ABU DHABI GLOBAL MARKET
سوق أبوظبي العالمي

CONSULTATION PAPER
NO. 6 OF 2022

PROPOSALS FOR A SUSTAINABLE FINANCE REGULATORY FRAMEWORK FOR ADGM

10 November 2022

Table of Contents

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Introduction

Why we are issuing this paper

1. The Financial Services Regulatory Authority ("FSRA") and the Registration Authority ("RA") of Abu Dhabi Global Market ("ADGM") have jointly issued this Consultation Paper to seek views on their proposals for a regulatory framework for sustainable finance (the "Framework"). In this paper "ADGM" and "we" are generally used to refer to ADGM as a whole, although where appropriate for the context they are used to signify the FSRA or the RA as individual authorities.

2. Amendments are proposed to the RA's Companies Regulations 2020 ("CR 2020"), the FSRA's Financial Services and Markets Regulations ("FSMR"), and the Conduct of Business ("COBS"), Funds ("FUNDS") and Markets ("MKT") Rulebooks, as well as the FSRA Glossary ("GLO"). In addition, supplementary guidance will be issued to clarify aspects of the Framework.

3. Sustainable finance ("SusFin") is a strategic priority for ADGM. In October 2021, the UAE announced its "Net Zero by 2050 Strategic Initiative" ("NZSI") and ADGM has an important role to play in achieving this. This includes cultivating a vibrant ecosystem for SusFin in ADGM, becoming a hub where capital can be raised for investments seeking a positive environmental impact as well as financial returns. Such activity is commonly referred to as "financing green", where "green" means environmentally sustainable, or meeting the needs of the present without compromising the ability of future generations to meet their needs[1]. Encouraging ADGM-incorporated entities to become greener, also known as "greening finance", is the second dimension of our role cultivating a SusFin hub, and it is an area where ADGM is leading by example as the first international financial centre to become carbon-neutral[2].

4. Advancing these outcomes further requires a robust regulatory framework. ADGM believes that to foster demand for products and services aimed at financing green it needs to ensure investor confidence that the risk of "greenwashing" has been appropriately mitigated. Greenwashing is the practice of misrepresenting sustainability-related practices or the sustainability-related features of investment products[3]. Our proposals on funds, discretionary managed portfolios, bonds and sukuks primarily seek to address greenwashing risk. In addition, the proposed environmental, social and governance ("ESG") disclosures framework seeks to encourage commercial entities incorporated in ADGM to demonstrate their efforts to help further the NZSI by publishing ESG data.

[1] As per the International Organization of Securities Commissions' ("IOSCO") Retail Investor Education in the Context of Sustainable Finance Markets and Products Final Report (FR10/22), August 2022, page 6
[2] https://www.adgm.com/media/announcements/adgm-becomes-first-carbon-neutral-international-financial-centre-in-the-world, 19 January 2022
[3] As per footnote 1

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5. This Consultation Paper outlines ADGM's first iteration of a SusFin regulatory framework. In line with the High-Level Statement[4] published with peer UAE authorities in November 2021, ADGM envisages that further iterations will include proposals to incorporate climate risk into risk management and governance processes. ADGM is also collaborating with other UAE authorities in the development of the UAE's green taxonomy, and we will consider how to integrate this green taxonomy into our regulatory framework at a later stage, upon publication.

6. Capitalised terms which appear in this paper have the meanings attributed to them in the FSRA's Glossary, unless otherwise defined.

Who should read this paper

7. This Consultation Paper should be of particular interest to the following stakeholders:

    - All companies governed by the CR 2020, in relation to ESG disclosures.
    - Fund Managers.
    - Asset Managers.
    - Entities considering issuing or offering green bonds or sukuks in ADGM.

8. We also welcome feedback from other stakeholders, whether based in ADGM or beyond, including signatories of the Abu Dhabi Sustainable Finance Declaration[5], regulated firms in other jurisdictions with SusFin experience, think tanks and environmental advocacy groups.

How to provide comments

9. All comments should be made in writing and sent to the physical or email address below. If sending your comments by email, please use the Consultation Paper number in the subject line. If relevant, please identify the organisation you represent when providing your comments. We reserve the right to publish any comments you provide, including on our website, unless you expressly request otherwise when submitting those comments. Comments supported by reasoning and evidence will be given more weight.

What happens next

10. The deadline for providing comments on the Framework is 23 January 2023. After receiving your comments, we will consider whether any modifications are required to the proposals. We shall then proceed to enact the proposals in their final form.

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[4] https://www.adgm.com/media/announcements/uae-regulators-and-exchanges-issue-high-level-statement-on-sustainable-finance 5 November 2021

[5] https://www.adgm.com/initiatives/sustainable-finance/declaration, 15 January 2020

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11. You should not act on these proposals until final Regulations, Rules and guidance are issued. We will issue a notice on our website when that happens.

Comments to be addressed to:

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Background

1. The UAE announced its NZSI in October 2021 to help advance the 2015 Paris agreement to limit global warming to 1.5 degrees Celsius[6] (the "Paris Agreement"). The UAE has since been confirmed as hosting the 28th session of the UN Conference of the Parties in November 2023 ("COP 28").

2. As an international financial centre within the UAE, ADGM believes that it has a pivotal role to play in furthering the UAE's efforts to achieve the NZSI. Expenditure by public bodies to finance projects which will lower greenhouse gas ("GHG") emissions (such as the USD $163 billion committed by the UAE to renewable energy by 2050[7]) will need to be complemented by private sector initiatives that bridge the gap between the investment required to meet the Paris Agreement and current investment in this area (known as the "green financing gap"). Globally, the green financing gap has been estimated to be a minimum of USD $2.5 trillion[8].

