the verifier informs the operator. The operator is required to notify it to the CA and correct the non-compliance in agreement with the CA (e.g. updating the MMP and obtaining re-approval by the CA).
- Corrected non-compliance and action taken to correct it will be documented in the internal verification documentation.
- For non-compliance that is not corrected, the verifier will assess the material impact on the reported data.
- Non-compliance that is not corrected, before the verification report is issued to the operator, must be included in the verification report.

communicate in any way how the operator should resolve the weakness, as that would place the verifier in a consultancy role and compromise its independence.

For all reporting cycles the verifier will:

- assess whether the sub-installations and their boundaries are correctly defined;
- check whether the methodology presented is transparent and allows for complete audit trails from primary data sources to the final figures in the FAR baseline data report;
- check completeness of the MMP ensuring neither gaps nor double counting have occurred;
- check whether the control activities and procedures are appropriately established, implemented, documented and maintained and whether these are effective to mitigate the identified risks. How the verifier checks the control activities and procedures is done in a similar way as for annual emission verification. More information on how to check control activities and procedures is provided in AVR KGN II.3 on process analysis;
- where relevant, check and confirm whether implementation of energy efficiency recommendations is completed and if not, whether one of the exceptions to conditionality applies (please see section 7 of GD12 for more information).

6.3 Data assessment

During the process analysis the verifier will do detailed data verification and check implementation of the data collection and monitoring methodology applied. This will be based on the verification plan and the results of the strategic analysis and verifier's risk analysis. In addition to checks in relation to data identified in Annex IV of the FAR and the requirements of Article 10(5) of the FAR, the verifier will specifically check the following elements. These checks form part of the verification plan:

- Check whether all data for emissions, inputs, outputs and energy flows are attributed correctly to the sub-installation(s) in line with the system boundaries. The verifier's data checks include, for example:
 - Checks that the sum of annual verified emissions attributed to individual sub-installations under Annex IV(2)(2) matches the total verified emissions for the relevant year; If these data do not match the verifier should check whether:
 - there are emissions associated with activities at the installation that are not eligible for free allocation. Section 4.2 of GD5 provides further information on non-eligible activities (see also Table 5 below);

- any corrections made by the operator subsequent to the relevant verified report are reasonable⁴⁴;
 - additional emissions have been attributed to sub-installations that are not reported under annual emissions reports, such as “internal source streams”⁴⁵ or emissions equivalent to imported measurable heat; and that these additional emissions are calculated correctly with no data gaps or double counting;
 - relevant corrections for import and export of waste gases have been calculated correctly (see sections 4.3 and 7.3 of GD5).
- Confirmation that, where the operator normally reports annual emissions using mass-based emissions factor; the NCV used for energy reporting in the baseline report is determined in accordance with the requirement to report NCV under Standard Conditions;⁴⁶
- Check whether data are complete and whether data gaps or double counting have occurred;
- Check whether activity levels for product benchmarks are based on the correct application of the product definitions listed in Annex I of the FAR;
- Check whether activity levels for heat benchmark sub-installations, district heating sub-installation, fuel benchmark sub-installations and process emissions sub-installations have been correctly attributed according to the products produced and in line with Decision (EU) 2019/708 (the “Carbon Leakage List”);
 - As part of these checks, confirm that the NACE / PRODCOM codes declared in the baseline report or annual activity level report are consistent with other evidence of such declarations by the operator; or that there is a justifiable reason for a code declared to have changed.
- Check whether the inputs, outputs and emissions are correctly attributed to the sub-installation according to the production of goods listed in Annex I of the CBAM regulation;
 - As part of these checks, confirm that the CN code declared in the baseline report or annual activity level report are consistent with other evidence of such declaration by the operator; or that there is a sufficient and reasonable justification for the change of the code. This information will be included in the verification report so that the CA can understand and evaluate this during their review.

⁴⁴ The verifier should check that they are working with the most up to date copy of the Annual Emissions Report (AER) since it is possible that a subsequent amendment was notified to the CA but the AER was not required to be re-verified.

⁴⁵ See section 4.2 of Guidance Document 5.

⁴⁶ Article 3(50) of the MRR defines Standard Conditions.

Table 5 - Activities not eligible for free allocation

Section 4.2 of FAR GD5 outlines those activities that are not eligible for free allocation and specifically draws attention to the following:

“..... after performing the attribution of all inputs, outputs and emissions to sub-installations, some inputs, outputs and emissions will remain not attributed to any sub-installation, as these elements are not eligible for free allocation. This concerns in particular:

- *Fuels and/or measurable heat used for electricity production, and the related emissions;*
- *Measurable heat produced in nitric acid sub-installations or imported from non-ETS entities;*
- *Emissions related to heat exported to EU ETS installations;*
- *Waste gases or fuels flared for purposes other than safety flaring outside product benchmark sub-installations, and the related emissions.”*

During verification, the verifier may find misstatements in data or non-conformities between data calculations and the MMP. In such cases the verifier will request the operator to correct the identified errors, misrepresentations or omissions as well as any non-conformities.

The operator must update and improve the MMP where it is found by the verifier to be incomplete, erroneous, or contradicting rules laid down in the FAR or ALCR. The operator must correct the associated baseline data and allocation data in accordance with any improvement to the MMP, and the verifier will take account of these revisions in its subsequent verification of the updated MMP (where relevant) and baseline data report or annual activity level report. Please see Section 6.2 for more information on how to address identified non-conformities and non-compliance with the FAR and ALCR.

Where the data required for the baseline data report or annual activity level report is not available and there is a data gap, the operator has to use an alternative methodology or data source for completing the data gap provided that this methodology or data source is listed in the MMP (Article 12(2) of the FAR). If the MMP does not contain such a methodology or data source, the operator must use an appropriate estimation method for determining conservative surrogate data for the time period in which the data gap exists and for the respective parameter. The operator must include sufficient justification for the data gap and the method used in the baseline data report.

In the context of baseline data or annual activity level data “conservative” means that a set of assumptions is defined in order to ensure that parameters relevant for allocation of free allowances are assigned values in a way that the resulting allocation

is not higher than with application of the true value of that parameter⁴⁷. Data gaps must be closed in a transparent way. More information on what checks a verifier does on data gaps is provided in section 7.3.

The verifier must decide if any remaining misstatements, non-conformities or non-compliance have material impact on the reported data (see section 6.4.2). If issues that have a material impact on the reported data remain unresolved at the end of verification, the verifier must issue a negative verification opinion statement. Furthermore, all outstanding misstatements, non-conformities and non-compliance are to be included in the verification report, with a reason why any of them have a material impact on the reported data.

If only misstatements, non-conformities or non-compliance remain that do not have a material impact on the reported data, the verifier can issue a positive verification opinion statement with comments. The verifier must list those outstanding issues in the verification report. This also applies to quantification errors in the data sets at a sub-installation level and non-aggregate level. i.e. if there are uncorrected mistakes at sub-installations but these do not have a material impact on the overall data, they still have to be reported. This will draw the attention of the CA to them.

Where no misstatements or non-conformities have been found, or where all misstatements and non-conformities have been fully corrected, the verifier can issue a positive verification opinion statement declaring the baseline data report or annual activity level report is verified as satisfactory.

The wording for such a verification statement is found in the verification report template provided by the Commission.

6.4 Methodological choices

6.4.1 Level of assurance

Article 7(1) of the AVR requires the verifier to carry out verification with the aim of providing a report that concludes with reasonable assurance that the operator's report (e.g. baseline data report) is free from material misstatements. The degree of assurance that the verifier gives in its reported opinion statement on the accuracy of data relates to the depth and detail of verification. Please see section 3.1.4 of AVR EGD 1 for an explanation of the application of reasonable assurance.

The verifier has the possibility of influencing or improving data quality by providing reasonable improvement recommendations, that the operator should take into account for future data collection cycles by updating its MMP. If the operator has a justifiable reason for not taking into account the recommendations it should explain to the CA why it should not take account of the verifier's recommendations. For example, because the operator disagrees with the verifier's recommendations due to unreasonable costs or technical infeasibility. It is then the CA's responsibility to decide on these issues.

⁴⁷ I.e. the resulting preliminary allocation will be lower rather than higher when a conservative estimate is done – this is different to what applies to annual emissions reporting.

In this context, the verifier should be enabled to follow audit trails back to the point of primary data generation, such as production protocols or fuel invoices.

6.4.2 Materiality

Materiality is a key element of verification: it is important in two respects:

- The concept itself is relevant when the verifier determines the nature, timing and extent of verification activities: the planning and design of these activities is based on the assessment of the risks of misstatement and non-conformities and any likely material effect they may have on the reported data.
- Secondly, materiality is essential in concluding whether a baseline/new entrant report or annual activity level report can be verified as satisfactory. Only reports that are free from material misstatements⁴⁸ can be regarded as satisfactory.

Materiality has both a quantitative aspect and a qualitative aspect. The quantitative aspect depends on the size and nature of the impact an error has on the overall reported data, whereas the qualitative aspect is very much determined by factors that can influence the user of the data, i.e. the CA (e.g. particular circumstances, whether it concerns non-compliance, etc.).

For the quantitative aspect the materiality level is important.

For the purposes of FAR baseline data verification and annual activity level report verification Article 23(4) of the AVR specifies the materiality level for certain elements of the data set. The materiality level is $\pm 5\%$ of the reported values for the following individual elements⁴⁹:

- a) the installation's total emissions⁵⁰, where the data in the baseline data report, new entrants report or annual activity level report relates to emissions; or

⁴⁸ Material misstatement according to Article 3(6) of the AVR means a misstatement that, in the opinion of the verifier, individually or when aggregated with other misstatements, exceeds the materiality level or could affect the treatment of the operator's or aircraft operator's report by the competent authority.

⁴⁹ These individual elements span the following data sets – (a) data covered under annual emissions monitoring (i.e. this will cover fuel and process sub-installation data); and (b), (c), (d) the additional data sets that are specific to the free allocation and benchmark processes. For (a) to have a material error in the total emissions means that there have been errors in the underlying sub-installations which in aggregate are material when converted to CO₂ and compared to the total emissions. Note that a material error during annual emissions verification for an installation with a 2% materiality level under the Article 23(2) of the AVR would not automatically be material under the FAR if it does not exceed the 5% materiality threshold. However, based on a qualitative assessment it can still be material regardless of whether the 5% materiality threshold under the FAR is exceeded.

⁵⁰ Note that the sum of the attributed emissions of all sub-installations is not necessarily equal to the installation's (verified) emissions. For details see e.g. Table 5 in section 6.3 of this document. More details on the determination of attributed emissions are found in sections 4.3 and 7.3 of Guidance Document 5. Note that in some cases the installation's own emissions may be small compared to the allocation (e.g. where the majority of allocation is due to imported heat). In such cases the verifier's materiality assessment will be based on qualitative criteria, including the fact (and size) of the heat imports.

- b) the sum of imports and production of net measurable heat at installation level, if relevant, where the data in the baseline report, new entrants report or annual activity level report relates to measurable heat data; or
- c) the sum of the amounts of waste gases imported and produced within the installation, if relevant; or
- d) the activity level of each relevant product benchmark sub-installation individually.

