

Sustainable Finance Supplementary Guidance –

ADGM Green Funds and ADGM Climate Transition Funds

ADGM Green Portfolios and ADGM Climate Transition Portfolios

ADGM Green Debentures and ADGM Sustainability-Linked Debentures

ADGM Green Sukuks and ADGM Sustainability-Linked Sukuks

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1. INTRODUCTION

1.1 To outline the minimum criteria for environmental sustainability that applicable Securities and other financial services products may choose to seek adherence to, the Regulator has developed the following designations:

- a) ADGM Green Fund Designation;
- b) ADGM Climate Transition Fund Designation;
- c) ADGM Green Portfolio Designation;
- d) ADGM Climate Transition Portfolio Designation;
- e) ADGM Green Bond Designation;
- f) ADGM Sustainability-Linked Bond Designation;
- g) ADGM Green Sukuk Designation; and
- h) ADGM Sustainability-Linked Sukuk Designation,

These designations are opt-in and issued by the Regulator upon application or notification. Upon receipt of a designation, an Authorised Person may use the relevant ADGM Green, Climate Transition, or Sustainability-Linked logos in relevant communications subject to receiving appropriate permission from the Regulator.

1.2 This Supplementary Guidance provides:

- a) additional guidance on the Rules concerning ADGM Green Funds, ADGM Climate Transition Funds, ADGM Green Portfolios, ADGM Climate Transition Portfolios, ADGM Green Debentures, ADGM Sustainability-Linked Debentures, ADGM Green Sukuk and ADGM Sustainability-Linked Sukuk; and
- b) additional information regarding use of the ADGM Green, Climate Transition, or Sustainability-Linked logos that may be used by persons and products obtaining a designation listed in 1.1 above, subject to the written permission of the Regulator and compliance with this Guidance.

2. TAXONOMIES

Acceptable Green Taxonomies

- 2.1 An ADGM Green Fund may choose any published, credible and independent green taxonomy as a reference against which to choose its assets. As green taxonomies may tend to describe the economic activities most prevalent in the jurisdiction in which they are published, the Fund Manager is given flexibility to select the most suitable taxonomy considering the strategy of the Fund, rather than specifying one specific green taxonomy.
- 2.2 At present, the following taxonomies are considered 'acceptable' by the Regulator:
- a) the EU Green Taxonomy;
 - b) the ASEAN Sustainable Finance Taxonomy;
 - c) the Common Principles for Climate Mitigation Finance Tracking.
- 2.3 In due course, other taxonomies, such as the UAE green taxonomy (once published), may also be considered acceptable.

Acceptable Climate Transition Taxonomy

- 2.4 An ADGM Climate Transition Fund or ADGM Climate Transition Portfolio may invest in assets aligned with an Acceptable Climate Transition Taxonomy.
- 2.5 An Acceptable Climate Transition Taxonomy is a classification system that identifies economic activities assisting the transition of an economy towards lower carbon emissions or becoming more environmentally sustainable, but do not currently meet zero or near-zero emissions standards.
- 2.6 At the time of publication, a standalone Climate Transition Taxonomy has not been published. However, it is understood that one or more may be forthcoming. Further, under the Rules, an Acceptable Climate Transition Taxonomy may be a standalone publication or be incorporated as a section (or sections) within an Acceptable Green Taxonomy, if it is clear that such economic activities assist a transition to net zero emissions.
- 2.7 An example of an Acceptable Climate Transition Taxonomy likely to be accepted by the Regulator is the cohort of economic activities categorised as 'amber' (rather than 'green') by the ASEAN Sustainable Finance Taxonomy, such as a power company using natural gas plants with carbon capture and storage.