3. Financial services firms will play an essential role in closing the green financing gap, acting as intermediaries between issuers raising capital for green projects and investors seeking positive environmental (as well as financial) outcomes from their investments. ADGM aims to leverage its position as an international financial centre at the forefront of innovation in corporate and financial services regulation to foster SusFin activity within the jurisdiction and beyond.

4. In January 2019, ADGM published its Sustainable Finance Agenda[9] setting out its four pillars for creating a centre of SusFin. Since then, ADGM has delivered various measures under each of these pillars. These include helping to establish the UAE Sustainable Finance Working Group, a group of UAE regulators, Federal ministries and financial exchanges created to help support the UAE's SusFin agenda[10]. It also includes developing the ADGM Sustainable Finance Platform, an online solution for reviewing ESG data published by companies in the region[11] and establishing the Abu Dhabi Sustainable Finance Forum[12] as part of Abu Dhabi Sustainability Week, the region's principal SusFin conference[13].

5. ADGM was also part of the group of UAE authorities that developed and published the Guiding Principles on Sustainable Finance (the "SusFin Principles") in January 2020[14]. The SusFin Principles include commitments to set minimum eligibility

[6] https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement#:~:text=The%20Paris%20Agreement%20is%20a,compared%20to%20pre%2Dindustrial%20levels.
[7] https://u.ae/en/about-the-uae/strategies-initiatives-and-awards/federal-governments-strategies-and-plans/uae-energy-strategy-2050, 13 September 2020
[8] https://www.oliverwyman.com/our-expertise/insights/2017/dec/financing-climate-resilience.html
[9] https://www.adgm.com/documents/fsra/sustainable-finance/adgm-abu-dhabi-sustainable-finance-agenda-16-jan-2019-all.pdf, 16 January 2019
[10] https://www.adgm.com/media/announcements/working-group-formed-to-advance-sustainable-finance-practices-and-investments, 26 November 2019
[11] https://adgm.arabsustainability.com/
[12] https://abudhabisustainabilityweek.com/en/ADSW/ADSW-Events/Abu-Dhabi-Sustainable-Finance-Forum
[13] See ADGM's Sustainable Finance website for more details on ADGM's sustainable finance activities: www.adgm.com/initiatives/sustainable-finance
[14] https://www.adgm.com/media/announcements/first-set-of-guiding-principles-on-sustainable-finance-published, 15 January 2020

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requirements for green-labelled financial instruments (Principle 2) and promotion of ESG disclosures (Principle 3), both of which are addressed by the proposals in this paper. ADGM intends to address integration of ESG matters in risk management and governance (Principle 1) at a later stage.

Our Substantive Proposals

A. ADGM Green Funds ("GFs")

6. Investment funds are important vehicles for channelling both retail and institutional investment towards green assets, both within the UAE and globally. Funds that seek positive environmental outcomes have gained significant capital inflows globally and are also being established in ADGM. Outside ADGM, recent debates concerning the environmental credentials of assets held by supposedly green investment funds highlight the value of implementing a robust regulatory framework that will encourage investor confidence and investor protection in these investment vehicles.

7. Our proposals for GFs therefore seeks to deliver a framework where such funds are investing in verifiably green assets. It will do so by setting the eligibility criteria for investable assets that removes, insofar as possible, subjectivity regarding whether an asset is indeed green.

8. ADGM also proposes the creation of an "ADGM Green Fund Designation" for funds that choose voluntarily to meet ADGM's minimum requirements for a GF. Funds with the designation will have the option of using the ADGM Green Fund logo on their marketing materials and communications to assist in raising investor awareness that they seek to follow our Framework. Funds that do not wish to obtain an ADGM Green Fund Designation will not be required to do so, whether or not they seek positive environmental outcomes. ADGM believes this flexibility is appropriate for the first iteration of the Framework, with the potential to revise the 'opt-in' nature of the Framework pending feedback received from this consultation.

A.1 Eligibility criteria

9. ADGM believes that utilising a credible, specialist third party definition is the most robust method of categorising assets as green, and therefore to mitigate the risk of greenwashing. ADGM believes that this will also help gain investor trust, and therefore increase the potential for GFs to attract investment. For these reasons, our Framework will limit eligible assets to those that align with a green taxonomy or are included in (or track) a Paris-Aligned Benchmark ("PAB"). We believe both green taxonomies and PABs to be robust and objective mechanisms for categorising assets as green.

A.2 Green Taxonomies

10. ADGM proposes that a fund seeking to be designated as a GF may choose any published, credible and independent green taxonomy as a reference against which to choose its green assets. ADGM has considered whether a single, specific green taxonomy should be required, however, we are mindful that green taxonomies tend

to reflect the economic activities most prevalent in the jurisdiction(s) in which they are published. Accordingly, allowing flexibility as to which green taxonomy is suitable is (at this stage) considered to be a decision best taken by the fund manager in light of the strategy of the fund, which may be orientated towards a particular geographic focus. We are also cognisant that investors may have a preference for the type of green taxonomy utilised by the GF, leading us to conclude that we should at this stage not specify one particular green taxonomy in our Framework. We have therefore provided examples of green taxonomies we consider acceptable via guidance and have included the Association of Southeast Asian Nations' ("ASEAN") and European Union's ("EU") green taxonomies in this list. Once it is developed and finalised, we will also include the UAE green taxonomy in the list of examples.