When an individual misstatement⁵¹ or misstatements when aggregated for one of the aforementioned elements exceed the $\pm 5\%$ materiality level, the misstatement is material for that element. In those cases, the entire reported data set is rejected and the verifier must issue a negative verification opinion statement in relation to the baseline/new entrant data report or annual activity level report.

The AVR does not specify a materiality level in relation to elements of the data set other than the ones mentioned in Article 23(4), as outlined above. Where the verifier identifies any other element(s) of the data set as having a significant quantitative error this must be taken into account in the verifier's wider materiality analysis (qualitative assessment) when reaching their conclusions on the reliability of the overall reported data. The verifier needs to consider the potential impact on the user of the reported data if they find a significant error in the data set that is not one of the elements with a mandated materiality threshold.

Elements (a) to (c) above relate to the total reported value: i.e. the total emissions, the sum of imports and production of net measurable heat or the sum of the amounts of waste gases imported and produced within the installation. If there are multiple sub-installations that are based on one of these data elements, the individual misstatement or misstatements when aggregated covers the total value for the particular element. This does not mean that an error at sub-installation level cannot lead to a material error. It all depends on the qualitative assessment of materiality.

For example:

An installation has a total heat value (production + import) of 100TJ across all its relevant sub-installations; an individual or aggregate error of 5TJ or above in the heat value would be material under point (b) above: 5% of the total production and import of net measurable heat is 5TJ. Any quantitative error equal or above the materiality level is material.

The installation has two heat sub-installation (A) and (B) each with a heat import value of 10TJ:

- An individual error of 2TJ is found in the import value of sub-installation (A); on its own this would not be quantitatively material but would still represent an error of 20% of the imported heat value.
- An individual error of 3.5TJ is found in the import value of in sub-installation (B); on its own this would not be quantitatively material but would still represent an error of 35% of the imported heat value.

However, the aggregate error on the total heat imports to sub-installations (A) and (B) is 5.5TJ; this is above the 5% materiality level for the sum of imports and production of net measurable heat so would result in a material error and therefore a negative verification opinion (not verified).

⁵¹ A non-conformity or non-compliance can also be a misstatement if it has an impact on the reported data.

If, in the case above, the installation had only one heat sub-installation - (B) - with an individual error of 3.5TJ in its imported heat value that is not quantitatively material; the verifier could still determine that the error overall was a material issue if as a result of evaluation of the qualitative aspects of materiality the verifier identifies uncorrected non-compliance and/or non-conformance that impacts the data calculation process and that the verifier considers significant enough to warrant a finding that it is material.

For product benchmarks – element (d) above - any individual misstatement or misstatements when aggregated that exceed 5% of the activity level for the relevant product benchmark sub-installation individually, leads to a negative verification opinion statement.

As mentioned before, when determining materiality of an issue, the materiality level alone is not the only factor when assessing whether or not a misstatement, non-compliance or non-conformity has material effect on the overall reported data. Qualitative aspects have to be considered as well. These aspects can have a material impact on the overall reported data even if a specified materiality level is not exceeded.

Taking account of the qualitative aspect also applies to data types not listed in Article 23(4) e.g. for the production data for the fall-back sub-installations, electricity balance (e.g. data for the CHP tool), individual CWT values, etc. In such cases the verifier needs to take account of the FAR requirements to determine if a non-compliance or non-conformance has material effect on the data reported for the use to which it will be put. This will need to be established under two different scenarios:

- for the purposes of the free allocation application; and
- for the purposes of the update of the benchmarks.

The key question for assessing qualitative aspects in either case is whether a misstatement, non-conformity or non-compliance (individually or combined) can influence the decision of the user (e.g. the CA for allocation data or the Commission, in the context of benchmark updates). This will depend on the size and nature of misstatements, non-conformities or non-compliance as well as on the particular circumstances of occurrence. This decision will depend on the professional judgment of the verifier.

Factors that can be relevant in determining whether or not a misstatement, non-conformity or non-compliance has material effect include:

- whether the misstatement, non-conformity or non-compliance can be corrected. For example, if a robust alternate estimation method can be applied to fill a large data gap – and that data gap relates to the allocation of allowances for the installation – the verifier would determine qualitatively that there was no material issue since the alternate methodology is appropriate. If, however, the alternate method was not robust, not properly supported by evidence, or had other failings, the verifier would need to make a qualitative judgement as to whether it was a material issue.

Other examples include whether estimation methods for attributing heat

consumption between sectors exposed to carbon leakage and sectors not exposed are robust and supported by evidence;

- whether the operator refuses to correct the identified misstatement, non-conformity or non-compliance. If an operator refuses to correct an issue, the verifier will first request the operator's reasons for doing so. Article 22(1) of the AVR requires operators to correct any identified misstatement, non-conformity or non-compliance which makes the refusal to correct an outstanding issue without sound justification an important factor that the verifier needs to take into account when assessing the materiality;
- the likelihood of the identified misstatement, non-conformity or non-compliance reoccurring. If the control activities are not sufficient to mitigate inherent risks, calibration is not carried out on a planned and structured basis, important monitoring data are not documented properly, and there is systematic over- or under-estimation of values even if the individual errors are lower than a specified materiality threshold. The likelihood of misstatements or non-conformities reoccurring may be high in those cases, and the situation may therefore be considered a material issue;
- the duration of a misstatement, non-conformity or non-compliance. If the issue has lasted for a long period of time (from one year to another), this is usually a sign that the control system is not working properly or operators are reluctant to correct the issue. This will inform the verifier's assessment of whether this has a material impact on the reported data;
- whether misstatements, non-conformities or non-compliance are the result of an act with or without intent;
- the type of non-compliance with the FAR or ALCR and whether it affects the allocation or quantity of allowances such as:
 - the system boundaries for sub-installations have not been determined in accordance with the FAR and this affects the reported baseline data;
 - the product definition (reflected in reported NACE or PRODCOM code) does not correspond with the actual production process and/or the correct carbon leakage status;
 - the CN code does not correspond to the production of goods listed in Annex I of the CBAM regulation and the CBAM factor has not been applied correctly;
 - the installation or part of the installation generates electricity which is not eligible for free allocation of allowances and the data for that installation or part of the installation has been taken into account in the calculations.

Where data contains misstatements, which do not directly affect the allocation because the data is to be reported only for enabling the verifier and CA to carry out plausibility checks, such as annual emissions attributable to product benchmark sub-installations, the verifier may consider this misstatement as non-material for allocation purposes. However, this does not absolve the operator from the

requirement to correct the data. The verifier must include such misstatements as findings in the verification report where they are not corrected before issuing the verification report.

6.5 Verification report and opinion statement

Transparency and completeness

The verification report should be completed with sufficient detail so that the CA can understand the main steps of verification carried out; and can obtain a clear picture of the quality of the operator’s MMP (if relevant) and the data delivered. Both the CA and the operator should be able to understand the nature of any issues identified. Article 27 (3) of the AVR contains requirements on the content of the verification report (see Section 10 (Annex 2)).

The verification report must cover the basis of the verification as well as conclusions on:

- the compliance of the MMP with the FAR
- the quality and reliability of data used for the free allocation application and
- the quality and reliability of data to be used for the update of benchmarks.

Different verification opinions can be stated (these are applicable to any of the situations outlined above):

Table 6 - Verification opinion statements

Verification opinion statement	Clarification
The report is verified as satisfactory (positive verification opinion)	This opinion statement is given for two situations: <ul style="list-style-type: none"> • if there are no outstanding misstatements, non-conformities or non-compliance issues • if there are outstanding misstatements, non-conformities or non-compliance issues but these are not material. This is also called verified with comments.
The report is not verified as satisfactory because it contains material misstatements that were not corrected before issuing the verification report (negative verification opinion)	This opinion statement is given if there are material misstatements. This can include non-conformities and non-compliance that have a material impact on the reported data.
The report is not verified as satisfactory because the scope of verification is too limited (negative verification opinion)	Limitation of scope can occur if: <ul style="list-style-type: none"> • data or information are missing that prevent a verifier from obtaining the evidence required to reduce the verification risk to the level needed to obtain reasonable level of assurance e.g. some or all primary source

Verification opinion statement	Clarification
	<p>data are missing and data are only available at an aggregated level;</p> <ul style="list-style-type: none"> • the MMP does not provide sufficient scope or clarity to conclude on the verification (e.g. parts are not properly described or it is unclear what methodology is applied) and it is not possible to determine this during implementation of the verification plan; • the operator has failed to make sufficient information available to enable the verifier to carry out the verification; • there is no approved MMP.
<p>Non-conformities individually or combined with other non-conformities provide insufficient clarity and prevent the verifier from stating with reasonable assurance that the report is free from material misstatements.</p> <p>The report is not verified as satisfactory (negative verification opinion)</p>	<p>Usually when non-conformities are found during the verification process, it affects the risk analysis and the planned verification activities. In particular, if such non-conformities increase the risk of misstatements and create uncertainty over the accuracy the data, the verification activities must be more detailed and further tests and checks will be required to achieve more confidence in and assurance over the data. However further testing will not always provide the verifier with sufficient confidence in the data and a negative opinion may be issued.</p> <p>In some cases, non-conformities (individually or combined with other non-conformities) provide too much uncertainty for the verifier to positively state with reasonable assurance that the operator's report is free from material misstatements. This could happen, for example, if the operator does not calibrate measurement equipment, the non-conformity is repeatedly not corrected and/or calibrated measurement results are not available thereby causing the verifier to be uncertain whether the reported data is free from material misstatements.</p>

Any identified misstatements, non-conformities and non-compliance issues (whether these are material or not) are reported in the verification report, unless they have been corrected by the operator before the verification report is issued.

Possible situations with the MMP

If the verifier has reasonable doubts regarding the quality of minor elements of the methodology, e.g. regarding a particular estimation methodology for substitute data for closing data gaps, these doubts must also be clearly stated in the verification report. If such non-conformities are found to have non-material impact on the reported data, the verification opinion can be positive if the derived data is found to

be correct based on the MMP, and if the operator demonstrates that it cannot provide more accurate data.

If the verifier finds that the MMP hints at the use of available data sources which do not qualify as “data of highest achievable accuracy”, the verifier will report this fact as a finding in the verification report. Nevertheless, it can continue with further verification tasks, if such non-conformities are found to be non-material. The verification opinion can be positive, if the derived data is found to be correct based on the MMP, and if the operator demonstrates that it cannot provide more accurate data.

In such circumstances the verifier may add comments to the opinion statement to draw the CA’s attention to any issues they consider specifically relevant.

Describing the issues in the verification report

All outstanding issues must be described in a clear manner. This will allow the CA and the NAB to assess the verifier’s findings more closely. When describing the issues in the verification report, Article 27(4) AVR requires the verifier to include in the description:

- a) the size and nature of any misstatement, non-conformity or non-compliance with the FAR or ALCR;
- b) whether a misstatement, non-conformity or non-compliance has material effect on the reported data or not;
- c) to which element of the operator’s report a misstatement, or to which element of the MMP a non-conformity, relates;
- d) to which Article(s) of the FAR or ALCR a non-compliance relates.