3. ADGM GREEN FUNDS AND ADGM CLIMATE TRANSITION FUNDS

- 3.1 Part 8 of FUNDS sets out the detailed requirements that apply to managing a Fund in compliance with the ADGM Green Fund Rules or the ADGM Climate Transition Fund Rules.
- 3.2 The Rules in Part 8 of FUNDS are in addition to:
- a) the restrictions on the financial promotion of Units in a Fund in section 18 and Schedule 2 of FSMR; and
 - b) the requirements that apply to the Offer of Units in Domestic Funds, including Prospectus disclosure by Authorised Persons under this Guidance.
- 3.3 COBS Rule 3.2.1 requires an Authorised Person to take reasonable steps to ensure that any communication to a Person in relation to a Specified Investment is clear, fair and not misleading. Similarly, FUNDS Rule 9.3.1(1) requires the presentation of information in a Prospectus to be clear, fair and not misleading.
- 3.4 Without limiting any requirements under COBS or FUNDS, the Regulator has developed the ADGM Green Fund Designation and the ADGM Climate Transition Fund Designation to indicate that a Fund pursuing Green or Climate Transition objectives does so in a manner that seeks to meet the Regulator's requirements for an ADGM Green Fund or an ADGM Climate Transition Fund. This includes seeking to meet the relevant Green Fund Investment Requirement or ADGM Climate Transition Fund Investment Requirement and taking measures to mitigate the risk of "Greenwashing", which, for the purposes of this Guidance, means the practice of misrepresenting sustainability-related practices or the sustainability-related features of investment products.
- 3.5 The purpose of the ADGM Green Fund Rules is to provide a framework for investment in assets whose activities are already environmentally sustainable, therefore helping to local or global targets to reduce greenhouse gas emissions.
- 3.6 The purpose of the ADGM Climate Transition Fund Rules is to provide a framework for investment in assets whose activities are not currently considered environmentally sustainable, in order to finance their transition to become so. This will also help to achieve local or global targets to reduce greenhouse gas emissions.
- 3.7 A Fund which meets the ADGM Green Fund Rules or ADGM Climate Transition Fund Rules (as applicable) may apply to the Regulator for the ADGM Green Fund Designation or ADGM Climate Transition Fund Designation. An ADGM Green Fund Designation or ADGM Climate Transition Fund Designation reflects that a Fund seeks to adhere to the ADGM Green Fund Rules or ADGM Climate Transition Fund Rules (as applicable) and is listed on the Public Register as an ADGM Green Fund or ADGM Climate Transition Fund. It is not an assurance or guarantee from the Regulator that the Fund is in compliance with the applicable Rules. Funds granted an ADGM Green Fund Designation or ADGM Climate Transition Fund Designation may receive permission from the Regulator to use the ADGM Green Fund logo or ADGM Climate Transition Fund logo (as applicable).
- 3.8 Upon receipt of permission from the Regulator, the Fund Manager and Persons engaged to promote the Fund may elect to use the ADGM Green Fund logo or the

ADGM Climate Transition Fund logo in the Fund's Prospectus and related promotional materials to indicate to prospective investors that the Fund seeks to meet the criteria of an ADGM Green Fund or an ADGM Climate Transition Fund.

- 3.9 As a result, the requirements set out in Part 8 of FUNDS will not apply to any Person that does not seek to obtain ADGM Green Fund Designation or the ADGM Climate Transition Fund Designation for a Fund. Fund Managers are not required use the ADGM Green Fund logo or the ADGM Climate Transition Fund logo in any marketing materials or Prospectus of a Fund, but they may do so, should they wish, if they are granted permission by the Regulator.
- 3.10 However, the Regulator considers Greenwashing to present a material risk to one or more of its objectives set out in section 1 of FSMR. Persons electing not to seek the ADGM Green Fund Designation or the ADGM Climate Transition Fund Designation, and otherwise indicating that a Fund is pursuing Green or Climate Transition objectives, should take measures to mitigate Greenwashing risk.

Green Funds Investment Requirement

- 3.11 An ADGM Green Fund must invest predominantly in assets meeting the Green Fund Investment Requirement. However, the Regulator is cognisant that it may take time to acquire Eligible Green Fund Property. At a minimum, the Regulator expects that assets meeting the Green Fund Investment Requirement will constitute:
- a) 50.1% or more of the Fund's assets within two years of the date on which an ADGM Green Fund Designation is granted; and
 - b) 75% or more of Fund's assets within five years of the date on which an ADGM Green Fund Designation is granted.

Climate Transition Funds Investment Requirement

- 3.12 An ADGM Climate Transition Fund must invest in assets meeting the Climate Transition Fund Investment Requirement. However, the Regulator is again cognisant of allowing flexibility on this issue to allow time to acquire Eligible Climate Transition Fund Property and manage subscriptions and redemptions. At a minimum, the Regulator expects that assets meeting the Climate Transition Fund Investment Requirement will constitute 75% or more of the Fund's assets from the date on which an ADGM Climate Transition Fund Designation is granted.

Fund Manager's Report

- 3.13 FUNDS Rule 16.4.7 sets out the matters that must be included in the Fund Manager's report. This includes any information which would enable Unitholders to make an informed judgement on the development and results of activities of the Fund during the relevant period. For a Fund that is an ADGM Green Fund or an ADGM Climate Transition Fund, a Fund Manager must give particular regard to information explaining the development of the activities of the Fund during the period and the results of those activities in achieving the Fund's 'green' or 'climate transition' objectives as at the end of the period, including by reference to compliance with the Green Fund Investment Requirement and the Climate Transition Fund Investment Requirement. The Fund Manager's report should include additional information on the nature and composition of the Fund Property, including information on Fund Property considered to constitute Eligible Green Fund Property or Eligible Climate Transition Fund Property.

