

Extending the Sustainable Funds Regime: Consultation Paper on Natural Capital Fund Rules

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Background

In our May 2022 Consultation Paper, we asked for feedback on proposals for new fund rules providing for the voluntary application for designation by the Commission of registered or authorised collective investment schemes as Natural Capital Funds (“NCFs”). Designation would be available to funds committed to making a nature-positive investment, setting and monitoring appropriate targets, and making relevant disclosures. Nature-positive investments are those with an objective to contribute positively and/or significantly reduce the harm done to the natural world, including through transitional investments.

This Feedback Statement summarises the responses received, provides the Commission’s response, and sets out the provisions of the new Natural Capital Fund Rules and Guidance, 2022 (the “NCF Rules”) that are being made under the Protection of Investors (Bailiwick of Guernsey) Law, 2020 and that come into effect on 20 September 2022.

Consultation responses received

Ten responses were received to our consultation from a cross-section of industry stakeholders and the Commission would like to thank all respondents for taking the time to read and respond to this consultation.

There were a number of questions and suggestions, and these are addressed as follows:

Feedback

Some respondents sought to understand further the rationale behind the NCF proposals and how these relate to international developments and established fund regimes in other jurisdictions. It was suggested that there should be greater alignment with established and developing fund regimes in the EU and the UK. Concerns were raised about the future-proofing of the regime as sustainability reporting is in time more broadly adopted as part of accepted international accounting standards currently being developed by the International Sustainability Standards Board¹.

Commission response

The NCF Rules have been developed to expand the scope of the Bailiwick's Sustainable Funds designation regime providing regulatory assurance to investors. In doing so the aim is to develop a framework that is consistent with current and emerging international standards and appropriate for the Bailiwick's fund sector.

The NCF Rules focus on the governance and disclosure arrangements as they relate to a fund's natural capital objectives and targets. This permits the regime to leverage the Commission's existing longstanding expertise in these areas, as the supervisor of nearly a thousand collective investment schemes with current total net asset value of £309.6 billion. At the same time this top-level, bespoke approach supports a variety of diverse fund strategies which is important in a dynamic landscape of newly emerging investment strategies and developing standards.

Climate change and nature loss are now recognised as twin crises impacting our planet and the international community is responding to these with parallel and linked initiatives. At COP26 national net zero commitments were

accelerated, with 153 countries putting forward new 2030 emissions targets. At the UN Biodiversity Conference, COP15, in December it is anticipated that the world's governments will agree a new set of goals for nature over the next decade. Broad-based action targets will be implemented through the Convention on Biological Diversity ("CBD") to allow for the recovery of natural ecosystems by 2050, and biodiversity strategies are being set now at national and international levels to meet these targets. The UK has, for example, identified a GBP 44 billion gap over the next 10 years and is aiming to secure GBP 5 billion of large-scale private investment in nature recovery each year by 2030², while the EU has allocated €20 billion annually and 30% of its climate action budget³.

The recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD") are increasingly recognised globally and are being taken up in the standard setting work of the International Sustainability Standards Board. A parallel body the Task Force on Nature-Related Financial Disclosures ("TNFD") is developing a disclosure framework and recommendations scheduled for completion in September 2023.

In developing the NCF proposal the Commission has aimed to follow this parallel approach to addressing the twin environmental crises with the addition of a nature-related fund designation, which directly references the relevant international targets and initiatives.

The Commission recognises that the EU's Sustainable Finance Disclosure Regulation ("SFDR") has been widely adopted as a disclosure standard for funds. Therefore, the linked and relevant EU Taxonomy's Environmental Objectives⁴ are now included as an additional basis for the NCF, but there has been no adoption of the Taxonomy's underlying technical screening criteria, which in any event remain under development. Guidance has also been added to confirm that, while a fund has the flexibility to make the disclosures required under the NCF Rules in a form suitable to its particular objectives and targets, disclosures compliant with Article 9 of the Sustainable Financial Disclosure Regulation may be deemed to be compliant with the NCF Rules.

Similarly, the Commission intends to permit NCF objectives to be aligned with the UK Green Taxonomy once this has been finalised.

Feedback

There were questions about the interaction of the NCF with the existing Guernsey Green Fund regime and some respondents expressed the importance of maintaining a framework that is clear, cohesive and current.