In addition to stating findings in the verification report, the verifier may add comments to the opinion statement to draw the CA’s attention to any issues they consider specifically relevant, for example, significant quantification errors in elements of the data set to which a materiality level does not apply under Article 23(4) of the AVR. Please note that for such significant errors the fact that a materiality level is not specified does not necessarily mean that the error is not material. This can still be the case based on the qualitative assessment of materiality (please see section 6.4.2).

In the verification report the verifier will also confirm whether or not the implementation of energy efficiency recommendations is completed, and if not, whether one of the exceptions to conditionality applies, or not. In addition to this, the verifier should report any observations related to the confirmation checks to draw attention to the CAs on issues which may affect their decisions on whether the conditions in Article 22a of the FAR have been met, and whether or not to reduce emission allowances. For example, evidence from the operator shows that a management decision has been made to implement a particular recommendation, but: it has not been included in the planning for the next shutdown; if the installation of relevant equipment cannot be done without a shutdown; the procurement of necessary equipment or service has not been initiated in a timely way to enable the implementation of the recommendation; or appropriate resources have not been allocated to allow for the planning and implementation of a recommendation.

6.6 Follow-up after the verification

Once the verified baseline data reports with the corresponding verification report are submitted to the CA, that CA will check the reports. Member States can only accept free allocation data submitted to the CA that has been verified as satisfactory by a verifier, in accordance with the AVR. When data gaps are due to exceptional and/or unforeseeable circumstances that could not have been avoided even though due care had been exercised and these circumstances are beyond the control of the operator, the CA may decide to determine the historical activity levels even in the event of a negative verification opinion statement (Article 15(2) of the FAR). Information on how to deal with negative verification opinion statements regarding annual activity level data is provided in section 8.5. If the CA identifies any non-conformities or any errors which impact the determination of historical activity levels, it shall require the operators to correct those issues. If needed, the CA can request the operator to provide additional information and documentation in order to complement the application for free allowances in accordance with Article 4(2) of the FAR.

7 Special topics for FAR Baseline Data

This Chapter explains some of the specific issues that are relevant to verification of baseline data reports and new entrant data reports. Please note that this is not a complete list of issues.

7.1 Principles of the FAR

Verifiers should understand the underlying principles of the FAR calculations. The most important ones are listed below. More details about these concepts can be obtained from the guidance papers mentioned in Annex II.

7.1.1 Assessing the boundaries of the sub-installations

The verifier will check the boundaries of the sub-installations and of the installation itself to ensure that the calculations match the physical reality in total with no overlaps or omissions. For one installation multiple sub-installations can apply.

Verifiers should therefore be aware of the definition of sub-installation for the different benchmarks (in particular product benchmarks⁵²) as well as the division between sub-installations if more than one sub-installation applies to one installation. Other key concepts include definitions of:

- an electricity generator, relevant until the end of the first trading period of phase 4 (end of 2025). The export or consumption of heat used for electricity generation is not eligible for free allocation. The verifier will therefore double check if there is electricity generation on an installation and what the

⁵² Verifiers should pay special attendance to boundaries of product benchmarks and correlated use of excess heat which is included in the product benchmark.

boundaries of that generation are. After 2025, this concept will no longer be relevant and electricity generators are treated as other EU ETS installations;

- measurable heat, other non-measurable heat and district heating, and the principles for treatment of cross-boundary heat flows. Heat benchmark sub-installations can often be complex. Verifiers are advised to take particular note of GD6 on “Cross-boundary Heat Flows”;
- process emission sub-installation, including principles related to waste gases and applicable correction to the allocation calculation. Corrections for waste gases are also relevant for emissions attributed to product benchmark sub-installations in relation to the update of benchmark values. The definition of process emission sub-installation and the concepts of waste gases have been clarified for the fourth trading period. GD8 on “Waste gases and process emissions sub-installations” provides more details.

More explanation is provided in the FAR guidance documents.

Furthermore, verifiers have to check the completeness of source streams and emission sources that are listed in the MMP. For this, verifiers will do similar checks as are done for annual emission verification. For more information, please see Key guidance note II.1 on scope of verification.

7.1.2 Most accurate available data sources

As explained in section 2.3 the operator needs to use data sources that achieve the highest possible accuracy. The MMP submitted to the CA for approval will have included, where relevant, justifications for the applied data sources. If the CA accepts justifications related to the technical feasibility or unreasonable costs associated with implementing new measurement systems, the approved MMP will take this into account and the verifier can accept the approved data sources as being of highest achievable accuracy. The verifier will take the decisions of the CA on the MMP as a starting point for its work but can still report FAR non-compliance issues or recommendations for improvement if it considers that the requirements on most accurate data sources are not complied with or it considers that the operator can improve on the selection of most accurate data sources, for example because circumstances or equipment have now changed and better quality data is available.

7.1.3 Unreasonable costs and technical infeasibility

When other data sources are used because of technical infeasibility or unreasonable costs, the verifier will do the same checks on unreasonable costs and technical infeasibility as they would do for annual emissions verification. With respect to unreasonable costs, verifiers assess the calculation of unreasonable costs as well as the underlying evidence for the costs that are used in the calculation to determine if the justifications and evidence are complete and reasonable. Please note that changes have been made to the reference price in Article 18 of the MRR used in the calculation of unreasonable costs (see section 6.6 of GD5 for further information). Verifiers should be aware of those revisions.

With respect to technical infeasibility the verifier will gather evidence of what equipment was in place and available at the time the data was collected in order to

decide whether evidence presented by the operator in the MMP on technical infeasibility is complete and reasonable.

7.1.4 Simplified uncertainty assessment

An operator can use other data sources provided it demonstrates to the satisfaction of the CA that the associated level of accuracy of the data source it proposes is equivalent to, or better than, the level of accuracy of the most accurate data sources given in the hierarchy in section 4 of Annex VII of the FAR. For that purpose, the operator must compile a simplified uncertainty assessment identifying major sources of uncertainty and estimating their associated levels of uncertainty. This uncertainty assessment does not have the same rigour⁵³ as that required for annual emissions reporting, but should be robust and supported by logical evidence and justifications.

When such a simplified uncertainty assessment is made the verifier should check the validity of information that was used. The verifier needs to check evidence that all major sources of uncertainty have been identified – across the entire data flow for generating, collecting and calculating relevant data points - and the basis on which an estimation of uncertainty for each is derived.

Verifiers will cross check that information with their own evaluation of the data flow and the operator's risk assessment. Verifiers will also ask the operator to justify inclusion/ exclusion of sources of uncertainty from the assessment and to provide reasonable evidence for how the operator has decided the level of uncertainty.

7.1.5 Assessing application of product benchmarks

As explained in section 6.3 the verifier will carry out checks on the correct application of product benchmarks and other benchmark update data, including:

- whether data gaps or double counting occurs;
- correct application of product definitions;
- correct attribution of activity levels for the fall-back allocation approaches (heat, district heating, fuel and process emissions sub-installations) according to the carbon leakage status of the products linked to those sub-installations and to the NACE/PRODCOM codes of these products;
- correct attribution of the inputs, outputs and emissions to the sub-installation according to the production of goods listed in Annex I of the CBAM regulation;
- historical activity levels (based on mean values of the baseline period and the relevant calculation methods).

The verifier will apply analytical procedures and data verification to assess these elements and should therefore be aware of how these concepts can be evaluated (see also section 6.3). Verifiers need to understand the FAR guidance documents.

⁵³ Nor does it need to have the same approach and methodology, although if there is an existing approach applied to instruments etc. under annual reporting of emissions operators would need to supply the verifier with a reasonable justification as to why this has not been applied to relevant FAR data collection activities.

7.1.6 Product definitions and production data

A key issue for verification of FAR baseline data or annual activity level data is the checking of production data, which forms the basis for calculating Historic Activity Levels (HALs) for product benchmarks to determine the preliminary number of allowances allocated free of charge. This covers two aspects:

- a) Qualitative checks: Has the operator chosen the correct benchmark? In other words: Do the products fall under the relevant definition of Annex I of the FAR⁵⁴?
- b) Annual quantity of products.

Product classification

For answering point (a), the verifier will need an understanding of the relevant product definitions in the FAR and also of the applicable NACE and PRODCOM classifications. In case of dispute about product classifications, the verifier should ask the operator to provide clarification from the national statistical office in the Member State of the installation.

For determining quantitative production data (including heat sales data), the operator will usually be able to provide data from its financial accounting systems, such as delivery notes and invoices, and/or production accounting protocols. Often the data provided will be stored in electronic database systems and may be subject to audit by the operator's financial auditors. The verifier should consider the following issues:

- For HAL data, the amount of saleable product produced is relevant in most cases. If sales data are used, they must be corrected for annual stock changes in order to determine the production data. Equally, if the operator's financial accounting year doesn't coincide with the calendar reporting year, appropriate adjustments have to be made.

Considering results from financial or other audits

- The verifier may take into account the results of external independent audits performed for the purpose of tax or customs authorities, or in context of financial regulations. However, it is within the responsibility of the verifier to assess if relying on such audit opinions can be justified with a view to the scope and required level of assurance for verification of FAR baseline data or annual activity level data. If needed, the verifier will have to carry out additional verification activities.

7.1.7 Carbon leakage

Verifiers should be aware of the risk of significant exposure to carbon leakage of different sectors, and its impact on allocation rules. If a sector or sub-sector is subject to a risk of significant exposure to carbon leakage, they are listed on the Carbon Leakage List (CLL)⁵⁵ and sub-installations serving listed sectors or sub-sectors are

⁵⁴ Definitions are further elaborated in guidance document 9.

⁵⁵ Commission Delegated Decision (EU) 2019/708 of 15 February 2019 supplementing Directive 2003/87/EC of the European Parliament and of the Council concerning the determination of sectors

eligible for 100% free allocation. The Commission adopted a new CLL for 2021 - 2030, identifying those sectors and activities eligible for 100% free allocation under the new carbon leakage rules for Phase 4. In principle, the eligibility assessment of (sub-) sectors included on the list is based on their NACE classification codes⁵⁶, though for a number of sub-sectors it is based on the more disaggregated PRODCOM classification codes. Verifiers should confirm that the NACE / PRODCOM codes declared in the baseline report are consistent with other evidence of such declarations by the operator; or that there is a justifiable reason for a code declared to have changed. Verifiers need to be aware of the potential for distortion of free allocation levels by use of incorrect codes in baseline data reports and that some sectors have been split such that some sub-sectors (with more disaggregated⁵⁷ codes) are on the CLL and others are not. Verifiers need to carefully check the CLL and make sure that the operators use the correct NACE/ PRODCOM code in the baseline/new entry data report or annual activity level report. More information on the impact of carbon leakage is provided in Guidance Document 2.

CBAM is gradually replacing the current approach for carbon leakage in the next years. The revised FAR requires that the installations report their CN number in order to compare the sector to the list in Annex I of the CBAM regulation. This number and additional evidence by the operator to demonstrate whether the process serves the production of goods listed in Annex I of the CBAM regulation, will need to be checked and confirmed by the verifier in order to apply the correct CBAM factor.

7.1.8 Changes to allocation

There can be situations where changes to the operation of installations will have an impact on the allocation: e.g. known capacity changes that will impact production levels soon after the change. The verifier should be aware of such changes and check what has changed in the operations of the installation during the period leading up to the report to be verified. From the start of Phase 4, an installation's allocation will only be changed as a result of data notified in the annual activity level report. See section 8 for more information.