11. ADGM recognises the challenge for investors in judging whether an asset within a fund's portfolio aligns with a green taxonomy. Green taxonomies can be complex and establishing whether an asset is consistent with economic activities described in them can require specialist skillsets. For this reason, ADGM proposes that a Public Fund must arrange for an independent third party attestor to periodically confirm that the fund's portfolio assets are consistent with the definitions provided by the green taxonomy utilised by the fund. Qualified Investor Funds ("QIFs") and Exempt Funds will be able to choose to self-attest adherence to a green taxonomy, as the sophisticated investors in these funds are better able to assess ongoing compliance with applicable green taxonomies. We will consider whether to maintain the ability to self-attest depending on feedback received from this paper.

A.3 PABs

12. We recognise that green taxonomies are not the only source of a credible, specialist and third party determination of whether an asset is green. Green-labelled benchmarks may also play an important role in assisting fund managers in selecting green assets. In developing our Framework, we considered whether to allow any benchmark labelled as green or sustainable to be used by a GF. At this stage, our view is that the most robust green benchmarks are those that correspond with the EU's PAB framework[15]. This is because PABs are required to use a science-based methodology that will include only those securities issued by entities whose year-on-year decarbonization measures advance efforts to meet the Paris-Agreement. In practice this means that securities included in a PAB will have been issued by organisations which reduce carbon emissions by 50% compared to their parent index, and by 7% year-on-year. Although PABs have only been recently established, they are available from major benchmark providers and there appears to be a sufficient diversity of PABs available across geographies and asset classes to justify restricting GFs to only invest in these benchmark types. However, we are also open to feedback from stakeholders regarding whether other benchmark types should be permitted by the Framework.

13. Unlike green taxonomy assets, ADGM does not propose third party attestation be required for assets included in a PAB. This is because it is unambiguous whether a bond or equity is included in a PAB, limiting the added value a third party can provide. We also see value in permitting a potentially lower cost pathway to achieve

[15] Regulation (EU) 2016/1011 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32016R1011

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ADGM Green Fund Designation as a consequence of not having to arrange for and obtain third party attestation. This may reduce barriers to entry of our Framework and have the benefit of increasing the number of GFs established in ADGM and therefore available to investors. We are considering whether any additional controls should be in place to ensure that fund managers to do not deviate from investment in PAB assets, dependant on feedback on this topic.

14. A summary of the Framework for GFs is as follows:

a. An opt-in framework for funds that choose to seek an ADGM Green Fund Designation.

b. To receive an ADGM Green Fund Designation, the fund must invest in:

i. Assets aligned with a green taxonomy; and/or

ii. Assets included in, or which track, a PAB.

c. In the case of Public Funds, the fund manager must arrange for annual attestation by a specialist third party to confirm that assets held in accordance with green taxonomy are indeed consistent with the taxonomy. Exempt Funds and QIFs may self-attest.

d. Assets included in, or tracking, a PAB will not need to be attested by a third party.

e. A Public Fund will be required to apply for the ADGM Green Fund Designation. QIFs and Exempt Funds will be able to obtain designation by notification, an approach consistent with the FSRA's approach for other types of specialist funds, such as Real Estate Investment Trusts ("REITs").

f. A fund in receipt of an ADGM Green Fund Designation will appear on the FSRA Register as a GF. Funds in receipt of the designation may use the ADGM Green Fund logo in marketing and communications.

Eligibility Criteria	**Fund Type**	**Attestation – minimum standards**	**Designation**
Green Taxonomy	Public	At least annually by a third party specialist	On application to the FSRA
	QIF, Exempt	Self-attestation by fund manager or third party specialist, at least annually	By notification to the FSRA
PAB	Public	Self-attestation by fund manager or third party specialist, at least annually	On application to the FSRA
	QIF, Exempt		By notification to the FSRA

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Questions on the Framework for GFs:

Question 1: Do you agree that GFs should be required to ensure their portfolio assets align with an independent definition of green?

Question 2: Do you agree with the proposal to consider Paris-Aligned Benchmarks equivalently green to assets aligned with a green taxonomy?

Question 3: Should fund managers be permitted to use any green taxonomy, as long as it is published, independent and credible?

Question 4: Do you have any further feedback on the Framework for ADGM GFs?

B. ADGM Climate Transition Funds ("CTFs")

15. Economies across the world are at an early stage of decarbonizing, and at this time there is a limited quantity of investable assets that can be categorised as being green. This may limit the potential maximum size of any GF and reflects a challenge which is fundamental to the purpose of any SusFin framework. This challenge is that the transition to net zero GHG emissions depends on providing capital to non-green assets in order to finance efforts to help them decarbonize. The purpose of any SusFin regulatory framework must therefore include facilitating financing through this transitional period to include non-green assets, whilst protecting investors from greenwashing, rather than limiting a framework to permitting investment into just green assets.

16. Given this, ADGM believes that there is value in creating a second sustainable fund type, the CTF. This category will apply for funds that invest in 'greening' assets, meaning assets which are not currently green, but have the potential to become so over time. ADGM believes that creating this fund type will encourage investment into these assets, helping to further the NZSI. We will also be one of the first movers in articulating a framework for such a fund type.

