Phase Down the Production and Consumption of Hydrofluorocarbons (HFCs)

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Christopher Grundler, Director, Office of Atmospheric Programs
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Reduction Branch
Goal Overview

Goal Statement
- **Phase down the production and consumption of hydrofluorocarbons (HFCs).** By September 30, 2023, annual U.S. consumption of HFCs will be 10% below the baseline\(^1\) of 303.9 million metric tons of carbon dioxide equivalent (MMTCO\(_2\)e) consistent with the HFC phasedown schedule in the American Innovation and Manufacturing (AIM) Act and codified in the implementing regulations. A 10% reduction would decrease the U.S. consumption limit to less than 273.5 MMTCO\(_2\)e in 2023.

Problem to Be Solved
- HFCs are potent greenhouse gases (GHGs), many of which have global warming potentials hundreds to thousands of times that of carbon dioxide.
- HFCs are commonly used in many sectors of the economy, and can be found in refrigeration and air conditioning, aerosols, solvents, fire suppression, and foam blowing agents. HFCs were developed to replace ozone-depleting substances (ODS).
- The AIM Act prescribes a schedule to phase down 85% of HFC production and consumption by 2036 through an allowance allocation and trading program managed by EPA.

What Success Looks Like
- Phasing down HFCs globally is expected to avoid up to 0.5\(^\circ\) Celsius of global warming by 2100.
- Successful implementation of the AIM Act’s phasedown of HFCs will also demonstrate EPA’s commitment to implementing bipartisan climate legislation and advancing the Administration’s goal of tackling the climate crisis.
- The AIM Act and EPA’s implementing regulations provide the legal framework to phase down HFC production and consumption consistent with the Kigali Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer (Montreal Protocol).

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\(^1\) EPA’s final rule, *Phasedown of Hydrofluorocarbons: Establishing the Allowance Allocation and Trading Program under the AIM Act* establishes the HFC production and consumption baselines from which the phasedown steps are measured. Using the equation provided in the AIM Act and based on the data available to the Agency through the Greenhouse Gas Reporting Program (GHGRP) and outreach conducted for this rulemaking, EPA determined that the production baseline is 382.6 million metric tons of exchange value equivalent (MMTEVe) and the consumption baseline is 303.9 MMTEVe. EPA has determined that the exchange values included in subsection (c) of the AIM Act are identical to the GWPs included in IPCC (2007). Therefore, one million metric tons of carbon dioxide equivalent (MMTCO\(_2\)e) is numerically equivalent to one MMTEVe. EPA is using the measurement MMTCO\(_2\)e in this document since the public is more familiar with this term than MMTEVe.
The following illustrates the HFC production and consumption phasedown schedule as outlined in the AIM Act.
### Goal Target

**Tracking the goal**

<table>
<thead>
<tr>
<th>Achievement Statement</th>
<th>Key Indicators</th>
<th>Quantify Progress</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>By…</strong></td>
<td><strong>We will…</strong></td>
<td><strong>Name of Indicator</strong></td>
<td><strong>Target Value</strong></td>
</tr>
<tr>
<td><strong>09/30/2023</strong></td>
<td>By September 30, 2023, annual U.S. consumption of hydrofluorocarbons (HFCs) will be 10% below the baseline of 303.9 MMTCO₂ₑ, consistent with the HFC phasedown schedule in the American Innovation and Manufacturing (AIM) Act and codified in the implementing regulations. A 10% reduction would decrease the U.S. consumption limit to less than 273.5 MMTCO₂ₑ in 2023.</td>
<td>Remaining U.S. consumption of HFCs²</td>
<td>273.50</td>
</tr>
</tbody>
</table>

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² Consumption, with respect to a regulated substance, means production plus imports minus exports.
Goal Strategies

Strategy 1 – Phasing down HFC production and consumption by issuing regulations that set the HFC production and consumption baselines, establish methodologies for allocating and trading HFC allowances, and issue HFC allowances to companies that produced and/or imported HFCs.