Where the verifier observes that there is a cessation of an installation or sub-installation, or a significant change in a sub-installation as result of long term/permanent shutdown of technical units associated with that sub-installation, the verifier will follow normal verification procedures and report this in the verification report: it is a significant change in operations. In case of cessation of a sub-installation, the verifier will seek evidence to confirm that products covered by the definition of the relevant product or fall-back benchmark sub-installation have ceased production, and that there are no emissions attributable to the relevant sub-installation type. The verifier can obtain evidence for the cessation or shutdown of technical units, for example, by:

and subsectors deemed at risk of carbon leakage for the period 2021.to 2030, Official Journal 8 May 2019, L 120/20.

⁵⁶The CLL is based on NACE revision 2, with the corresponding 2010 for PRODCOM. See Section 4.1 of Guidance Document 2 for more details.

⁵⁷ More disaggregated means that more digits of the PRODCOM codes are relevant.

- assessing other permits such as environmental and pollution permits and publicly available information on changes at the installation;
- confirming that the relevant equipment has been physically disabled and would require an engineering project to restart it (for example, if there is an 'air gap' in input fuel or material lines leading to the equipment);
- assessing formal documentation and sign-off by technical specialists and/or management⁵⁸ to show that there has been formal decision making on the shutdown of the equipment such that the sub-installation ceases to apply.
- confirming the date of cessation (or shutdown of individual technical units).

However, for some sub-installations, a cessation may happen without operation of the related technical units ceasing, e.g. where a switch from coloured glass to colourless glass takes place, or from uncoated to coated fine paper, etc.. In such cases, the cessation of sub-installation cannot be confirmed.

7.1.9 Mergers/splits

Article 25 of the FAR requires operators of new installations resulting from a merger or split to provide the CA with documentation about the ownership change. When there has been a merger or split, the verifier has to review that documentation and check whether the baseline data report for such an installation is accurate, how the installation was merged or split and what impact this has had on the sub-installations. This will be important information to take into account in the assessment on whether the allocation data is accurate.

7.2 Special competences required

As explained in section 5.2, EU ETS auditors and lead auditor should have knowledge of the specific FAR rules, ALCR and guidance as well as knowledge and experience on monitoring and reporting aspects in relation to allocation data. Furthermore, the team as a whole should include at least one person that has the technical competence and understanding required to assess the specific technical aspects regarding the monitoring, reporting and collection of data. This will allow the verifier to understand the installation and sub-installations applicable and to check the application of the monitoring methodology and implementation of the MMP. Otherwise, the verifier will not be able to assess the material correctness of the data and the correct implementation of the monitoring plan. Table 7 below provides an indication of which technical competence and understanding should apply to assess specific technical monitoring and reporting aspects.

Table 7 – Technical competence and understanding required

⁵⁸ For example, as part of Management of Change and safety processes.

Elements of technical expertise and competence	Examples of knowledge and skills related to technical competence
Assessing aspects of the MMP	<p>Being able to understand and assess how:</p> <ul style="list-style-type: none"> • the MMP is implemented in the installation; • to check the baseline data report or annual activity level report against the MMP; • to analyse information and data to confirm whether the MMP is still appropriate and is being implemented.
Specific activity and technology	<ul style="list-style-type: none"> • being able to identify and understand which key operations impact the installation's allocation data; • having general knowledge of the technologies applicable to the industry sector in which the installation operates.
Relevant boundaries of the sub-installation and emissions sources/source streams	<p>Being able to understand and have knowledge of:</p> <ul style="list-style-type: none"> • concepts related to process emission sub-installations, waste gases and correcting for the heat content therein; safety flaring etc.; • boundaries of sub-installations; • definition of product benchmarks and system boundaries; • definition of fall-back sub-installations; • attribution of data to relevant sub-installations; • assessing completeness of source streams and emission sources; • attribution of energy consumption to sub-installations; • production inputs and outputs relevant to GHG emissions.
Quantification, monitoring and reporting including relevant technical and sector issues	<p>Being able to understand and have knowledge of techniques relevant to monitoring and reporting which requires knowledge and skills such as:</p> <ul style="list-style-type: none"> • parameters for collection of baseline data or annual activity level data; • knowledge on special topics such as CWT factors and how to determine related activity levels, and other special benchmarks; • understanding methods for determining net heat flows eligible for allocation under the fall-back sub-installations; for determining proxy data for measurable heat; and for calculation of emissions related to heat in CHP installations; • how to assess the most accurate data sources, unreasonable costs, and technical infeasibility; • how to assess whether methods for completing data gaps are appropriate, are conservative, and do not lead to material misstatements.
Knowledge related to the operator's organisation and quality assurance	<ul style="list-style-type: none"> • operator's specific data flow and risk assessment; • operator's specific control activities in relation to data flow;

Elements of technical expertise and competence	Examples of knowledge and skills related to technical competence
	<ul style="list-style-type: none"> • overall organisation with respect to monitoring and reporting, as well as the control environment in which the operator's accounting system functions; • procedures mentioned in the MRR; e.g. procedures for data flow activities and control activities; and for managing responsibilities for monitoring and reporting within an installation.
Knowledge related to verification agreements	<ul style="list-style-type: none"> • understanding contracts or other agreements with the operator to manage conflicts that could impact the verification (e.g. time allocation in contracts with the operator). • understanding how to apply the concept of materiality to baseline data or annual activity level data, and in particular for parts of the data sets that have no defined materiality threshold

7.3 Dealing with FAR related data gaps

Data gaps can be identified by the verifier when carrying out analytical tests and detailed data verification, or by the operator itself. Figure 3 below shows what the verifier is required to check in the case of data gaps.

A data gap occurring several times over a longer period of time may show that the internal control activities have not been functioning correctly. The verifier will therefore assess the frequency of data gaps occurring and the control activities implemented to avoid such data gaps. The verifier assesses whether internal control activities are effective⁵⁹ (e.g. whether IT systems automatically transferring data are secure and functioning properly, whether the operator has built in manual controls to ensure that no data gaps occur and whether regular data validation is occurring to pick up issues before they become data gaps).

⁵⁹ The verifier should be aware that some data reported in 2019 will not have been intended for baseline data/benchmark purposes when it was originally generated. The verifier should assess the effectiveness of the control activities in this context, i.e. the controls in place at the time it was generated for the purposes for which it was generated.

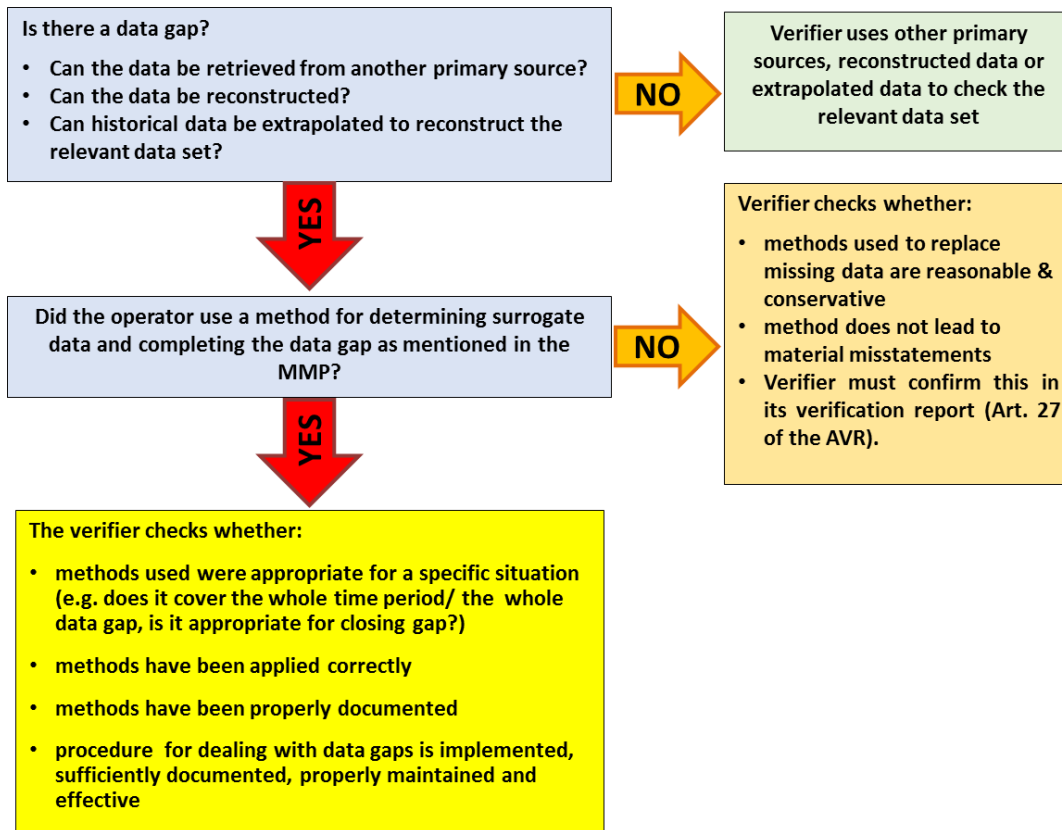


Figure 3 - Dealing with Data Gaps

8 Specific rules for verification of annual activity level data

This section contains specific rules for the verification of annual activity level data.

8.1 Additional rules in the verification process

The same steps in the verification process are followed during the verification of annual activity level reports: from the activities in the pre-contract phase, the strategic analysis and risk analysis to independent review and verification reporting (see section 6). Verifiers must be provided with similar information by the operator as when verifying a baseline data report, including the provision of prior and current annual activity level reports (see section 6.1.2). This information will be analysed in the strategic analysis and taken into account when verifying the relevant data. Other requirements that are similar include:

- the scope of verification (see section 6.2);
- the level of assurance (see section 6.4.1);
- the application of materiality (see section 6.4.2);
- how to deal with misstatements, non-conformities and non-compliance issues (see section 6.1.7);

During verification of annual activity level reports the verifier will carry out the same type of checks as when verifying baseline data reports (see sections 6.1.5, 6.3 and 7); but it will also do some additional checks. In particular, the verifier will check the accuracy of the parameters that can trigger a change in allocation levels, including:

- the parameters in Article 16(5) of the FAR: e.g. the amount of heat coming from nitric acid production and, from 2026, emissions from flaring other than safety flaring.
- the parameters in Article 19 of the FAR: e.g. the tonnes of production of H₂, ethylene and other HVC from supplemental feed, emissions from net imported heat, specified electricity consumption.
- the parameters in Article 20 of the FAR: e.g. hydrogen-related emissions⁶⁰, emissions from net imported heat, specified electricity consumption.
- the parameters in Article 21 of the FAR: e.g. amount of heat imported from an installation or other entity not included in the EU ETS.
- the parameters in Article 6(1), (2) and (4) ALCR: e.g. production levels and energy efficiency.