17. Whilst there will inevitably be some degree of overlap between what constitutes a green asset versus a greening asset, there is value in delineating between the two fund types. Our Framework would effectively direct investors that wish to invest predominantly in already green assets towards a GF, and those that wish to invest in greening assets to a CTF. We believe this delineation will provide the requisite clarity to investors as to the intention of these funds and will therefore foster investor confidence, attracting investment to funds in receipt of an ADGM designation.

B.1 Eligibility criteria

18. Determining what constitutes a greening asset is more challenging than for green assets. There are fewer sources of third party definitions, as published taxonomies have tended to focus on defining a green asset, rather than a greening one. Another challenge is distinguishing assets that are greening (with evidence to demonstrate their path towards decarbonization) from brown assets, meaning those non-green assets that have limited or no prospect of greening. Such a distinction is essential to ensuring a framework for CTFs is credible.

19. ADGM is proposing to provide minimum criteria for investable assets that can be considered as meeting the definition of greening. As with GFs, the Framework does not place sole reliance on either internal processes of the fund manager nor disclosure as a means of reducing the risk of greenwashing. This is because we believe a more effective method to address this risk is by clearly stipulating the eligibility criteria for greening assets and, where appropriate, requiring a specialist third party to attest that the asset aligns with the specified criteria.

20. Under the Framework, a CTF will be required to invest in either:

    a. assets aligned with a Climate Transition Taxonomy ("CTT");

    b. shares and debt issued by entities that have both a published net zero target and a credible strategy towards achieving it;

    c. green bonds and sustainability-linked bonds;

    d. greening real estate assets and infrastructure; and

    e. assets featured in or that track a Climate Transition Benchmark ("CTB").

B.2 Assets aligned with a CTT

21. A CTT is an independent, specialist and third party publication that identifies economic activities that are not currently green, but which have the potential to become so over time. CTTs are early in their development, and we have made our definition of a CTT flexible enough to encompass where greening assets are identified within a section of a green taxonomy. For example, our definition of a CTT will include those economic activities rated as 'amber' by the ASEAN Sustainable Finance Taxonomy, which uses a traffic light approach to determine whether economic activities are green, greening or brown. Equally, our definition of a CTT would also encompass the EU Extended Environmental Taxonomy (which also seeks to identify greening assets) once it is finalised.

22. As with GFs, it may be particularly challenging for an investor to ascertain whether an asset in a portfolio is indeed aligned with a CTT. Therefore, we propose that Public Funds must arrange for a third party to attest applicable assets' adherence to the chosen CTT. QIFs and Exempt Funds may undertake-self attestation, due to the more sophisticated nature of their investors.

23. Given CTTs are at an emergent stage of development with only a very limited number of publications on which to rely upon, we have developed additional criteria to help identify greening assets. This will help make CTFs a viable investment vehicle independent of the pace at which CTTs are developed. Paragraphs 24 to 28 provide more detail on the rationale for including each of those criteria.

B.3 Shares and debt issued by entities with credible net zero targets

24. ADGM sees merit in facilitating the channelling of capital towards issuers which are on a path towards decarbonizing, as long as those plans are credible. In keeping with our general approach which considers specialist third party assessments the most objective method of mitigating greenwashing, we include guidance that only

those entities whose net zero GHG emissions targets have been verified by the Science-Based Targets initiative (SBTi) should qualify for investment. We will consider making this guidance a Rule, dependent on feedback from stakeholders.

B.4 Green and sustainability-linked bonds and sukuks

25. Green and sustainability-linked debt instruments are becoming an increasingly important source of capital for entities to help finance their transition to become greener (see section D below). To address the risk of greenwashing, we propose that only those bonds and sukuks issued under third party frameworks and subject to external review may be eligible for investment.

B.5 Greening real estate and infrastructure

26. The transition to net zero GHG emissions requires investment into existing real estate and infrastructure in order to make such assets greener, rather than solely investing in new green projects. In order to address the risk that CTFs' investment fails to improve the sustainability of the underlying assets we have included guidance that the applicable assets' sustainability rating should be measured by a third party and disclosed by the fund manager. Dependent on feedback received from this paper, we will consider specifying which third party rating systems may be permitted and whether such measures should be included as a Rule or as guidance.

B.6 Securities featured in a CTB

27. Similar to PABs, ADGM considered whether to allow CTFs to invest in securities included in any benchmark that seeks to identify greening assets. However, at this stage our view is that the most robust benchmarks for selecting greening assets are those that correspond to the EU's CTB framework, which were developed under the same EU initiative as PABs. Like PABs, CTBs are required to use a science-based methodology to include only greening assets undergoing significant efforts to decarbonize.

28. Similar to PABs, CTBs are relatively new to the market, however their footprint appears to be growing and ADGM believes there is a sufficient number of CTBs to provide the necessary diversity of options to justify only allowing investment in them. We will consider allowing other benchmark types dependent on feedback received to this CP.

B.7 Third party attestation

29. As with GFs, we have proposed that only those Public Funds investing in taxonomy-aligned assets should be required to obtain third party attestation for the assets in their portfolios. We believe that it will be significantly less ambiguous for investors to establish whether assets are consistent with the criteria we have proposed. We also believe that the role of third parties may be better directed to other areas, for example where we specify issuers' net zero transition plans should be subject to the SBTi. To enhance measures to mitigate greenwashing risk, and in light of this reduced reliance on attestation, we have made CTFs subject to additional internal

review requirements and also specified disclosure requirements in addition to those that apply to GFs. However, the role of third party review and attestation is an area of particular consideration and we may enhance the required role of third parties and self-attestation, either in Rules or guidance, pending feedback from this CP.