- The AIM Act directs EPA to phase down production and consumption of HFCs by 85% below baseline levels by 2036 through an allowance allocation and trading program.
- EPA has established U.S. production and consumption baselines using the formula in the AIM Act that considers past HFC, hydrochlorofluorocarbon (HCFC), and chlorofluorocarbon (CFC) amounts.
- By October 1 of each year, EPA must issue production and consumption allowances for the following calendar year, relative to those baselines.
- EPA will issue regulations, as needed, to implement the phasedown in production and consumption.

Strategy 2 – Facilitate the transition to next-generation technologies by restricting the use of HFCs in sector or subsectors.

- The AIM Act provides authority for EPA to promulgate rules restricting (fully, partially, or on a graduated schedule), the use of HFCs in sectors or subsectors where they are used. EPA can either initiate a rulemaking on its own, or a person may petition EPA to promulgate a rule to restrict the use of HFCs in certain sectors or subsectors.
- Once EPA receives a petition, the AIM Act directs the Agency to make the petition publicly available within 30 days of receipt and grant or deny the petition within 180 days of receipt. The AIM Act also directs EPA to promulgate a final rule no later than two years after the date the petition was granted.
- In fiscal year 2021, EPA received 14 petitions. In fiscal year 2022, EPA will propose a regulation to implement this provision of the AIM Act that will address the 10 petitions that EPA has granted and one petition that was partially granted. Three of the 14 original petitions remain under evaluation, and EPA has received an additional petition. EPA may also initiate additional restrictions as part of one or more rules in fiscal year 2022.

Strategy 3 – Facilitate the management of HFCs and their substitutes.

- AIM Act directs EPA to establish requirements for the management of HFCs and HFC substitutes in equipment. Regulations would control, where appropriate, any practice, process, or activity regarding the servicing, repair, disposal, or installation of equipment (including requiring, where appropriate, that any such servicing, repair, disposal, or installation be performed by a trained technician meeting minimum standards, as determined by the
Goal Strategies

Administrator). Regulations should maximize reclaiming and minimize the release of a regulated substance from equipment.

- EPA will initiate rulemakings to implement this section of the AIM Act.
Key Indicators

FY 2019-2026: Remaining U.S. Consumption of HFCs (MMTCO$_2$e)

Jumping Off Point: 303.9
Preferred Direction: Lower Than Target

3 Actual data for years prior to 2022 are derived from EPA’s Greenhouse Gas Reporting Program (40 CFR part 98), import records provided to Customs and Border Protection through their Automated Commercial Environment database, and responses from producers and importers to direct outreach from EPA, the proposed rule (“Phasedown of Hydrofluorocarbons: Establishing the Allowance Allocation and Trading Program Under the American Innovation and Manufacturing Act” (86 FR 27150; May 19, 2021)), and the Notice of Data Availability (“Notice of Data Availability Relevant To Petition Submissions Under the American Innovation and Manufacturing Act of 2020” (86 FR 28099; February 11, 2021)). Data for 2021 is not yet available. Values for 2019, 2020, and 2021 are “net supply” which means the quantities of bulk HFC produced + imported – exported – transformed – destroyed. “Net supply” is equivalent to the term “consumption.”
### Key Milestones

**Strategy 1 – Phasing down HFC production and consumption by issuing regulations that set the HFC production and consumption baselines, establish methodologies for allocating and trading HFC allowances, and issue HFC allowances to companies that produced and/or imported HFCs.**