To check the accuracy of parameters, the verifier will perform plausibility checks on the underlying data, trace the data back to primary source data, do cross checks between data sets, and perform analytical checks to spot outliers and anomalies. As part of the data verification, the verifier will assess whether the data is obtained by correctly implementing the MMP and correctly applying methodologies in the FAR. This will allow the verifier to establish whether there have been changes in the operations of the installation, heat importations, production level or energy efficiency that could lead to changes in the allocation levels.

To check whether the production levels, energy efficiency and energy consumption are accurate, the verifier will also assess:

- whether the energy consumption has been correctly attributed to each sub-installation;
- the start of normal operations as this is relevant for defining activity levels. According to the FAR the start of normal operations is the first day of operations, i.e. as soon as the process is started (this includes the period of commissioning).

In addition, a consistency check shall be made between prior year data included in the report and the data that was verified for the relevant prior years to ensure there has been no change.

As with the verification of baseline data reports, the verifier will check whether the data in the annual activity level report have been monitored and reported correctly in accordance with the MMP. This relates to both the annual activity level data and the underlying data and parameters listed in section 2.3 to 2.7 of Annex IV of the FAR. To some extent, the verifier will also check against the FAR. Any non-compliance with the

⁶⁰ Hydrogen-related emissions are calculated based on the calorific value times the heat benchmark.

FAR and ALCR that is identified, will be reported by the verifier, even if it concerns an issue that is approved in the MMP. More information on the data that is required for annual activity level report can be found in GD5.

8.2 Annual emission report and annual activity level reports

Some operators may have chosen to select the same verifier for both the annual emissions report and the annual activity level report verification; this is acceptable provided that the verifier is accredited against the respective scopes and it is entitled to do both types of verifications. If the same verifier is doing both verifications, it should be aware that these are separate verifications involving different types of risks, requiring checks on different data sets and internal controls, and subject to different rules and scope of verification. Furthermore, the sub-installation boundaries will not always correspond with the installation boundaries impacting the scope of verification. Even if doing the work during the same time period, the verifier needs to consider both verifications as separate verifications with specific and tailored time allocations, and separately documented strategic analyses, risk analyses, verification plans and verification reports. Where data sets and internal controls on the collection of data are the same for both AER and ALC reporting, verifiers may look at synergies in data checking or combining site visits provided that the verifier takes into account the different objectives of each verification and treats the verification work as separate verifications. It also needs to ensure that appropriate time is allocated to both verifications and the AVR requirements on rotation are applied.

8.3 Site visits in the verification of annual activity level reports

In principle site visits must be carried out by the verifier when verifying annual activity level reports. The aim is to gather sufficient evidence to conclude with reasonable assurance that the operator's annual activity level report is free from material misstatements. The activities carried out during a site visit are the same when verifying baseline data reports (see section 6.1.6), although the verifier will specifically look at elements that can impact annual activity levels.

Waiver of site visits

Article 31 and 32 of the AVR allow for a waiver of site visits during the verification of annual activity level reports when the following conditions have been met:

- The verifier has determined, based on a verification risk analysis, that a waiver of site visit will not compromise the verification work and so is justified, and that all necessary evidence and data can be remotely accessed;
- The criteria for waiving site visit in Article 32 of the AVR have been met;
- The operator has obtained CA approval for installations emitting more than 25 000 tonnes of CO₂ per year.

In preparing a site visit waiver risk analysis, the verifier will specifically consider the risks to the steps involved in planning and delivery of the verification by not going to

site⁶¹. These are different to the analysis of risks in the operator's data flow that forms part of verification planning. However, the risk analysis of the operator's controls over its data flow will potentially have impacts on the decisions made on site visit waiver risks.

As explained in the Key Guidance Note on risk analysis (KGN II.2), the risk analysis of the operators controls over its data flow is an iterative process and subject to change as a result of findings and further analysis of the risks during the verification process. So even if the CA has already approved the waiving of a site visit, this does not exempt the verifier from updating its operator controls risk analysis and adjusting its verification plan if it identifies higher inherent and control risks in the operator's data flow and internal controls than initially thought.

Increased risks in the operator's controls over its data flow may result in a situation where the magnitude of those risks requires the verifier to carry out the site visit after all. In that case, the verifier must conduct a site visit to that installation, regardless of any earlier approval of the CA to waive the site visit. In short, the verifier remains at all times responsible and cannot use the CA's approval as an excuse for not visiting the site if the operator's data flow and controls risk analysis (original or updated) shows that a site visit is needed.

In the following situations, a waiver of site visit is not allowed:

- The verifier verifies the annual activity level report for the first time;
- No site visits have been carried out during the verification of annual activity level reports or baseline data reports in the previous two activity level reporting periods. These periods cover 1 year;
- If, during the activity level reporting period, there have been significant changes to the installation or its sub-installations which required a significant change to the MMP. This does not apply if the change relates only to a default value for a calculation factor.

Article 32 AVR outlines the criteria for waiving site visits:

1. The same simple installations for which a waiver of site visit is allowed for the verification of AER verification, as outlined in Table 8, and the following criteria are met (Article 32(3a) AVR):
 - These types of installations have only one sub-installation to which a product benchmark is applicable; and

⁶¹ This is a similar process as is applicable for the waiver of site visits described in KGN II.5 for the verification of annual emissions. The verifier should, however, be aware that the risks of waiving site visits can be different for FAR reporting: e.g. inspection of additional metering and controls required for elements not covered by the AER; evaluating boundaries of sub installations and technical units associated with each one versus the boundary of the overall installation and eligible technical units and source streams etc.

- The relevant production data has been evaluated as part of an audit for financial accounting purposes and the operator provides evidence thereof.⁶²
2. Simple installations as outlined in Table 8, and the following criteria are met (Article 32(3b) AVR):
- These types of installations have a maximum of two sub-installations; and
 - The second sub-installation contributes less than 5% to the installation's total final allocation of allowances; and
 - The verifier has sufficient data available to assess the split of sub-installations, if relevant.
 - If the sub-installation contributing 95% or more to the installation's total final allocation of allowances is a sub-installation to which a product benchmark is applicable, the production data relevant for the product benchmark must have been evaluated as part of an audit for financial accounting purposes. The operator must provide evidence thereof.
3. Simple installations as outlined in Table 8, and the following criteria are met (Article 32(3c) AVR):
- These types of installations only have heat benchmark or district heating sub-installations; and
 - The verifier has sufficient data⁶³ available to assess the split of sub-installations, if relevant.
4. Unmanned sites (Article 32(4) AVR). The same conditions for telemetered data and meter inspection are applicable as for AER verification. There needs to be evidence to confirm that the meters have been inspected on site in accordance with Article 11 of the FAR (see KGN II.5).
5. Installations located on remote or inaccessible sites, in particular offshore installations (Article 32(5) AVR). The same conditions for centralisation of data and meter inspection are applicable as for AER verification. There needs to be evidence to confirm that the meters have been inspected on site in accordance with Article 11 of the FAR (see KGN II.5).

Table 8 - Simple installations for which site visits can be waived in AER verification

Type I Installations (Article 32(1) AVR) – See KGN II.5	Type II Installations (Article 32(2) AVR) – See KGN II.5	Type III Installations (Article 32(3) AVR) – See KGN II.5
• Category A/ B installation	• Category A/B installation	• Small installation

⁶² E.g. signed declaration from the financial auditor that the auditor has looked at the data and confirmed that it is correct.

⁶³ Where measurement instruments are used to generate the heat data are not working correctly and are not maintained properly by the operator, this may impact the verifier's risks of waiving site visit and the verifier's decision to waive site visit.

<ul style="list-style-type: none"> • Only one natural gas and/or 1 or more de-minimis source streams⁶⁴ • Natural gas is monitored through fiscal metering⁶⁵ • Calculation factor for natural gas is a default value OR whereby the calculation factor is determined directly by an external gas transporter without any processing from the operator using online analysers that are subject to an appropriate legal regime for the control of fiscal analysers. 	<ul style="list-style-type: none"> • Only one fuel without process emissions⁶⁶ and/or 1 or more de-minimis source streams⁶⁴ • Activity data determined by fiscal metering or invoice data taking into account stock changes • Default values for calculation factors • Simplified MP according to Article 13 MRR 	<ul style="list-style-type: none"> • Only one fuel without process emissions and/or 1 or more de-minimis source streams • Activity data determined by fiscal metering or invoice data taking into account stock changes • Default values for calculation factors
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Unless it concerns an installation with low emissions, it is the operator who has to submit an application to the CA requesting approval for the waiver of a site visit. The application for a waiver of a site visit shall be accompanied by evidence that all conditions have been met. In addition to the elements listed in KGN II.5, this includes evidence that the ALC related criteria have been met: e.g. evidence that the split of sub-installations can be assessed, evidence of financial audit in the case of product benchmarks, evidence of the number of sub-installations.

8.3.1 Virtual site visits

As described above, Article 21 of the AVR requires the verifier to carry out physical visits to the installation. As the COVID19-pandemic has shown, force majeure circumstances may prevent the verifier from carrying out such a physical site visit. Article 34a of the AVR allows verifiers to carry out virtual site visits if certain conditions are met. Article 34a of the AVR can also apply to the verification of annual activity level data provided all conditions have been met. For more clarification please see KGN II.5 on site visits.

8.4 Verification reporting

The same requirements in Article 27 of the AVR on the submission, content and detail of the verification report apply to the verification of annual activity level reports. However, there are some additional elements that verifiers need to report upon:

- The total verified value of the activity level, for the years in activity level reporting period(s), for each individual sub-installation;

⁶⁴ Which in aggregate do not exceed the threshold for de-minimis source streams.

⁶⁵ Which is subject to an appropriate legal regime for the control of fiscal meters and meets the required uncertainty levels related to the applicable tier.

⁶⁶ Fuel is either a solid fuel directly combusted in the installation without intermediate storage, or a liquid or gaseous fuel for which there may be intermediate storage.

- Where there are changes to the parameters listed in Article 16(5), 19, 20 or 21, or changes to the energy efficiency parameters, a description of these parameters and related remarks have to be provided;
- Confirmation that the date of start of normal operation has been checked, where this is applicable;
- Where applicable, confirmation that the implementation of energy efficiency recommendations has been checked and that the implementation is completed, including any relevant observations (see section 4.3).

The same types of verification opinion statements apply to verification of annual activity level reports as to baseline data reports (see section 6.5).

8.5 Addressing outstanding issues in the verification report and negative verification opinion statements

As with verification of AERs and baseline data reports, the verifier has to state in the verification report any identified misstatements, non-conformities and non-compliance issues that have not been corrected by the time the verification report needs to be issued to the operator. The verifier can also make recommendations for improvement if there are areas for improvement in the monitoring and reporting of annual activity level data, procedures and internal controls. Once the issues have been reported in the verification report, certain follow-up actions are necessary, as outlined in Table 9.

Table 9 – Follow-up actions in response to outstanding issues

Type outstanding issue reported in verification report	Type of follow-up action
Non-material misstatement	CA assesses the misstatement and conservatively estimates the value of the parameter where possible. The CA shall inform the operator whether and which corrections are required to the annual activity level report. The operator has to make the information available to the verifier (Article 3(4) ALCR).
Non-material non-compliance (either concerning baseline data report or annual activity level report)	The operator corrects non-compliance in consultation with the CA. An update of the MMP may be required.
Non-material non-conformity (either concerning baseline data report or annual activity level report)	The operators has to correct the non-conformities. During verification of the next annual activity level report, verifiers have to check whether these non-conformities have been corrected. If non-conformities have not been corrected, the verifier has to consider the impact on the risk of misstatements and report this in the verification report. The CA may want to pay attention to these when reviewing verified annual activity level reports.

