



Conduct of Business Rules (COBS)

*In this attachment underlining indicates new text and striking through indicates deleted text.

3. CORE RULES – INVESTMENT BUSINESS, ACCEPTING DEPOSITS, PROVIDING CREDIT AND PROVIDING TRUST SERVICES

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ADGM Green Portfolios and ADGM Climate Transition Portfolios

Application

3.8.1 The Rules in this section apply to an Authorised Person that acts as an Investment Manager and enters into a Discretionary Portfolio Management Agreement with a Retail Client on the basis that the Model Portfolio being offered is an ADGM Green Portfolio or an ADGM Climate Transition Portfolio. Rules 3.8.2 to 3.8.9 are referred to as the “ADGM Green Portfolio Rules” and Rules 3.8.10 to 3.8.18 are referred to as the “ADGM Climate Transition Portfolio Rules”.

Guidance

1. The Rules in this section do not apply to an Authorised Person that enters into a Discretionary Portfolio Management Agreement with a Professional Client. A Model Portfolio offered only to Professional Clients that follows an environmentally-conscious investment mandate may not be promoted as an ADGM Green Portfolio or ADGM Climate Transition Portfolio.
2. A Model Portfolio offered to a Retail Client may only be referred to as an ADGM Green Portfolio or ADGM Climate Transition Portfolio if it complies with the ADGM Green Portfolio Rules or the ADGM Climate Transition Portfolio Rules, as applicable, and if the Investment Manager has obtained the relevant approval from the Regulator for an ADGM Green Portfolio Designation or ADGM Climate Transition Portfolio Designation respectively.
3. A Model Portfolio that follows an environmentally-conscious investment mandate is not required to become an ADGM Green Portfolio or an ADGM Climate Transition Portfolio. However, only those Model Portfolios which have obtained the relevant designation may use such terminology in related documentation and promotional materials.

ADGM Green Portfolios

3.8.2 An ADGM Green Portfolio must meet the:

- (a) the Green Portfolio Investment Requirement; and
- (b) the Green Portfolio Attestation Requirement.

The Green Portfolio Investment Requirement

3.8.3 The Discretionary Portfolio Management Agreement of an ADGM Green Portfolio must restrict investments to predominantly Eligible Green Portfolio Assets and restrict investment in assets that are otherwise inconsistent with the overall green objectives of the mandate. This requirement is referred to in these Rules as the “Green Portfolio Investment Requirement”.

Guidance

The Green Portfolio Investment Requirement shall not be breached if the Model Portfolio assets include cash or other liquid assets held temporarily pending investment or reinvestment.

3.8.4 An asset will be an Eligible Green Portfolio Asset if it is:

- (a) considered environmentally sustainable or equivalent under an Acceptable Green Taxonomy, provided that no more than one Acceptable Green Taxonomy may be used by an ADGM Green Portfolio; or
- (b) included in or otherwise tracks an EU Paris Aligned Benchmark.

3.8.5 An Authorised Person which acts as an Investment Manager of an ADGM Green Portfolio must keep records of the due diligence process it has undertaken to confirm that Eligible Green Portfolio Assets meet the criteria in Rule 3.8.4 at the time of acquisition and on an ongoing basis.

Guidance

1. The Green Portfolio Investment Requirement may be met by assets comprising Eligible Green Portfolio Assets under Rule 3.8.4(a) or under Rule 3.8.4(b) or a combination of both.
2. Eligible Green Portfolio Assets may track or be included in one or more EU Paris Aligned Benchmarks. For example, they may track or include securities from multiple EU Paris Aligned Benchmarks.
3. The Regulator considers an Acceptable Green Taxonomy to be one which uses credible and independent accreditation standards published by a governmental body or a reputable industry association and made publicly available to determine which economic activities are environmentally sustainable. Examples of green taxonomies that will be considered Acceptable Green Taxonomies include:
 - a. the EU Green Taxonomy;
 - b. the ASEAN Taxonomy for Sustainable Finance; and
 - c. the Common Principles for Climate Mitigation Finance Tracking.

The Green Portfolio Attestation Requirement

3.8.6 An Authorised Person acting as Investment Manager of an ADGM Green Portfolio must appoint a third party to attest to its compliance with the Green Portfolio Investment Requirement on an ongoing basis and at least annually. This requirement only applies to that portion of the Eligible Green Portfolio Assets that is invested in assets aligned with an Acceptable Green Taxonomy in accordance with Rule 3.8.4(a). This requirement is referred to as the "Green Portfolio Attestation Requirement".

Guidance

1. Under Rule 3.8.6, the Green Portfolio Attestation Requirement does not apply to Eligible Green Portfolio Assets which are included in or otherwise track an EU Paris Aligned Benchmark in accordance with Rule 3.8.4(b).

2. An ADGM Green Portfolio investing in Eligible Green Portfolio Assets under both Rules 3.8.4(a) and 3.8.4(b) is required to obtain attestation in relation to the assets invested in under Rule 3.8.4(a).