B.8 ADGM designation

30. As with GFs, ADGM proposes that funds seeking to follow our proposed Framework may obtain a ADGM Climate Transition Designation. Such a designation will enable a fund to be listed on the FSRA Register and, subject to licensing, be permitted to use an ADGM Climate Transition Fund logo in communications with clients.

31. A tabular summary of our CTF framework is as follows:

<table>
<tr><th>Eligibility Criteria</th><th>Fund Type</th><th>Attestation – minimum standards</th><th>Designation</th></tr>
<tr><td rowspan="2">Assets aligned with a Climate Transition Taxonomy</td><td>Public</td><td>By a third party specialist, at least annually</td><td>On application to the FSRA</td></tr>
<tr><td>QIF, Exempt</td><td>Attestation by fund manager or third party specialist, at least annually</td><td>By notification to the FSRA</td></tr>
<tr><td rowspan="2">a. Shares and debt issued by entities that have both a published net zero target and a credible strategy towards achieving it
b. Green bonds and sustainability-linked bonds
c. Greening real estate assets and infrastructure
d. Assets either featured in or which track an EU Climate Transition Benchmark</td><td>Public</td><td rowspan="2">No attestation requirement, however, third party standards will play a key role in determining the eligibility of assets.

CTFs are also subject to additional internal review by control functions.</td><td>On application to the FSRA</td></tr>
<tr><td>QIF, Exempt</td><td>By notification to the FSRA</td></tr>
</table>

32. As one of the first movers in articulating a Framework for Climate Transition Funds (or equivalent), we welcome feedback to help refine the Framework. In particular, feedback will help define: (a) which asset types CTFs should be permitted to invest in; (b) the criteria those assets must fulfil to be categorised as greening; and (c) what additional controls should be required of fund managers to ensure that greenwashing risk is mitigated appropriately.

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Questions on the Framework for CTFs:

Question 5: Do you agree with the proposal to create a CTF as a new category of sustainability-focused fund?

Question 6: Do you agree with the criteria for investable assets of a CTF? What additions and/or amendments should be made?

Question 7: What additional measures should we outline to reduce the risk of greenwashing in CTFs? For example, what requirements should ADGM require of funds investing in greening real estate assets to ensure the capital does indeed improve assets' environmental sustainability?

Question 8: Should ADGM require CTFs to publish key performance indicators to demonstrate the extent to which portfolio assets are greening?

Question 9: Do you have any other feedback concerning the Framework for CTFs?

Questions on common themes across both GFs and CTFs

33. A number of issues are shared across GFs and CTFs, such as the opt-in nature of the Framework and differing attestation requirements for Public, Qualified Investor Funds and Exempt Funds. The below questions are in regarding those common themes.

Questions on the Framework for GFs and CTFs:

Question 10: Do you agree the Framework should be voluntary and opt-in? Should the Framework be mandatory for any type of investment fund seeking positive environmental outcomes?

Question 11: Do you agree with the proposal for an attestation regarding the green taxonomy or climate transition taxonomy-aligned assets in a portfolio? Should attestation be required more frequently than annually? What other measures should be required of the attestation?

Question 12: Should QIFs and Exempt Funds be permitted to self-attest compliance with a green or climate transition taxonomy?

Question 13: Should we permit GFs and CTFs to invest in benchmarks other than PABs or CTBs? If so, under what conditions should this investment be permitted? What role, if any, should third parties be required to play in ensuring assets are indeed included in or tracking a PAB or CTB?

Question 14: Our draft rules currently require GFs and CTFs to invest in 'predominantly' green or climate transition assets. We have also drafted wording in our Supplementary Guidance on Sustainable Finance regarding the percentage of a GF's or a CTF's portfolio that should be invested in green or climate transition assets. Should such expectations be drafted as Rules?

Question 15: What additions should be made to the proposed Supplementary Guidance on Sustainable Finance in order to assist stakeholders' understanding of the Framework insofar as it relates to GFs and CTFs?

Question 16: Should we broaden our scope to develop a framework for ESG-labelled funds, as well as for GFs and CTFs? If so, should independent, third party definitions of ESG be the core of such a framework?

Question 17: Do you agree with the proposal to permit funds which have been provided a designation to use an ADGM Green Fund logo or ADGM Climate Transition Fund logo in their marketing? Will such logos add value for fund managers and investors?

Question 18: Should a fee be payable for receipt of the ADGM Green Fund Designation or ADGM Climate Transition Designation?

C. Discretionary Managed Portfolios ("DMPs")

34. ADGM has experienced significant growth in the number of investment managers in the jurisdiction. Some of these investment managers are offering their clients green or sustainability-orientated DMPs, particularly in the 'robo-advisory' space. ADGM wishes to encourage this growth and considers that setting minimum standards for considering DMPs to be green or greening is a prerequisite to ensuring investor confidence in them and will help attract investor capital.

C.1 Eligibility criteria

35. ADGM is proposing that the Framework for investment managers offering green or climate transition DMPs to their clients should closely resemble that proposed for GFs and CTFs. However, it is proposed that that the Framework only apply to DMPs offered to retail clients, given professional clients are likely to have more sophistication and direction over the assets they wish to hold in their DMPs. We also propose that the Framework only apply to model portfolios (a sub-type of DMP) which is where we have seen the highest concentration of green-labelled DMPs. This is because model portfolios do not tend to be subject to the same direction from underlying clients concerning the assets held in them.