Recommendations for improvement	During verification of the next annual activity level report, verifiers have to check whether recommendations have been followed-up. If recommendations have not been followed-up (or not agreed with the CA that acting on recommendations is not justified), the verifier has to consider the potential impact on the risk of misstatements and non-conformities and report this in the verification report. The CA may want to pay attention to these when reviewing verified annual activity level reports.
Misstatements, non-conformities and non-compliance issues that have material impact on annual activity level data (negative verification opinion statement)	Conservative estimation by the CA and correction by the operator of non-conformities and non-compliance issues in consultation with the CA. This may require an update of the MMP.
Limitation of scope (negative verification opinion statement) ⁶⁷	Conservative estimation by the CA

If the annual activity level report is not in compliance with the ALCR or FAR or if the report is not verified by an accredited verifier in accordance with the AVR, the competent authority may make conservative estimation of annual activity level data as Article 3(4) of the ALCR foresees.

Where the verifier has confirmed in the verification report that the implementation of the energy efficiency recommendations has not been completed, the CA cannot cancel the reduction of emission allowances. During the next verification, the verifier will check whether observations reported in the prior verification report were followed-up and what impact this has on the verifier's assessment on whether the implementation of the energy efficiency recommendations has been completed.

⁶⁷ Information on what constitutes limitation of scope is provided in section 6.5.

9 Annex 1 - The Verification Report

9.1 Main elements of the verification report

The verification report relates to the reported baseline data in its entirety; this is given in the Commissions Reporting Template, as summarised in the 'Summary' page⁶⁸ for the allocation dataset and on the relevant Benchmark page(s)⁶⁹ for the benchmark update data set (if relevant to the installation).

The main requirements on the content of the verification report are listed in Article 27(3) of the AVR. The content of the verification report related to baseline reports is similar to the annual emission verification report.

Verification reports should include the information listed below:

- Related to the verifier:
 - Name and address of the verifier
 - Name of the EU ETS lead auditor, auditor(s), technical expert(s) and independent reviewer
 - Name, and signature of the verifier's authorised person; and the date of the signature⁷⁰
 - The date(s) and duration of site visit(s) and who conducted them
- Related to the operator and installation:
 - Name and address of the installation and the obligated operator
 - Unique ID of the installation
 - Contact person responsible for the FAR baseline data report (or annual activity level report) at the installation (name and address, telephone number and email address)
- Related to the operator's report:
 - A reference to the file name and date of the final verified FAR data report (if the verification report is not embedded within the FAR baseline data report itself)
 - The baseline period being verified [e.g. 2019-2023, 2024-2028]. For annual activity level reports this is the reporting year being verified
 - Reference to the relevant pages of the baseline data report or annual activity level report that contains data being verified (i.e. the Summary Page and the Product benchmark and/or Fall-back Benchmark pages, if relevant, as these pages contain the data for the update of the product benchmarks)

⁶⁸K_Summary of the reporting template.

⁶⁹F_ProductBM and/or G_Fall-back of the reporting template.

⁷⁰ A formal e-signature could be acceptable depending on national legislation.

- The basis of the verification opinion including:
 - Objectives, scope and responsibilities of the different parties [operator CA and verifier]
 - The criteria used for verification, including:
 - the MMP (with validity period and version information)
 - the FAR (or ALCR) and associated guidance
 - the AVR and associated guidance and standards
 - The scope of verification
- Outstanding issues identified during the verification
 - Description of any identified misstatements and non-conformities that were not corrected before the verification report is issued;
 - Description of any non-compliances with the FAR or ALCR that were identified during the verification;
 - Confirmation that the method(s) used to fill any data gaps are reasonable and based on scientific/engineering principles and whether the method(s) lead to a material misstatement or not;
 - Any recommendations for improvement (if relevant).
- Confirmation that the verifier carried out checks on the implementation of the energy efficiency recommendations and whether the implementation of the recommendations is completed, including any observations identified during the checking of the implementation of recommendations.

in order to make clear what underpins the conclusion expressed in the verification opinion statement.

For each type of report (baseline data report and annual activity level report), the Commission has developed a separate template for the verification report and opinion statement that includes all the required elements. Most of the elements in each of the templates are similar; section 8.4 describes the additional elements to be included in the verification report for annual activity level data.

10 Annex 2 - List of available guidance papers

Specific topics were identified within the FAR which deserve further explanation or guidance. The FAR guidance documents intend to address these issues as specifically and clearly as possible. The Commission considers it necessary to achieve the maximum level of harmonisation in the application of the allocation methodology for Phase 4.

The FAR guidance documents aim at achieving consistency in the interpretation of the FAR, to promote harmonisation and prevent possible abuse or distortions of competition within the Community. The full list of those documents is outlined below:

- Guidance document no. 1 – general guidance:
This document gives a general overview of the allocation process and explains the basics of the allocation methodology. It also explains how the different Guidance documents relate to each other.
- Guidance document no. 2 – guidance on allocation approaches at the installation level:
This document explains how the allocation methodology works at the installation level and explains how a sector's exposure to the risk of carbon leakage affects the determination of the installations' free allocation.
- Guidance document no. 3 – data collection guidance:
This document explains which data are needed from operators to be submitted to the Competent Authorities and how to collect them, covering both data for the determination of the preliminary free allocation as well as for the update of the benchmark values. It reflects the structure of the data collection template provided by the European Commission (EC).
- Guidance document no. 4 – guidance on NIMs data verification and annual activity level data:
This document is targeted at EU ETS verifiers and accreditation bodies. It explains the verification process concerning the data collection for the National Implementation Measures⁷¹, data submissions by new entrants and annual activity level data.
- Guidance document no. 5 - guidance on Monitoring & Reporting (M&R) for the FAR:
This document serves three purposes:
 - (a) Provide a “quick guide” for readers new to the topic of free allocation in the EU ETS;
 - (b) Give an overview of the M&R requirements introduced by the FAR supplementing the existing annual compliance cycle already established by the Monitoring & Reporting Regulation (MRR) and the Accreditation & Verification Regulation (AVR); and

⁷¹ Article 11 of Directive 2003/87/EC.

(c) Provide guidance on the requirements of the MMP and other new elements of the FAR which are not covered by other guidance documents of this series.

- Guidance document no. 6 – guidance on cross boundary heat flows: This document explains how the allocation methodologies work in case of heat transfer across the boundaries of an installation.
- Guidance document no. 7 – guidance on new entrants and closures: This document is meant to explain allocation rules concerning new entrants, closures and activity level changes.
- Guidance document no. 8 – guidance on waste gases and process emission sub-installations: This document provides for an explanation of the allocation methodology concerning process emission sub-installations, in particular, concerning the waste gas treatment.
- Guidance document no. 9 – sector-specific guidance: This document provides a detailed description of the product benchmarks as well as the system boundaries of each of the product benchmarks listed within the FAR. Furthermore, special methods to calculate the activity levels or to adjust the allocation are described, where relevant.
- Guidance document no. 10 – mergers and splits: This document explains how the allocation can be impacted by mergers and/or splits of installations.
- Guidance document no. 11 – climate-neutrality plans: This document provides guidance on the requirements for climate-neutrality plans (CNPs) to be eligible for the free allocation that is conditional on the submission and implementation of such a plan ⁷².
- Guidance document no. 12 – conditionality of energy efficiency improvement measures: This document focuses on the requirements to be eligible for the free allocation that is conditional on the implementation of energy efficiency measures as recommended in the energy audits required under the Energy Efficiency Directive.

This list of documents is intended to complement other guidance papers issued by the European Commission related to Phase 3 and – where needed – updated for Phase 4 of the EU ETS, in particular:

- Guidance on Interpretation of Annex I of the EU ETS Directive⁷³ (excl. aviation and maritime activities); This document provides guidance on how to interpret Annex

⁷² For district heating operators in selected countries and product-benchmark installations with specific emissions above the 80th percentile of their benchmark curve.

⁷³ https://climate.ec.europa.eu/document/download/edc93136-82a0-482c-bf47-39ecaf13b318_en?filename=GD0%20-%20Annex%20I%20to%20EU-ETS%20Directive.2024.pdf

I of the Directive, which lists categories of activities to which the EU ETS applies from 2013 onwards;

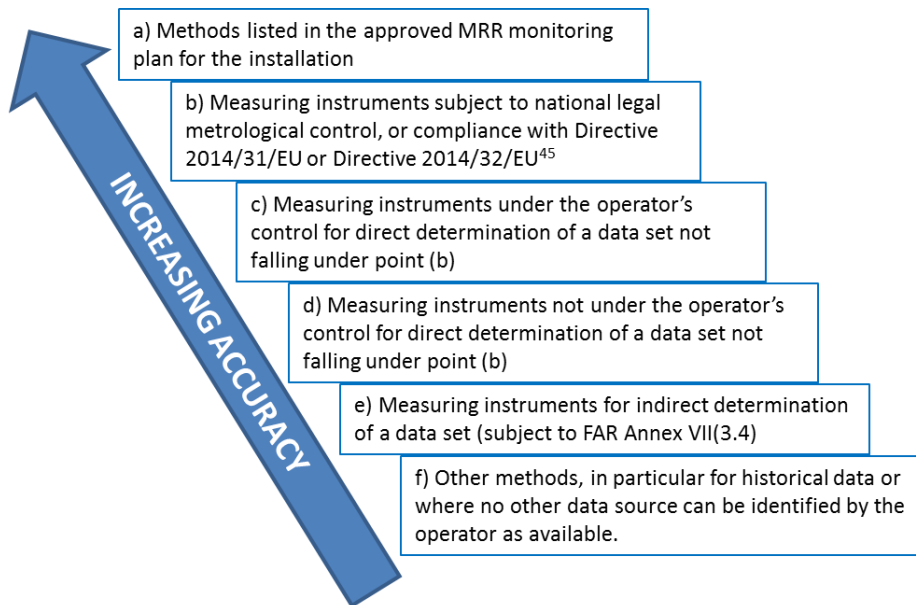
In addition, the Commission has provided an extensive suite of guidance material in relation to MRVA under the EU ETS⁷⁴. The user of the current document is assumed to be familiar with at least the basic principles of MRVA. In particular, the following AVR guidance material is relevant:

- EGD I – AVR explanatory guidance document No. 1
- KGN II.1 – AVR Key guidance note II.1 on scope of verification
- KGN II.2 – AVR Key guidance note II.2 on risk analysis
- KGN II.3 – AVR Key guidance note II.3 on process analysis
- KGN II.4 – AVR Key guidance note II.4 on sampling
- KGN II.5 – AVR Key guidance note II.5 on site visits
- KGN II.7 – AVR Key guidance note II.7 on competence
- KGN II.8 – AVR Key guidance note II.8 on the relation between AVR and EN ISO 14065
- KGN II.9 – AVR Key guidance note II.9 on the relation between AVR and EN ISO/IEC 17011
- KGN II.10 – AVR Key guidance note II.10 on information exchange

⁷⁴https://ec.europa.eu/clima/policies/ets/monitoring_en#tab-0-1 – see in particular the section “Quick guides”.