3.8.7 An Authorised Person must, prior to the appointment of a third party to provide an attestation under Rule 3.8.6, take reasonable steps to ensure that the third party:

- (a) has the required skills, resources and experience to provide the attestation;
- (b) is independent of, and not subject to, any conflict of interest with respect to the Authorised Person; and
- (c) has been provided with all documents, records and information necessary to give the attestation pursuant to Rule 3.8.8.

3.8.8 An Authorised Person acting as an Investment Manager of an ADGM Green Portfolio must ensure that an attestation obtained for the purposes of Rule 3.8.6 includes the following statement within the attestation:

“We attest that, as regards the model portfolio titled [insert name] of [insert name of Authorised Person] (the Model Portfolio):

- (i) the investment objectives of the Model Portfolio are consistent with the ADGM Green Portfolio Investment Requirement; and
- (ii) the Model Portfolio is invested in compliance with the ADGM Green Portfolio Investment Requirement.”

3.8.9 An Authorised Person acting as an Investment Manager of an ADGM Green Portfolio must provide a copy of the attestation obtained for the purposes of Rule 3.8.6 to each Client with whom it has entered into a Discretionary Portfolio Management Agreement in respect of such ADGM Green Portfolio at least on an annual basis and upon request by the Client.

ADGM Climate Transition Portfolios

3.8.10 An ADGM Climate Transition Portfolio must meet the:

- (a) the Climate Transition Portfolio Investment Requirement; and
- (b) the Climate Transition Portfolio Attestation Requirement.

The Climate Transition Portfolio Investment Requirement

3.8.11 The Discretionary Portfolio Management Agreement of an ADGM Climate Transition Portfolio must restrict investments to predominantly Eligible Climate Transition Portfolio Assets and restrict investment in assets that are otherwise inconsistent with the overall climate transition objectives of the mandate. This requirement is referred to in these Rules as the “Climate Transition Portfolio Investment Requirement”.

Guidance

The Climate Transition Portfolio Investment Requirement shall not be breached if the Model Portfolio assets include cash or other liquid assets held temporarily pending investment or reinvestment.

3.8.12 An asset is an Eligible Climate Transition Portfolio Asset if it is a:

- (a) Security aligned with an Acceptable Climate Transition Taxonomy, provided that no more than one Acceptable Climate Transition Taxonomy may be used by an ADGM Climate Transition Portfolio;
- (b) Security issued in accordance with the:
 - (i) ICMA Green Bond Principles;
 - (ii) ICMA Sustainability-Linked Bond Principles; or
 - (iii) EU Green Bond Standard; and
compliance with which is subject to third party assurance, independent verification or equivalent assessment;
- (c) Security included in or that otherwise tracks an EU Climate Transition Benchmark;
- (d) Share or Debenture issued or otherwise provided by an entity that in the reasonable opinion of the Authorised Person:
 - (i) has published credible net zero emissions targets and strategies; and
 - (ii) is on course to meet its net zero emissions targets; or
- (e) Unit in an ADGM Climate Transition Fund.

Guidance

1. The Climate Transition Portfolio Investment Requirement may be met by investment in any combination of Eligible Climate Transition Portfolio Assets meeting the criteria in one or more of Rules 3.8.12(a) to 3.8.12(e).
2. When considering whether assets meet the criteria in Rule 3.8.12, an Investment Manager should consider not only the investment in the immediate asset but any underlying assets. For example, where investing in Units, the Investment Manager should consider whether the underlying assets of the Fund would meet the Climate Transition Portfolio Investment Requirement.

3.8.13 An Authorised Person must keep records of the due diligence process it has undertaken to confirm that an asset meets the criteria in Rule 3.8.12 at the time of acquisition and on an ongoing basis.

The Climate Transition Portfolio Attestation Requirement

3.8.14 An Authorised Person acting as Investment Manager of an ADGM Climate Transition Portfolio must appoint a third party to attest to its compliance with the ADGM Climate Transition Portfolio Investment Requirement on an ongoing basis and at least annually. This requirement only applies to Eligible Climate Transition Portfolio Assets that are aligned with an Acceptable Climate Transition Taxonomy in accordance with Rule 3.8.12(a), and not to Eligible Climate Transition Portfolio Assets under Rule 3.8.12(b) – (e). This is referred to as the “Climate Transition Fund Attestation Requirement”.

3.8.15 An Authorised Person must, prior to the appointment of a third party to provide an attestation under Rule 3.8.14, take reasonable steps to ensure that the third party:

- (a) has the required skills, resources and experience to provide the attestation;
 - (b) is independent of, and not subject to any conflict of interest with respect to the Authorised Person; and
 - (c) has been provided with all documents, records and information necessary to give the attestation pursuant to Rule 3.8.16.
- 3.8.16 An Authorised Person must ensure that an attestation obtained for the purposes of the Climate Transition Portfolio Attestation Requirement is addressed to and may be relied upon by the Authorised Person, and includes the following statement:
- “We attest that, as regards the model portfolio titled [insert name] of [insert name of Authorised Person] (the Model Portfolio):
- (i) the investment objectives of the model portfolio are consistent with the Climate Transition Portfolio Investment Requirement; and
 - (ii) the model portfolio is invested in compliance with the ADGM Climate Transition Portfolio Investment Requirement.”
- 3.8.17 An Authorised Person acting as an Investment Manager of an ADGM Climate Transition Portfolio must provide a copy of the attestation obtained for the purposes of Rule 3.8.14 to each Client with whom it has entered into a Discretionary Portfolio Management Agreement in respect of such ADGM Climate Transition Portfolio at least on an annual basis and upon request by the Client.
- 3.8.18 Prior to entering into a Discretionary Portfolio Management Agreement with a Retail Client in relation to an ADGM Climate Transition Portfolio, an Authorised Person must:
- (a) provide written disclosure to the Client how it assesses, measures and monitors compliance with the Climate Transition Portfolio Investment Requirement; and
 - (b) at least annually, disclose the progress of the ADGM Climate Transition Portfolio in meeting its expressed climate transition objectives.

Guidance

1. Where an ADGM Climate Transition Portfolio includes Shares or Debentures issued by an entity that has adopted a net-zero emission objective or strategy, the Authorised Person should consider whether the entity’s net zero target has been validated under the Science-Based Targets initiative (SBTi). Failure to obtain validation under the SBTi or equivalent framework should be considered as reducing the likelihood that the entity has a credible net zero target for the purpose of Rule 3.8.12(d).
2. When making a disclosure under Rule 3.8.18(b), the Authorised Person should specify those Shares and Debentures constituting Eligible Climate Transition Portfolio Assets pursuant to Rule 3.8.12(d).

Application for an ADGM Green Portfolio Designation or an ADGM Climate Transition Portfolio Designation

- 3.8.19 An Authorised Person must not promote a Model Portfolio as an ADGM Green Portfolio or an ADGM Climate Transition Portfolio unless it has applied for and

- received an ADGM Green Portfolio Designation or ADGM Climate Transition Portfolio Designation, as applicable, for that Model Portfolio from the Regulator.
- 3.8.20 An application for either designation referred to in Rule 3.8.19 must be accompanied by:
- (a) a copy of the proposed template Discretionary Portfolio Management Agreement;
 - (b) a detailed description of the investment restrictions and objectives of the Model Portfolio, which demonstrates its compliance with the relevant requirements of the ADGM Green Portfolio Rules or the ADGM Climate Transition Portfolio Rules; and
 - (c) a statement by the Authorised Person confirming that the investment objectives of the Model Portfolio, as stated in the relevant Discretionary Portfolio Management Agreement, comply with the ADGM Green Portfolio Investment Requirement or ADGM Climate Transition Portfolio Requirement, as applicable.
- 3.8.21 In assessing an application, the Regulator may:
- (a) make enquiries that it considers appropriate, including enquiries independent of the Authorised Person; and
 - (b) require the Authorised Person to provide further information.
- 3.8.22 In the event of a successful application, the Regulator will provide a Model Portfolio with an ADGM Green Portfolio Designation or ADGM Climate Transition Portfolio Designation as applicable.

Guidance

The Regulator may refuse an application for an ADGM Green Portfolio Designation or ADGM Climate Transition Portfolio Designation if it has reasonable grounds to believe that the requirements of the ADGM Green Portfolio Rules or the ADGM Climate Transition Rules have not been met, or will not be met on an ongoing basis.

Notification

- 3.8.23 An Authorised Person must advise the Regulator immediately if it becomes aware, or has reasonable grounds to believe, that a material breach of the ADGM Green Portfolio Rules or the ADGM Climate Transition Portfolio Rules in relation to an ADGM Green Portfolio or an ADGM Climate Transition Portfolio may have occurred or may be about to occur.

Cancellation of ADGM Green Portfolio Designation or ADGM Climate Transition Portfolio Designation

- 3.8.24 The Regulator may cancel an ADGM Green Portfolio Designation or an ADGM Climate Transition Portfolio Designation by delivery of written notification to the Authorised Person acting as Investment Manager for such Model Portfolio:
- (a) on its own initiative if the Regulator has reasonable grounds to believe that:
 - (i) the Model Portfolio is not in compliance with, or is unlikely to be in compliance with, the ADGM Green Portfolio Rules or the ADGM Climate Transition Portfolio Rules;

- (ii) the Authorised Person that is the Investment Manager has committed a contravention of FSMR or the Rules; or
 - (iii) it is desirable to do so in order to further the Regulator's objectives; or
- (b) on the application of the Authorised Person that is the Investment Manager of the relevant Model Portfolio where the application for cancellation has been made with the prior notification of Clients that have invested in the relevant Model Portfolio.

Guidance

The effect of a cancellation of an ADGM Green Portfolio Designation or an ADGM Climate Transition Portfolio Designation under this Rule is that the Model Portfolio no longer qualifies as an ADGM Green Portfolio or an ADGM Climate Transition Portfolio for the purposes of this section. Following such cancellation, the Authorised Person is not permitted to make representations to Clients or potential Clients that the Model Portfolio is an ADGM Green Portfolio or an ADGM Climate Transition Portfolio.

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