<table>
<thead>
<tr>
<th>Key Milestone</th>
<th>Milestone Due Date</th>
<th>Milestone Status</th>
<th>Change from Last Quarter</th>
<th>Owner</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue Notice allocating 2022 HFC allowances</td>
<td>Q1 FY 2022</td>
<td>Complete</td>
<td>N/A</td>
<td>Cynthia Newberg</td>
<td></td>
</tr>
<tr>
<td>Implement an HFC allowance tracking system to better ensure compliance with the phasedown regulations</td>
<td>Q1 and Q2 FY 2022</td>
<td>Complete</td>
<td>N/A</td>
<td>Cynthia Newberg</td>
<td></td>
</tr>
<tr>
<td>Issue Notice allocating 2023 HFC allowances</td>
<td>Q4 FY 2022</td>
<td>On Track</td>
<td>N/A</td>
<td>Cynthia Newberg</td>
<td></td>
</tr>
<tr>
<td>Propose regulations to update the Allowance Allocation for 2024 and later years</td>
<td>Q1 FY 2023</td>
<td>On Track</td>
<td>N/A</td>
<td>Cynthia Newberg</td>
<td>EPA sent the Notice of Proposed Rulemaking (NPRM) to OMB on July 20, 2022.</td>
</tr>
<tr>
<td>Launch new database functionality to allow for real time checks of HFC imports in collaboration with U.S. Customs and Border Protection</td>
<td>Q2 FY 2023</td>
<td>On Track</td>
<td>N/A</td>
<td>Cynthia Newberg</td>
<td></td>
</tr>
<tr>
<td>Issue final rule updating the Allowance Allocation for 2024 and Beyond</td>
<td>Q4 FY 2023</td>
<td>On Track</td>
<td>N/A</td>
<td>Cynthia Newberg</td>
<td></td>
</tr>
<tr>
<td>Issue Notice allocating 2024 HFC allowances</td>
<td>Q4 FY 2023</td>
<td>On Track</td>
<td>N/A</td>
<td>Cynthia Newberg</td>
<td></td>
</tr>
</tbody>
</table>
Key Milestones

**Strategy 2 – Facilitate the transition to next-generation technologies by restricting the use of HFCs in sector or subsectors.**

<table>
<thead>
<tr>
<th>Key Milestone</th>
<th>Milestone Due Date</th>
<th>Milestone Status</th>
<th>Change from Last Quarter</th>
<th>Owner</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant and/or deny first five petitions (no later than 180 days from receipt, i.e., October 10) for sector-based restrictions on HFCs</td>
<td>Q1 FY 2022</td>
<td>Complete</td>
<td>N/A</td>
<td>Cynthia Newberg</td>
<td>EPA received additional petitions under subsection (i) of the AIM Act. The petitions requested restrictions on the use of HFCs in the same sectors and subsectors covered by petitions previously granted.</td>
</tr>
<tr>
<td>Grant and/or deny another six petitions (no later than 180 days from receipt) for sector-based restrictions on HFCs</td>
<td>Q1 FY 2022</td>
<td>Complete</td>
<td>N/A</td>
<td>Cynthia Newberg</td>
<td></td>
</tr>
<tr>
<td>Review additional petitions for sector-based restrictions on HFCs due in Q1/Q2 FY 2022</td>
<td>Q3 FY 2022</td>
<td>Complete</td>
<td>Changed from “On Track” to “Complete”</td>
<td>Cynthia Newberg</td>
<td>Statutory deadline for final rule in Q1, FY 2024.</td>
</tr>
<tr>
<td>Propose regulations on transition to next-generation technologies</td>
<td>Q1 FY 2023</td>
<td>On Track</td>
<td>N/A</td>
<td>Cynthia Newberg</td>
<td></td>
</tr>
<tr>
<td>Review additional petitions for sector-based restrictions on HFCs due in Q3/Q4 FY 2022</td>
<td>Q1 FY 2023</td>
<td>On Track</td>
<td>N/A</td>
<td>Cynthia Newberg</td>
<td></td>
</tr>
<tr>
<td>Review additional petitions received for sector-based restrictions on HFCs due in Q1/Q2 FY 2023</td>
<td>Q3 FY 2023</td>
<td>On Track</td>
<td>N/A</td>
<td>Cynthia Newberg</td>
<td></td>
</tr>
</tbody>
</table>

*Updates were made to the Strategy 2 milestones to better reflect the Agency’s process. The EPA receives and then reviews petitions to promulgate rules to restrict the use of HFCs in certain sectors or subsectors. The results of the Agency’s review of these petitions may result in rulemakings. The Agency works to review these petitions within the deadlines set by the AIM Act. Certain petitions may remain under review beyond these deadlines while the Agency works with the petitioner to gather additional data and/or resolve other issues before making a decision. For more information on the technology transition petitions under the AIM Act, please see here: [https://www.epa.gov/climate-hfcs-reduction/technology-transition-petitions-under-aim-act](https://www.epa.gov/climate-hfcs-reduction/technology-transition-petitions-under-aim-act).*