36. ADGM is aware that many green-labelled DMPs currently being offered in ADGM often use ESG-labelled benchmarks as a reference from which to choose appropriate assets (or they track the benchmark itself). We expect this practice will continue. ADGM also considers that allowing investment in a PAB or CTB is a cost-effective (but no less robust) option for investment managers when seeking to provide green or climate transition DMPs to their clients, compared to investing in assets aligned with a taxonomy and being required to obtain third party attestation. As with funds, we are open to feedback regarding whether any other benchmark types should be permitted within the Framework.

37. Unlike funds and bonds, DMPs are not standalone legal entities which can easily be listed by a regulator on its public register. Our proposals therefore do not include listing those DMPs which have received a designation on the FSRA's register. However, investment managers would be able to use the applicable logo to demonstrate to their clients that the DMP has received the designation. We are open to feedback regarding this approach.

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Questions on the Framework for ADGM Green Portfolios and ADGM Climate Transition Portfolios:

Question 19: Do you agree with an opt-in framework for retail DMPs which is substantively the same as that for GFs and CTFs?

Question 20: Should the Framework only apply to DMPs which are provided to retail clients?

Question 21: Do you believe the Framework should only apply to DMPs which are model portfolios, or should it be extended to all DMPs that wish to receive a designation?

Question 22: Should DMPs in receipt of a designation be added to the FSRA Register?

Question 23: Should any benchmarks other than PABs or CTBs be permitted for use by ADGM Green Portfolios or ADGM Climate Transition Funds?

D. Green bonds and sukuks, and sustainability-linked bonds and sukuks

38. Debt issuance has an important role to play in funding public and private organisations' transition to net zero GHG emissions. A sizable market in green bonds already exists globally, and in 2021 green bonds to the value of USD $523 billion were issued[16]. The market is smaller in the Middle East and North Africa but growing rapidly, with issuance of sustainable bonds reaching USD $8 billion in 2021, an increase of 30 per cent on the 2020 total[17].

39. ADGM is already a location of choice for organisations to incorporate entities and issue debt on behalf of their parent or group entities. This is in part because of its facilitative environment for conducting commercial activity, underpinned by its comprehensive commercial legislation operating under the direct application of English common law. In order to cultivate ADGM as a centre of green debt, we have developed our proposed Framework, which we believe will help enhance investor confidence in green debt instruments that meet our minimum regulatory standards.

D.1 Eligibility criteria

40. The Framework represents ADGM's first step towards becoming a centre of green bonds and sukuks by offering an ADGM Green Bond Designation or ADGM Sustainability-Linked Bond Designation to debentures or sukuks that fulfil specific criteria targeted at avoiding greenwashing. The ADGM Green Bond Designation will apply to those debentures that are issued in order to fund specific green projects, whilst the ADGM Sustainability-Linked Bond Designation will apply to debt issued in order to fund more general improvements in an organisation's sustainability. In providing a regulatory designation ADGM seeks to highlight the anti-greenwashing

[16] https://www.climatebonds.net/2022/04/sustainable-debt-tops-1-trillion-record-breaking-2021-green-growth-75-new-report 25 April 2022

[17] https://www.icmagroup.org/events/PastEvents/dynamics-and-developments-in-the-international-sustainable-bond-markets-implications-for-the-mena-region/#:~:text=In%20the%20MENA%20region%2C%20issuance,30%25%20on%20the%202020%20total 23 March 2022

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standards to which the applicable instrument adheres and therefore increase the awareness of the issuer's efforts to transition to net zero GHG emissions.

41. The key features of the Framework are:

    a. An opt-in framework for issuers of green debentures and sustainability-linked debentures.

    b. An ADGM Green Bond Designation or ADGM Sustainability-Linked Bond Designation will be provided if a debenture:

        i. is offered in ADGM, although the issuer may be established anywhere;

        ii. conforms to ICMA Green Bond or Sustainability-Linked Bond principles (or equivalent framework); and

        iii. is subject to a third party review and verification.

    c. An issuer of an ADGM Green Debenture or ADGM Sustainability-Linked Debenture in receipt of applicable designation may use the ADGM Green Bond logo or ADGM Sustainability-Linked Bond logo in communications regarding the applicable instrument.

    d. A debenture in receipt of a designation will be listed on the FSRA's public register.

    e. The designation will need to be maintained by the issuer through the submission of the annual "post-issuance review" undertaken by an external reviewer. This would reduce greenwashing risk by demonstrating the issuer's ongoing adherence to the applicable green principles.

    f. An identical framework will operate for sukuks, with an ADGM Green Sukuk Designation, ADGM Sustainability-Linked Sukuk Designation and equivalent logos.

42. ADGM envisages the designation will be most attractive to issuers from the UAE, although it is open to any offer made in ADGM. The intention is that the designation will highlight the high standards to which those issuances adhere, encouraging investor confidence in green and sustainability-linked bonds and sukuks issued in accordance with the Framework. We believe it may also serve to enhance the reputation of the local green bond and sukuk market, thereby serving as a catalyst for more entities to issue green debt in ADGM and help create a thriving centre of green and sustainability-linked bonds.

43. In due course, we envisage an extension of the Framework to encompass transition bonds and transition sukuks, provided that one or more standards equivalent to the ICMA Green Bond principles are developed and can be used as a basis against which to issue such debt instruments. To ADGM's knowledge, no such standards have been developed. Stakeholder feedback on the prospect of extending the Framework to transition bonds and sukuks (and other types of green debt) is welcomed.