11 Annex 3 – Hierarchy of accuracy for Data sources

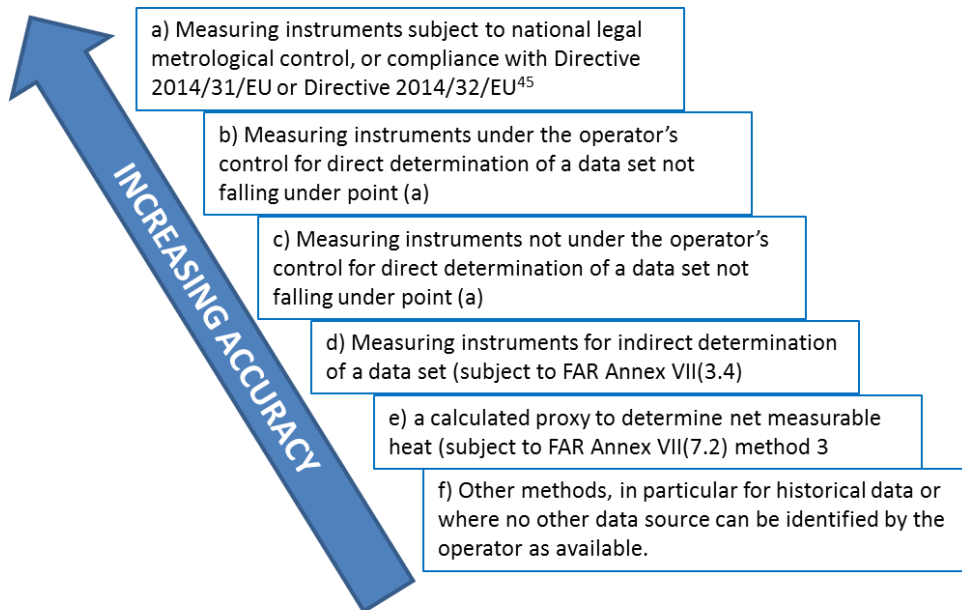
The hierarchies for highest achievable data sources specified by Annex VII(4) of the FAR are shown in the following Figures. The data sources applied by an operator are included in the MMP which will have to be approved by the CA. More information can be found in GD5 on “Monitoring and Reporting in Relation to the Free Allocation Rules”.



Only the data sources listed in Figure 4 points (a) and (b) are considered to represent the most accurate data sources while the data source referred to in point (a) shall be used to the extent that it covers the respective data set. The data sources referred to in points (c) to (f) of Figure 4 are considered less accurate in the descending hierarchical order from point (c) to point (f).

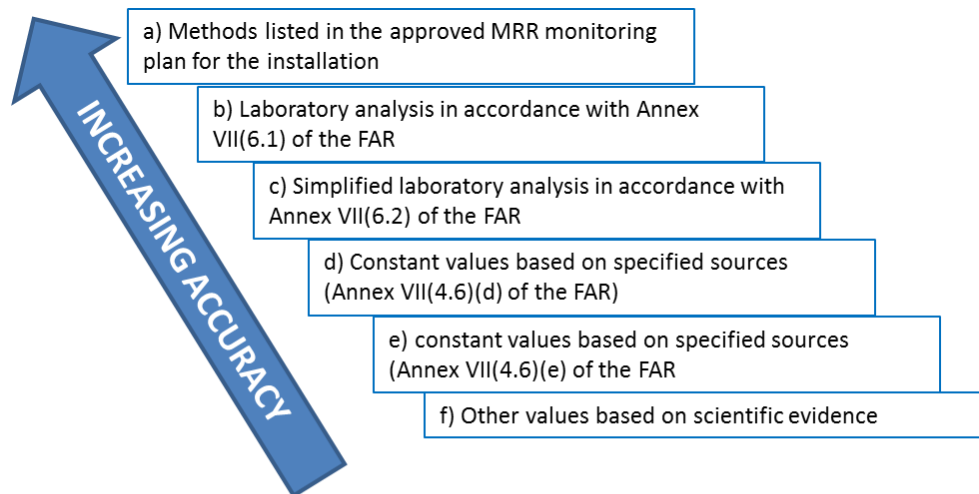
Figure 4 - Data sources for quantification of materials and fuels (FAR Annex VII (4.4))

⁷⁵ Directive 2014/31/EU on the harmonisation of the laws of the Member States relating to the making available on the market of non-automatic weighing instruments. Directive 2014/32/EU on the harmonisation of the laws of the Member States relating to the making available on the market of measuring instruments.



Only the data source referred to in Figure 5 point (a) is considered to represent the most accurate data source. The data sources referred to in Figure 5 points (c) to (f) are considered less accurate in the descending hierarchical order from point (b) to point (f). More requirements are given in section 4.5 of Annex VII of the FAR

Figure 5 - Data sources for quantification of energy flows (FAR Annex VII (4.5))



Only the data sources referred to in Figure 6 points (a) and (b) are considered to represent the most accurate data sources, while data source referred to in Figure 6 point (a) shall be used to the extent that it covers the respective data set. Data sources referred to in Figure 6 points (c) to (e) are considered less accurate in the descending hierarchical order from point (c) to point (e).

Figure 6 - Data sources for properties of materials (FAR Annex VII (4.6))

12 Annex 4 – Example ‘Management Declaration’

< Insert name and job title of main operator contact point>

< Insert address of installation/ company>

< insert date>

< insert : EU-ETS Permit Number>

Dear Sirs

Verification of baseline data for EU ETS free allocation for Phase

We confirm to the best of our knowledge and belief, and having made appropriate enquiries, the following representations given to [*Verification Body name*] in connection with your verification of this installation’s free allocation data baseline report.

1. We confirm that all relevant sub-installations have been accounted for and aggregate data apportioned without omissions or double counting, **with the exception of:**
 - *<insert any exceptions to the above statement (with explanation as to why the exception occurs) or delete as appropriate >*
2. We confirm that the information in the submitted Baseline Report corresponds to the related information in the monitoring methodology plan for this installation (*insert date of relevant MMPs*), **with the exception of:**
 - *<insert any exceptions to the above statement (with explanation as to why the exception occurs) or delete as appropriate >*
3. We confirm that we have used the available data of highest accuracy in accordance with FAR Annex VII, section 4 : [*insert relevant section numbers e.g. 4.4(a), 4.5(a), 4.6(a) etc.*], **with the exception of :**
 - *<insert any exceptions to the above statement (with justification as to why the exception is allowed – supporting evidence to demonstrate this will be required) or delete as appropriate>*
4. We confirm that the NACE, PRODCOM and CN codes declared in the baseline report are consistent with the codes that we use for other purposes, **with the exception of:**
 - *<insert any exceptions to the above statement (with justification as to why the exception is allowed – supporting evidence will be required) or delete as appropriate>*
5. We confirm that the evidence pack supplied to [*Verification Body name*] is as complete as possible for the installation taking into account the FAR rules and guidance provided by the European Commission and the MS Competent Authority; **with the exception of:**
 - *<insert any exceptions to the above statement (with explanation as to why the exception occurs) or delete as appropriate >*
6. We confirm that we are not aware of any actual or possible instances of non-compliance with the rules of the above scheme; **with the exception of :**
 - *<insert any exceptions to the above statement (with explanation as to why the exception occurs) or delete as appropriate >*

7. We acknowledge our responsibilities for the monitoring and internal control systems that are designed to prevent and detect error or misstatement of EU ETS baseline data.
8. We confirm that relevant energy efficiency recommendations have been made, and that the implementation of these recommendations is completed, **with the exception of:**
 - *<insert any exceptions to the above statement (with explanation as to why the exception occurs) or delete as appropriate >*
9. We have disclosed to [*Verification Body name*] the results of our risk assessment of our accounting process and internal controls that assesses whether our baseline data report is free of material misstatements that may arise as a result of error, omission or lack of internal control.
10. We confirm that the above representations are made on the basis of enquiries of [*insert installation/company name*] management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.
11. We confirm that the persons listed below are authorised to make representations on behalf of the installation and the Operator.

Signed on behalf of [*insert installation/company name*]

1. Installation EU ETS Technical Responsible Authority:

Signature:	
Name [CAPITALS]	
Position:	
Date:	

2. Independent review of EU ETS Data Flow Activities by:

Signature:	
Name [CAPITALS]	
Position:	
Date:	

3 Senior Management Sign off:

Signature:	
Name [CAPITALS]	
Position:	
Date:	

Note: This Declaration shall be signed by :

- 1) The person responsible for the collation of baseline data and overall supervision of the EU ETS data and control environment;
- 2) One person who has reviewed the data but has not been involved in the determination or recording of EU ETS baseline data; and
- 3) An appropriate Member of the Senior Management Team at the Installation such as but not limited to the Managing Director, Site Manager, Company Secretary or Executive Director.

Any clauses in such a template Management Declaration which are not applicable to the specific installation, would be deleted by the Lead Verifier before sending the declaration template to the operator for completion.

13 Annex 5 – Comparison with 2011 and 2019 Guidance Document

The table below shows how the sections of the 2011 version of Guidance Document 4 relate to the sections in the 2019 version and the current 2024 version; and where main topics are covered. Please note that the contents of corresponding sections in the different versions have significantly changed as a result of new rules in the revised ETS Directive, the revised AVR, and the FAR. ‘-’ indicates sections that are new in the 2019 version; and * indicates that there is a significant change in the 2024 or 2019 version as compared to the 2011 version.