**Strategy 3 – Facilitate the management of HFCs and their substitutes.**

<table>
<thead>
<tr>
<th>Key Milestone</th>
<th>Milestone Due Date</th>
<th>Milestone Status</th>
<th>Change from Last Quarter</th>
<th>Owner</th>
<th>Comments</th>
</tr>
</thead>
</table>

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### Key Milestones

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Date</th>
<th>Status</th>
<th>Responsible</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Propose regulations to control, any practice, process, or activity regarding the servicing, repair, disposal, or installation of equipment, maximizing reclamation and minimizing releases of HFCs and their substitutes</td>
<td>Q4 FY 2023</td>
<td>On Track</td>
<td>N/A</td>
<td>Cynthia Newberg</td>
</tr>
</tbody>
</table>
Narrative – FY22 Q1

Summary of progress
EPA met its milestones for FY 2022 Q1 and is on track to achieve the FY 2023 target.

Accomplishments:
- Issued final rule by the statutory 270-day deadline establishing allowance allocation and trading program under the AIM Act. This rule sets the HFC production and consumption baseline levels from which reductions will be made, establishes an initial methodology for allocating and trading HFC allowances for 2022 and 2023, and creates a robust, agile, and innovative compliance and enforcement system.
- By October 1, 2021, as directed by the AIM Act, issued calendar year 2022 allowances for the production and consumption of HFCs. Allowances were issued to companies that produced and/or imported HFCs in 2020, based on the three highest non-consecutive years of production or import between 2011-2019. EPA also issued “application-specific allowances” directly to the entities, including the U.S. Department of Defense, that operate within the six applications listed in the AIM Act. These entities will be able to confer their allowances to producers or importers to acquire needed HFCs.
- Granted in full ten petitions and partially granted one petition submitted under subsection (i) of the AIM Act. Subsection (i) of the AIM Act facilitates the transition to next-generation technologies through sector-based restrictions. These petitions request that EPA restrict the use of HFCs in refrigeration and air conditioning, aerosols, and foams sectors.
- HFC Allocation Rule reporting functionality launched starting in December 2021 using EPA and U.S. Customs and Border Protection (CBP) systems, with webinars and supporting outreach for stakeholders. EPA initiated near real time reviews of HFC imports using CBP’s trade data system. EPA/CBP HFC Task Force began targeting HFC imports for potential illegal imports. Training provided to CBP Officers. OAR began referring likely violations to OECA for enforcement action.

Challenges:
- The AIM Act dictates a rigorous schedule for actions to be taken including promulgating final rules.
- EPA is expanding its existing IT system for managing ODS reporting and tracking to create new modules to implement HFC reporting and tracking under the allowance allocation and trading program. Three modules will be developed to perform the following activities: reporting on production and consumption of HFCs, including allowance tracking (FY22); real time tracking of import data reported to Customs and Border Protection and EPA to prevent and detect illegal imports of HFCs (FY22 and FY23); and tracking the movement of HFCs through commerce to ensure HFCs being purchased and sold in the U.S. are from legal production, import and recycling/reclamation (FY22 through FY24). Development of the IT systems will be complex, and its successful implementation is critical to ensuring the integrity of the program.
EPA met its milestones for FY 2022, Q2 and is on track to achieve the FY 2023 target.

Accomplishments:

- On March 14, 2022, held the inaugural meeting of the Interagency Task Force on Illegal HFC Trade. As of January 1, 2022, when the EPA HFC Allowance Allocation and Trading program went into effect, the import of HFCs requires allowances. Shipments coming to U.S. ports without proper allowances have been identified, stopped, and re-exported. The task force helps ensure the vast environmental benefits of the rule are realized by detecting, deterring, and disrupting any attempts to illegally import HFCs into the United States. The task force has prevented illegal HFC shipments equivalent to approximately 530,000 metric tons of CO₂ emissions, the same amount as the emissions from nearly 100,000 homes’ electricity use in one year.