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44. We can also envisage adapting the Framework to further enhance anti-greenwashing controls in future iterations of the Framework. For example, by linking green debt to a green taxonomy, or setting minimum standards for second party opinions. However, enhancements to the proposals are likely to be suggested only following a post-implementation review of the Framework.

Questions on the Framework for green bonds and sukuks, and sustainability-linked bonds and sukuks:

Question 24: Do you agree with the proposal to provide a designation for green and sustainability-linked bonds or sukuks which follow the prescribed Framework?

Question 25: Do you believe that the Framework is likely to help facilitate the issuance of green or sustainability-linked bonds and sukuks in ADGM? What additional regulatory measures should we seek to take to achieve this ambition?

Question 26: What changes, if any, should ADGM make to its Framework regarding the types of green and sustainability-linked bonds and sukuk that may qualify for a designation?

Question 27: Should we adjust our Framework to allow for transition bonds or other types of sustainable debt to receive a designation?

Question 28: What additions should be made to the Supplementary Guidance for Sustainable Finance to enhance stakeholders' understanding of the Framework insofar as it relates to the proposals in this section?

E. ESG disclosures

45. ADGM believes that encouraging entities to disclose whether, and how, they are contributing to reduce GHG emissions is an important step in advancing the NZSI. We also wish to encourage companies operating in the jurisdiction to follow our lead in becoming carbon-neutral. As such, ADGM has developed the Framework for ESG disclosures by certain companies governed by the CR 2020, with the following key features:

a. A 'comply or explain' Framework. Entities meeting a size threshold that do not wish to undertake ESG disclosures are not obliged to do so, but they must communicate to the RA that they will not comply and their reasons why. ADGM anticipates requiring mandatory disclosure in due course, however the appropriate timing for mandatory disclosure would be determined only following engagement with stakeholders and a post-implementation assessment of the Framework proposed in this paper.

b. A minimum size threshold for ADGM-incorporated entities:

i. **Fund and Asset Managers** (authorised by the FSRA):

Assets Under Management: USD $6 billion or greater.

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ii. **All other companies governed by the CR 2020** (including those licensed by the RA as well as those authorised and regulated by the FSRA):

A turnover greater than USD $68 million or greater.

The asset and fund management size threshold reflects benchmarking of global peer regulatory standards. The turnover component reflects the existing financial threshold for a large company in the CR 2020. For simplicity, the other component of the CR 2020's criteria for a large company (the number of employees) has been omitted. ADGM will consider the appropriateness of the size threshold in light of feedback received following this CP.

c. Entities that do not reach the size threshold being able to opt-in to the Framework, with ADGM encouraging them to do so.

d. Flexibility regarding the standard to which the ESG disclosures adhere (e.g. International Sustainability Standards Board ("ISSB"), Task Force on Climate-Related Financial Disclosures ("TCFD"), or another standard). However, ESG disclosures must choose a global standard to adhere to. ADGM supports the ISSB initiative to create a single global standard for ESG disclosures, however we note that it is yet to be finalised. In addition, in the short term there may be good reasons why companies wish to observe a global standard that is not the ISSB, for example if group entities operating in other jurisdictions are subject to alternative disclosure standards. In the longer term, ADGM will consider the possibility of being more prescriptive as to the disclosure standard to be used.

e. A number of other areas of flexibility, including:

i. the ability to rely on ESG disclosures undertaken by a group entity, but only where they are undertaken on a consolidated basis for the group; and

ii. newly incorporated entities will not be required to undertake disclosures until the third anniversary of their establishment in ADGM. This provision is to assist the ease of establishing entities in ADGM.

f. The following types of entity will be excluded from the scope of the ESG disclosures aspects of the Framework, either by virtue of not being governed by the CR 2020 or by being expressly exempted from the Framework:

i. Foundations.

ii. Limited Liability Partnerships.

iii. Limited Partnerships.

iv. Restricted Scope Companies.

v. Investment Companies, i.e. investment funds themselves.

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vi. Branches of foreign companies.

vii. Publicly listed companies which already make equivalent disclosures in accordance with listing requirements.

46. ADGM recently implemented an ESG disclosures Framework for listed, mining and petroleum companies, via its published amendments to its capital markets regulatory framework [18]. We envisage consolidating the ESG disclosures Framework presented in this paper with those in the capital markets framework. However, this is likely to occur only following a post-implementation review of the Framework presented here.

47. ADGM believes its proposals represent the most comprehensive ESG disclosures framework in the Middle East, Africa and South Asia ("MEASA") region as it includes both public and private companies governed by the CR 2020, as well those which are listed or making an offer in ADGM will be encompassed by our regulatory framework. The Framework therefore represents a significant first step in encouraging observance of ESG disclosures standards by ADGM-based companies, and indeed a first step in helping ensure ADGM becomes a hub for companies which demonstrably play their part in contributing towards the NZSI. We are keen to hear from a wide variety of stakeholders regarding our first iteration of a framework for ESG disclosures.

48. Looking ahead, ADGM notes the development of net zero transition plans ("NZTPs") which outline an organisation's forward-looking plans to transition to net zero GHG emissions. These may evolve into an important mechanism for helping achieve the NZSI. ADGM will monitor national and international developments regarding NZTPs and stand ready to facilitate their adoption where appropriate.

Questions on the ESG disclosures Framework

Question 29: Do you agree with scope of the Framework? Should there be any amendments to the size thresholds or application to company types in ADGM?