Content	Section in			Comments
	2011 GD4	2020 GD4	2024 GD4	
Introduction	1	1	1	
Status of the guidance document	1.1	1.1	1.1	Highlights the status of guidance documents and revisions made over the years
Legal Requirements	1.2	1.2	1.2	* Explains the changes in legislation since the 2011 data collection exercise including the latest revisions in the Directive and Free Allocation Rules in 2024 and the impact of those revisions on this guidance.
Scope of the guidance document	-	1.3	1.3	Explains what is covered by the guidance document
Information available	1.3	1.4	1.4	Please note that all guidance documents have been updated as a result of new rules. This is reflected in this section.
Outline of the data collection process	1.4			Deleted in 2019 version

Content	Section in			Comments
	2011 GD4	2020 GD4	2024 GD4	
Verification of NIMS baseline data reports	-	2	2	Section explaining the requirements for the operator's submission of the NIMS baseline data reports and information to be provided by the operator
NIMS baseline report	-	2.1	2.1	Section explaining what needs to be included in the report and the data the verifier expresses a conclusion on.
Role of the Monitoring Methodology Plan	-	2.2	2.2	Section explaining the role of the verifier with respect to MMP. References and paragraphs related to the validation of MMP have been deleted.
Implications for achieving data of 'highest achievable accuracy'	-	2.3	2.3	Section explaining the requirements for 'highest achievable accuracy' of the primary data generation by the operator and what verifiers need to consider in this context.
The verifier's role in checking the application of conditionality			2.4	New section has been added to explain the verifier's role in checking implementation of energy efficiency recommendations.
Recognition of verifiers	2	5		Deleted in 2019 version and replaced by new section on accreditation of verifiers (see below) - the whole process of verifier recognition for FAR has been brought under the AVR so this section no longer exists in the 2020 version of GD4 and has been replaced by section 5.
Accreditation or other	2.1	5		

Content	Section in			Comments
	2011 GD4	2020 GD4	2024 GD4	
approaches to recognition				
Verification of new entrants data	-	3		Section explaining what the operator is required to do to apply for free allocation for New Entrants. Note the definition of New Entrant has changed since the 2011 version of guidance. Verification requirements are the same as outlined in Section 5 of the updated GD4.
Verification of annual activity data	-	4		Section on the verification of annual activity level data. This section has been split into three subsections in 2024: section 4.1 on requirements for verification of annual activity level reports, section 4.2 accreditation of verifiers verifying annual activity level reports, section 4.3 on the verifier's role in checking the energy efficiency recommendations during verification of an annual activity level report.
Accreditation of verifiers	-	5		Section on accreditation under the AVR
Accreditation	-	5.1		Section explaining that the AVR rules apply to FAR accreditation. Verifier's that hold Scope 98 are accredited to conduct FAR verification subject to holding the relevant sector accreditation scopes and demonstrating to their NAB that they have the competences in the new FAR rules and associated guidance
Competence requirements for verifiers	2.2	5.2		*This section has been updated to reflect the changes in the rules and guidance since the 2011 data collection and outlines examples of the specific competence requirements required for FAR verification that supplement the requirements on competence in the AVR. It also references to section 7.2 for more detailed examples on verifier's competence in relation to the FAR
Impartiality requirements for verifiers	-	5.3		Section highlighting that AVR impartiality requirements apply to FAR verification.

Content	Section in			Comments
	2011 GD4	2020 GD4	2024 GD4	
Information exchange requirements	-	5.4		Section highlighting that AVR information exchange requirements apply to FAR verification
The verification process	3	6	6	In 2024 changes were made to bring the guidance in line with the revised FAR and to provide further explanation on what a verifier needs to consider in the verification process for checking the implementation of energy efficiency recommendations.
General approach	3.1	6.1	6.1	* Updated to reflect the fact that free allocation data verification has been brought under the AVR regime. The section reminds verifiers that their work is being done at sub-installation level, and in the case of product benchmarks and heat the data will be different to that covered under annual installation level emissions verification.
Pre-contract obligations	-	6.1.1	6.1.1	Section reflecting the requirements of the AVR in relation to evaluating whether the verifier can take on a specific verification contract; and providing examples of the documents the operator needs to provide to support this evaluation.
Strategic analysis	-	6.1.2	6.1.2	Section reflecting the requirements of the AVR in relation to preparatory work for a FAR verification and annual activity level report verification; and providing examples of the information and documents the operator needs to provide to support this analysis for these verifications. It reminds verifiers of the need to look at the complexity of sub-installations and the apportionment of aggregated data to them. Where the verifier has conducted prior work to evaluate data accounting processes and inspect instruments etc., this section explains how the analysis should consider the extent to which this evidence can be relied upon in FAR verifications and annual activity level report verifications.
Risk analysis	-	6.1.3	6.1.3	Section reflecting the requirements of the AVR in relation to preparatory work for a FAR verification and annual activity level report verification.
Verification plan	-	6.1.4	6.1.4	Section reflecting the requirements of the AVR in relation to planning for a FAR verification and annual activity level report verification

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Process analysis (detailed verification)	-	6.1.5	6.1.5	Section reflecting the requirements of the AVR in relation to conducting detailed verification. Specific FAR checks are outlined; and reference is made to relevant KGNs from the AVR guidance set.
Site visits	-	6.1.6	6.1.6	Section reflecting the requirements of the AVR in relation to site visits. AVR requires a visit to the site and/or other locations for FAR verifications at one or more times as determined by the verifier's risk assessment. For information on site visits for annual activity level report verification please see section 8.3.
Addressing misstatements, non-conformities and non-compliance	-	6.1.7	6.1.7	Section outlining obligations of verifiers and operators where non-compliances, non-conformities and/or misstatements are identified (these issues are defined) – including obligations to correct.
Concluding on the findings of verification	-	6.1.8	6.1.8	Section reflecting the requirements of the AVR in relation to the verifier's conclusions; the need for sufficient evidence for evaluation; and good practice in obtaining a 'Management Declaration' from the operator's senior management that they have provided all the information and evidence the verifier requires to complete their work. The section also covers independent technical review and internal verification documentation.
Scope of verification	3.2	6.2	6.2	* Section reflecting the requirements of the AVR and outlining what an individual verification covers, the level of assurance and the principles that apply to verification of allocation data. The section outlines how the verifier checks the MMP when it is subject to CA approval.
Data assessment	-	6.3	6.3	Section outlining examples of the specific checks required on FAR data and the MMP; and the obligation for the operator to correct data and update the MMP, as required. The approach to estimating and verifying data gaps is

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				outlined. In particular an explanation is provided of what ‘conservative’ means in the context of FAR data (as opposed to its definition for annual emissions accounting)
Assessment of the Methodology Report’s Quality	3.3			Deleted in 2019 version
Methodological choices	3.5	6.4	6.4	
Level of assurance	3.5.1	6.4.1	6.4.1	* states the required level of assurance. References and paragraphs related to the validation of MMP have been deleted. Reminds verifiers that they can provide improvement recommendations to help ensure that future cycles of data collection are robust
Materiality	3.5.2	6.4.2	6.4.2	* Explains the nature of materiality in the two contexts that it is applied (for verifier planning and for reaching a conclusion). States the specific quantitative thresholds that are defined in the AVR; and explains how other parts of the data set (without defined thresholds) should be evaluated along with qualitative materiality considerations. It also explains what other factors the verifier should take into account in the materiality analysis (qualitative assessment).
Verification report and opinion statement	3.6	6.5	6.5	* outlines the requirements for the verification report and opinion statement (VOS); provides the different opinion options that are available to verifiers; and explains circumstances when verifiers must report identified issues in the VOS, including how they must be described.
Dealing with negative	3.4	6.6	6.6	* highlights that free allocation can only be given to Operators who submit data that is verified as satisfactory.

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verification opinions				
Special topics for NIMS baseline data	4	7	7	In 2024 changes have been made to bring the section in line with the revised FAR.
Principles of the CIMs	4.1	7.1	7.1	
Assessing the boundaries of the sub-installations	-	7.1.1	7.1.1	* outlines considerations for the evaluation of boundaries of sub-installations and associated definitions (such as electricity generator, measurable and non-measurable heat, process emission sub-installations, waste gases etc.); and checking of completeness of emissions sources and source streams. Reminds verifiers to be aware of the need to confirm there are no overlaps or omissions in relation to the installation as a whole.
Most accurate available data sources	-	7.1.2	7.1.2	Section outlining the FAR requirements for operators to demonstrate that their data is of the 'highest achievable accuracy'; and explains what this means for the verifier's work in the context of historical emissions and going forward into the next cycles of data collection for determination of free allocation.
Unreasonable costs and technical infeasibility	-	7.1.3	7.1.3	Section on how the verifiers assesses unreasonable costs or technical infeasibility if the operator has claimed these when derogating from the highest achievable accuracy options (listed in Annex 3).
Simplified uncertainty assessment	-	7.1.4	7.1.4	Section outlining the FAR's use of uncertainty assessment for the operator to justify using data sources other than those at the top of the hierarchies given in Annex 3.
Assessing application of	-	7.1.5	7.1.5	Section outlining examples of specific checks the verifier must make on the data for product benchmarks

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product benchmarks				
Product definitions and production data	-	7.1.6	7.1.6	Section outlining two specific checks the verifier must make on the selection of product benchmark(s) by the operator, including if they are the correct benchmark when compared to the FAR Annex I definition and the quantity of product made. Specific reference is made to the need for the verifier to understand FAR product definitions, and NACE and PRODCOM codes; and the need to be aware of adjustment requirements where sources of product data are not collected on the same time line as for FAR reporting. Furthermore, the verifier should be aware of the latest 2024 revisions to the FAR: e.g. the requirement for the verifier to check whether inputs, outputs and emissions are correctly attributed to the sub-installation according to the production of goods listed in Annex I of the CBAM regulation.
Carbon leakage	-	7.1.7	7.1.7	Section outlining the obligation on verifiers to be aware of the risk of carbon leakage, the updated Carbon Leakage List; and the potential for operators to 'distort the system' by the incorrect selection of codes. Reference is made to GD2.
Changes to allocation	-	7.1.8	7.1.8	Section outlining circumstances when changes in the operation of an installation can affect the allocation of free allowances. Reference is made to the Annual Activity Level Report for which guidance is given in section 4 and 8.
Mergers/splits	-	7.1.9	7.1.9	Section outlining checks the verifier needs to make in the situation that they are verifying an installation subject to a merger or split.
Special competences required	4.2	7.2	7.2	* gives specific examples of FAR related competencies that must be demonstrated by the verifier as part of its accreditation process. In particular in relation to the MMP, boundaries of sub-installations, CWT factors, determining net heat flow, assessing most accurate data sources, etc.
Dealing with FAR related data gaps	-	7.3	7.3	New section outlining how to determine if a data gap has occurred and indications that the internal control system has failed or is not functioning correctly.
Product definitions and	4.3			Deleted in 2019 version

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	2011 GD4	2020 GD4	2024 GD4	
production data				
Making use of template features	4.4			Deleted in 2019 version
Specific rules for verification of annual activity level data	-	8	8	Section with specific additional rules for verification of annual activity level data, e.g. specific checks to be carried out, relationship to annual emission reporting, site visits, verification reporting, resolving outstanding issues and negative verification opinion statements. In 2024 revisions were made to bring the section in line with the FAR and to clarify the verifier's role in checking the implementation of energy efficiency recommendations during the verification of annual activity level reports.
Annex 1	5	9	9	
Main elements of the verification report	5.1	9.1	9.1	* describes the main elements of the FAR verification report and opinion statement (VOS) and brings it into alignment with the requirements of the AVR. Reference is made to the Commissions VOS template for the verification of baseline data reports and annual activity level reports which are both consistent in style with the VOS for annual emissions verification.
Proposed verification statement	5.2			Deleted in 2019 version – reference is made to the Commissions FAR VOS template
General part	5.2.1			
Positive verification opinion	5.2.2			

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Positive verification opinion with comments	5.2.3			
Negative verification opinion	5.2.4			
Experimental verification of capacity	5.3			Deleted in 2019 version as no longer applicable
Annex 2 - List of available Guidance papers	5.4	10	10	* references the list of updated guidance related to the data collection process for free allocation. Note there are new guidance notes as compared to the 2018 set.
Annex 3 – Hierarchy of Accuracy for data sources	-	11	11	Annex outlining the hierarchies of ‘most accurate data’ that are specified in the FAR.
Annex 4 – Example ‘Management Declaration’	-	12	12	Annex providing an example of a ‘Management Declaration’ that verifiers use as good practice for obtaining further assurance from operators that all relevant information (that the verifier requires to complete their work) has been provided.

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Annex 5 – Comparison with 2011 Guidance Document 2	-	13	13	