4. ADGM GREEN PORTFOLIOS AND ADGM CLIMATE TRANSITION PORTFOLIOS

- 4.1 COBS Rule 3.2.1 requires an Authorised Person to take reasonable steps to ensure that any communication to a Person in relation to a Regulated Activity is clear, fair and not misleading.
- 4.2 The purpose of the ADGM Green Portfolio Rules is to provide a framework for investment in assets whose activities are already environmentally sustainable, therefore helping to achieve local or global targets to reduce greenhouse gas emissions. The ADGM Green Portfolio Rules only apply to a Model Portfolio offered to one or more Retail Clients.
- 4.3 The purpose of the ADGM Climate Transition Rules is to provide a framework for investment in assets whose activities are not currently considered environmentally sustainable, in order to finance their transition to become so. This will also help to achieve local or global targets to reduce greenhouse gas emissions. The ADGM Climate Transition Portfolio Rules only apply to a Model Portfolio offered to one or more Retail Clients.
- 4.4 A Model Portfolio which meets the ADGM Green Portfolio Rules or ADGM Climate Transition Portfolio Rules may apply to the Regulator for ADGM Green Portfolio Designation or ADGM Climate Transition Portfolio Designation (as applicable). An ADGM Green Portfolio Designation or ADGM Climate Transition Portfolio Designation reflects that a Model Portfolio seeks to adhere to the ADGM Green Portfolio Rules or ADGM Climate Transition Portfolio Rules respectively. It is not an assurance or guarantee from the Regulator that a Model Portfolio is in compliance with the applicable Rules. Model Portfolios granted an ADGM Green Portfolio Designation or ADGM Climate Transition Portfolio Designation may receive permission from the Regulator to use the ADGM Green Portfolio logo or ADGM Climate Transition Portfolio logo (as appropriate).
- 4.5 Authorised Persons may elect to use the ADGM Green Portfolio logo or the ADGM Climate Transition Portfolio logo to indicate to actual or prospective Clients that the Model Portfolio meets the criteria of an ADGM Green Portfolio or an ADGM Climate Transition Portfolio.
- 4.6 Authorised Persons are not required under FSMR or these Rules to use the ADGM Green Portfolio logo or the ADGM Climate Transition Portfolio logo in any marketing materials or Discretionary Portfolio Management Agreement relating to a Model Portfolio.
- 4.7 As a result, the requirements set out in COBS section 3.8 will not apply to any Person that does not seek to obtain the ADGM Green Portfolio Designation or the ADGM Climate Transition Portfolio Designation.
- 4.8 However, the Regulator considers Greenwashing to present a material risk to one or more of its objectives set out in section 1 of FSMR. Authorised Persons electing not to obtain the ADGM Green Portfolio Designation or the ADGM Climate Transition Portfolio Designation and that otherwise indicate that a Model Portfolio is pursuing green or climate transition objectives should establish and maintain systems and controls to mitigate Greenwashing risk.

Green Portfolios Investment Requirement

- 4.9 An ADGM Green Portfolio must invest predominantly in assets meeting the Green Portfolio Investment Requirement, that is assets which meet the definition of an Eligible Green Portfolio Asset in COBS Rule 3.8.4. At a minimum, the Regulator expects that assets meeting the Green Portfolio Investment Requirement will constitute 75% or more of the Model Portfolio's assets.

Climate Transition Portfolios Investment Requirements

- 4.10 An ADGM Climate Transition Portfolio must invest predominantly in assets meeting the Climate Transition Portfolio Investment Requirement, that is assets which meet the definition of an Eligible Climate Transition Portfolio Asset in COBS Rule 3.8.12. However, the Regulator is again in favour of allowing flexibility on this issue. At a minimum, the Regulator expects that assets meeting the Climate Transition Portfolio Investment Requirement will constitute 75% or more of the Model Portfolio's assets.