Violating the AIM Act can result in administrative and civil fines as well as injunctive relief and other consequences including the revocation of allowances. In addition, illegally imported HFCs may be seized by authorities, or the importer required to re-export or destroy the goods, at their cost. Knowing violations of the AIM Act and related smuggling crimes may result in criminal fines, imprisonment, and other penalties as appropriate.

The task force is co-chaired by EPA and the Department of Homeland Security, and includes Customs and Border Protection, Department of Defense, Department of Justice, and Department of State. In addition to stopping illegal imports at the border, the task force also announced that EPA has issued 14 Notices of Violation to companies that have allegedly failed to comply with HFC reporting obligations under the Greenhouse Gas Reporting Program (GHGRP). These companies are HFC importers who received HFC allowances after reporting late. Enforcement of the GHGRP is a necessary component of upholding the HFC Allowance Allocation and Trading Program and the task force’s deterrence work. The GHGRP is also an important part of EPA’s broader climate regulatory and enforcement work.

- On March 24 and 30, 2022, EPA hosted stakeholder meetings with over 350 participants virtually attending each meeting. The meetings were to share information and provide an opportunity for public input on two upcoming rulemakings. The HFC Allowance Allocation and Trading Program rule will establish the allowance allocation methodology for 2024 and later years and potentially propose updates to certain reporting requirements. A second rule will address the 10 petitions that EPA has granted and one petition that it has partially granted under its AIM Act
Narrative – FY22 Q2

authority to promulgate rules restricting (fully, partially, or on a graduated schedule), the use of HFCs in sectors or subsectors.

- On March 31, 2022, EPA issued HFC allowances from the set-aside pool for application-specific entities with unique circumstances and new market entrants. The pool was established in EPA’s 2021 final rule, *Phasedown of Hydrofluorocarbons: Establishing the Allowance Allocation and Trading Program*, under the AIM Act (for more information, see [https://www.regulations.gov/document/EPA-HQ-OAR-2021-0669-0002](https://www.regulations.gov/document/EPA-HQ-OAR-2021-0669-0002)).

- EPA completed the planned milestone to implement an HFC allowance tracking system to better ensure compliance with the phasedown regulations.

**Challenges:**
- The AIM Act dictates a rigorous schedule for actions to be taken including promulgating final rules with multiple rules being developed at the same time.

- EPA is expanding its existing IT system for managing ODS reporting and tracking to create new modules to implement HFC reporting and tracking under the allowance allocation and trading program. Three modules will be developed to perform the following activities: (1) reporting on production and consumption of HFCs, including allowance tracking (FY 2022); (2) real time tracking of import data reported to Customs and Border Protection and EPA to prevent and detect illegal imports of HFCs (FY 2022 and FY 2023); and (3) tracking the movement of HFCs through commerce to ensure HFCs being purchased and sold in the U.S. are from legal production, import and recycling/reclamation (FY 2022 through FY 2024). Development of these IT system enhancements will be complex, and its successful implementation is critical to ensuring the integrity of the program.
Summary of progress

EPA met its milestone for FY 2022, Q3.

Accomplishments:

• EPA received additional petitions under subsection (i) of the AIM Act and is currently reviewing them. The petitions requested restrictions on the use of HFCs in the same sectors and subsectors covered by petitions previously granted. The additional petitions resulted in EPA missing the milestone to grant and/or deny additional petitions.

• After convening the first meeting of the Interagency Task Force on Illegal HFC Trade, U.S. Customs and Border Protection worked with EPA to ensure all U.S. ports are covered by the Trade Special Operation (TSO) launched in January 2022.

• On June 30, 2022, EPA hosted two sector-specific workshops with stakeholders from the stationary refrigeration and air conditioning sectors as well as aerosols, foams, motor vehicle air conditioning, and other sectors. The workshops provided an opportunity to receive further input from stakeholders on topics to be considered in an upcoming proposed rule under subsection (i) of the AIM Act. Subsection (i) of the AIM Act facilitates the transition to next-generation technologies through sector-based restrictions. About 200 participants virtually attended each workshop.

• EPA is on track to send the proposed rule to update the Allowance Allocation for 2024 and later years to OMB in July 2022 to initiate interagency review.