Question 30: Do you agree with a separate threshold for FSRA-authorised fund and asset managers? Should they instead be captured by the turnover threshold for all other FSRA-authorised entities and companies governed by the CR 2020?

Question 31: Will your company be captured by the Framework? If so, what are the major challenges you perceive in ensuring compliance? Should ADGM allow for any other flexibility to assist ADGM-incorporated entities' compliance with the Framework?

Question 32: Do you agree with ADGM's proposal not to include a minimum employee threshold for companies in-scope of the Framework?

Question 33: Do you agree with the proposal for a 'comply or explain' framework? Should ADGM instead consider implementing mandatory framework now, rather than in due course?

[18] https://www.adgm.com/media/announcements/adgm-fsra-issues-enhancements-to-its-capital-markets-Framework-including-environmental-instruments, 27 September 2022

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Question 34: Should ADGM allow companies to issue disclosures in accordance with any global standard or allow only one standard to be adhered to?

Question 35: What additions should be made to the proposed Guidance for ESG Disclosures document accompanying this paper in order to assist stakeholders' understanding of the Framework?

Question 36: What ESG disclosures should in-scope fund managers be required to make regarding the investment funds they manage?

Conclusion

49. ADGM believes that these proposals, combined with its intention to facilitate the creation of world's first regulated carbon credit market, are significant moves to support the growth of a SusFin ecosystem in ADGM that channels capital towards green and greening assets, and that this endeavour will materially advance the local and global efforts to achieve the NZSI. Given regulatory frameworks for SusFin are at an early stage of development, both globally and in the MEASA region, ADGM highly values stakeholders' feedback on the measures proposed in this paper to help refine the Framework.

Question 37: Do you have any broader feedback on our Framework, not covered by the questions set out in sections A to E?

Annexes, appendices and attachments

- Annex A: Proposed amendments to the Companies Regulations 2020
- Annex B: Proposed amendments to the Financial Services and Markets Regulations
- Appendix 1: Proposed amendments to COBS
- Appendix 2: Proposed amendments to FUNDS
- Appendix 3: Proposed amendments to MKT
- Appendix 4: Proposed amendments to GLO
- Attachment 1: Proposed Supplementary Guidance: "Environmental, Social and Governance Disclosures Guidance"
- Attachment 2: Proposed Supplementary Guidance: "Sustainable Finance Supplementary Guidance"

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Schedule A: Substantive proposals outlined in this CP

Primary focus	Area	Proposed Amendments
Companies Regulations 2020	Environmental, Social and Governance disclosures	Chapter 4A
FSMR	• ADGM Green Funds • ADGM Climate Transition Funds • ADGM Green Debentures • ADGM Sustainability-Linked Debentures • ADGM Green Sukuk • ADGM Sustainability-Linked Sukuk	Section 196
COBS	ADGM Green Portfolios	COBS 3.8.1-3.8.9
	ADGM Climate Transition Portfolios	COBS 3.8.10-3.8.18
	Both ADGM Green Portfolios and ADGM Climate Transition Portfolios	COBS 3.8.19-3.8.24

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Primary focus	Area	Proposed Amendments
FUNDS	ADGM Green Funds	FUNDS 4.1.7 FUNDS 20.1-2.2.9
	ADGM Climate Transition Funds	FUNDS 4.1.8 FUNDS 20.1 FUNDS 20.3-20.3.11
	Both ADGM Green Funds and ADGM Climate Transition Funds	FUNDS 20.4
MKT	Both ADGM Green Debentures and ADGM Sustainability-Linked Debentures	MKT 4.14
	Both ADGM Green Sukuk and ADGM Sustainability-Linked Sukuk	MKT 4.15

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Schedule B: Supplementary guidance

Supplementary guidance	Area
Environmental, Social and Governance Disclosures Guidance	Draft Supplementary Guidance on ESG disclosures
Sustainable Finance Supplementary Guidance	Draft Supplementary Guidance on: • ADGM Green Funds • ADGM Climate Transition Funds • ADGM Green Portfolios • ADGM Climate Transition Portfolios • ADGM Green Debentures • ADGM Sustainability-Linked Debentures • ADGM Green Sukuks • ADGM Sustainability-Linked Sukuks

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Schedule C: Glossary of abbreviated terms

Abu Dhabi Global Market	ADGM
ADGM Climate Transition Fund	CTF
ADGM Green Fund	GF
Association of Southeast Asian Nations	ASEAN
Climate Transition Taxonomy	CTT
Companies Regulations 2020	CR 2020
Conduct of Business Rulebook	COBS
Discretionary Managed Portfolio	DMP
Environmental, social and governance	ESG
EU Climate Transition Benchmark	CTB
EU Paris-Aligned Benchmark	PAB
European Union	EU
Financial Services Regulatory Authority	FSRA
Funds Rulebook	FUNDS
FSRA Glossary	GLO
International Organization of Securities Commissions	IOSCO
International Sustainability Standards Board	ISSB
Markets Rulebook	MKT
Middle East, Africa and South Asia	MEASA
Net Zero by 2050 Strategic Initiative	NZSI
Net zero transition plan	NZTP
Real Estate Investment Trust	REIT
Registration Authority	RA
Sustainable finance	SusFin
Task Force on Climate-Related Financial Disclosures	TCFD
The 28th session of the Conference of the Parties	COP 28
The Guiding Principles on Sustainable Finance	SusFin Principles
United Arab Emirates	UAE

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