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5. **GUIDANCE ON ADGM GREEN DEBENTURES AND ADGM SUSTAINABILITY-LINKED DEBENTURES**

- 5.1 MKT section 4.14 sets out the detailed requirements that apply to an ADGM Issuer wishing to seek ADGM Green Bond Designation or ADGM Sustainability-Linked Bond Designation for an applicable debenture.
- 5.2 The Rules in MKT section 4.14 are in addition to the requirements that apply to the Offer of Securities in or from the ADGM, including Prospectus disclosure under MKT. No Security offered as an Exempt Offer under chapter 4 of MKT can be an ADGM Green Debenture or Sukuk, or ADGM Sustainability-Linked Debenture or Sukuk.
- 5.3 COBS Rule 3.2.1 requires an Authorised Person to take reasonable steps to ensure that any communication to a Person in relation to a Specified Investment is clear, fair and not misleading. Similarly, chapter 4 of MKT sets out the requirements on a Person who makes or intends to make an Offer of Securities to the Public in or from the ADGM. Without limiting any requirements under COBS or MKT, the Regulator has developed the ADGM Green Bond Designation and the ADGM Sustainability-Linked Bond Designation to indicate that an ADGM Issuer is issuing a Debenture in accordance with Qualifying Green Principles or Qualifying Sustainability-Linked Principles.
- 5.4 This section only applies to those Persons electing to apply for the ADGM Green Bond Designation or the ADGM Sustainability-Linked Bond Designation. Such Persons may elect to use the ADGM Green Bond logo or the ADGM Sustainability-Linked Bond logo to indicate to that the applicable Security has the ADGM Green Bond Designation or the ADGM Sustainability-Linked Bond Designation.
- 5.5 Persons are not required under FSMR or applicable Rules to obtain an ADGM Green Bond Designation or ADGM Sustainability-Linked Bond Designation, or use the ADGM Green Bond logo or ADGM Sustainability-Linked Bond logo, in any marketing materials, Prospectus or other communications relating to Securities. As a result, the requirements set out in this section will not apply to any Person that elects not to obtain an ADGM Green Bond Designation or ADGM Sustainability-Linked Bond Designation, or does not wish to use the ADGM Green Bond logo or ADGM Sustainability Linked-Bond logo in the marketing materials, Prospectus or other communications relating to relevant Securities.
- 5.6 However, the Regulator considers Greenwashing to present a material risk to one or more of its objectives set out in section 1 of FSMR. Persons electing not to obtain an ADGM Green Bond Designation or ADGM Sustainability-Linked Bond Designation and otherwise indicating that the issuance of Securities is pursuing green or sustainability-linked objectives should establish and maintain systems and controls to mitigate Greenwashing risk.

6. **GUIDANCE ON ADGM GREEN AND SUSTAINABILITY-LINKED SUKUKS**

- 6.1 The Guidance on ADGM Green Debentures and ADGM Sustainability-Linked Debentures apply to Sukuks in the same way as to Debentures, with all references to 'Debenture' being read as 'Sukuk'.
- 6.2 An ADGM Green Sukuk or ADGM Sustainability-Linked Sukuk may also apply for, and maintain, an ADGM Green Sukuk Designation or ADGM Sustainability-Linked Sukuk Designation in the same way as for Debentures. Accordingly, the Guidance applies in the same way with all references to 'Debenture' or 'Bond' being read as 'Sukuk'.

7. USE OF ADGM LOGOS

7.1 Upon receipt of an:

- a) ADGM Green Fund Designation;
- b) ADGM Climate Transition Fund Designation;
- c) ADGM Green Portfolio Designation;
- d) ADGM Climate Transition Portfolio Designation;
- e) ADGM Green Bond Designation;
- f) ADGM Sustainability-Linked Bond Designation;
- g) ADGM Green Sukuk Designation; or
- h) ADGM Sustainability-Linked Sukuk Designation,

an Authorised Person may choose to seek to use a specific ADGM logo corresponding to the designation received (an “ADGM logo”).

7.2 The use of an ADGM logo is subject to the written consent of the Regulator, the requirements set out in this Guidance and any other conditions for use required by the Regulator. For the avoidance of doubt, the Regulator granting its permission to use an ADGM logo does not indicate:

- a) endorsement of an Authorised Person by the Regulator;
- b) an assurance or guarantee by the Regulator that the product or service is compliant with or will be compliant with relevant FSRA Rules; or
- c) (where applicable) that any Offer of a Security meets applicable Rules regarding the offer of that Security.

7.3 Any use of an ADGM logo should include the following disclaimer:

“Use of the [specified ADGM logo] does not create any rights in, or liability to, any person, public or private. The logo does not indicate an endorsement by the Regulator of any financial service or product, or a guarantee by the Regulator that any financial service or product is or will be compliant with the FSRA Rules”

7.4 A Person may only use the form of an ADGM logo that is reproduced from original artwork provided by the Regulator.

7.5 The Regulator will withdraw its permission to use an ADGM logo if a product or service fails to, or chooses not to, maintain the corresponding designation.

7.6 The effect of a withdrawal of the Regulator’s permission is that an Authorised Person is not permitted, in or from the ADGM, to market or offer a product or service using an ADGM logo.