• EPA is on track to send the proposed rule under subsection (i) of the AIM Act to establish requirements to transition to next-generation technologies to OMB in FY 2022, Q4 to initiate interagency review.

Challenges:

• The AIM Act dictates a rigorous schedule for actions to be taken including promulgating final rules.
Data Accuracy & Reliability

Measurement and Baseline
- EPA has established U.S. production and consumption baselines using a formula provided by the AIM Act that considers past HFC, HCFC, and CFC amounts.
- The production baseline is calculated by adding: (i) the average annual quantity of all regulated substances produced in the U.S., from January 1, 2011, through December 31, 2013, and (ii) 15% of the production level of HCFCs in calendar year (CY) 1989, and (iii) 0.42% of the production level of CFCs in CY 1989.
- Similarly, the consumption baseline is calculated by adding: (i) the average annual quantity of all regulated substances consumed in the U.S. from January 1, 2011, through December 31, 2013, and (ii) 15% of the consumption level of HCFCs in CY 1989, and (iii) 0.42% of the consumption level of CFCs in CY 1989.

Data Sources
- EPA will leverage two existing reporting systems to collect and track data on HFCs: (1) Electronic Greenhouse Gas Reporting Tool (e-GGRT); and (2) ozone-depleting substance tracking system (ODSTS). EPA currently uses e-GGRT to collect and store data on GHGs (including HFCs) in accordance with the GHGRP (40 CFR part 98) and ODSTS to collect and track data on ODS that are reported in accordance with 40 CFR part 82. Both systems are designed to collect and store CBI in compliance with U.S. government security standards.
- Additionally, EPA is requiring submission of a limited amount of data through CBP’s Automated Commercial Environment (ACE) to support real-time review of imports prior to importation. Collecting these data through ACE will require modifications to EPA and likely CBP data management systems to allow for more streamlined review and sharing of information.
- EPA will also develop, prior to January 1, 2025, a tracking system to allow for the generation of and tracking of QR codes and certification IDs for containers of regulated HFCs. This module will allow anyone buying or selling HFCs to determine whether the material they are purchasing and selling was produced, imported, reclaimed, or recycled legally.

Methodology
- Data are aggregated across all U.S. companies for each individual HFC to analyze U.S. total consumption and production.
Additional Information

Organizations
- Environmental Protection Agency (EPA)
  - Office of Air and Radiation (OAR)
    ▪ Office of Atmospheric Programs (OAP)
      o Stratospheric Protection Division (SPD)
      o Climate Change Division (CCD)
  - Office of Enforcement and Compliance (OECA)
  - Office of General Council (OGC)
  - Office of Mission Support (OMS)
- Department of Homeland Security (DHS)
  - Customs and Border Protection (CBP)

Program Activities
- Phasing down production and consumption through an allowance allocation and trading program.
- Facilitating the transition to next-generation technologies through sector-based restrictions.
- Facilitating the management of HFCs and their substitutes to maximize reclaiming and minimize releases of HFCs.

Regulations
- EPA regulations addressing HFC production and consumption under the AIM Act.
- EPA regulations to reduce and control ODS can support the phasedown of HFCs, including regulations under Section 612 of the Clean Air Act (CAA) and EPA's Significant New Alternatives Policy (SNAP) program that reviews ODS substitutes within a comparative risk framework.

Policies
- EPA policies related to AIM Act implementation (e.g., procedures for responding to petitions submitted under Subsection (i) of the AIM Act, etc.)

Other Federal Activities
- Enforcement – EPA is requiring submission of selected data through CBP’s ACE to support real-time review of imports prior to importation. EPA is also working with the DHS as part of a Task Force to prevent the illegal import and illegal trade in HFCs.
Stakeholder / Congressional Consultations

- Through the rulemaking process, EPA obtains public comments from stakeholders. EPA also regularly holds stakeholder meetings, presents at industry conferences, and hosts webinars to provide information about the regulatory programs.
- EPA regularly briefs Congress on progress implementing the AIM Act.
- EPA establishes publicly available dockets with information documenting Agency decisions on petitions submitted under subsection (i) of the AIM Act.