Commission response

As stated in the CP the NCF is designed to complement the Guernsey Green Fund, with both frameworks sitting within the Commission's stable of Sustainable Funds. There is naturally an element of overlap in the scopes of the regimes and it is possible that a fund might be eligible to seek designation under either or both sets of rules (for example a forestry fund might meet climate change mitigation criteria and at the same time, its objectives may also encompass the recovery and conservation of wild species). Each regime is, however, quite distinct in its overall scope and architecture and, with the creation of the NCF, the aim is to expand the scope of designation to encompass the specific objectives of nature-related investment. If an existing Guernsey Green Fund wishes to seek designation under the NCF Rules, then it must ensure compliance with the NCF Rules and a separate application should be made to the Commission.

The Guernsey Green Fund was launched in 2018, at the time breaking new ground for regulatory environmental fund designations. Recognising that new international standards would emerge, the Guernsey Green Fund Rules were designed to adopt other underlying standards to ensure that the framework could remain current. Further to the comments made above and, in line with the Commission's previous public statement, it has been decided to endorse the EU Taxonomy for Sustainable Activities' technical screening criteria for activities contributing to climate change mitigation and climate change adaptation as additional permitted green criteria for qualification for Guernsey Green Fund designation. This step will have the added benefits not only of clearly adopting an internationally recognised definition of sustainable investment but also expanding the scope of the Guernsey Green Fund Rules to more clearly include climate change adaptation-related investment strategies. In addition, a further update has been made to the Guernsey Green Fund Rules

green criteria by adding reference to the most up-to-date version of the Common Principles for Climate Mitigation Finance Tracking.

The introduction of the NCF Rules and the updating of the Guernsey Green Fund Rules creates a suite of Guernsey Sustainable Funds, broad in scope and with greater alignment to current and developing international standards.

Feedback

Some respondents indicated that the proposed NCF Rules might be strengthened by adding provisions for third-party expert verification of the fund's targets and monitoring.

Commission response

The Commission has taken on board this feedback and recognises that the incorporation of expert verification would bolster the integrity of the NCF regime and provide a higher degree of assurance to fund investors. Guidance has therefore been added introducing the regulatory expectation that the governing body of an NCF should engage the necessary third-party expertise to confirm the compliance with the Rules of the fund's objectives, targets, investment criteria, and the framework for monitoring and measurement of the fund's progress against the applicable natural capital targets. It is accepted, however, that certain funds may have access to the appropriate in-house expertise and the use of such expertise is not precluded. In such cases the governing body should evidence to the Commission the strength and qualification of the in-house expertise relied upon in making the application.

Feedback

A concern was expressed that the proposed NCF Rules may impose additional obligations on fund administrators, increasing costs and potentially damaging competitiveness.

Commission response

As described in the CP it is the responsibility of the fund's governing body to ensure that the natural capital targets are appropriate and monitored in compliance with the Rules. The fund administrator's regulatory obligations are obligations as specified in the underlying fund authorisation or registration rules. One minor amendment has been made to rule 2.5(3) to clarify that it is the responsibility of the fund's governing body, and not that of the fund administrator, to ensure that steps are taken to rectify a breach of the Rules.

Feedback

The question was posed as to whether the annual reporting requirements under the Rules might be met through disclosure in a fund's annual report.

Commission response

The requirement to notify investors of performance against a fund's natural capital targets may be met through appropriate disclosure as part of the fund's annual report. Similarly, disclosure in the fund's annual report may form the basis of the annual report to the Commission provided an adequate level of detail is disclosed. Reference should be made to the guidance to Rule 2.8.

Feedback

One respondent, while supportive of the core NCF objective of significantly reducing harm to the natural world, expressed the concern that this might leave the regime open to criticism that it might enable greenwashing.

Commission response

The NCF Rules have been purposely created to incorporate objectives of either making a positive contribution or significantly reducing harm to the natural world. Some respondents observed that the former category may

present a limited pool of potential fund investment opportunities but, as has been observed above, there is a significant gap to be filled in required investment to meet global biodiversity recovery targets and a large proportion of such investment will involve financing transitional activity.

For example:

- Agricultural businesses that significantly reduce their use of chemical fertiliser and pesticide
- Manufacturing plants, factories, or companies with such plants or factories that optimise their waste management system to ensure that significantly less harm is done to the terrestrial and marine ecosystems surrounding the factory due to the factory's wastage.
- Companies of any industry that alter their supply chain to reduce the harm done to nature, for example by sourcing raw materials and products that carry certifications validating their sustainability.
- Infrastructure and real estate development projects where environmental impact assessments are conducted, and the positions of vital ecosystems are taken into account – such as avoiding building on habitats of endangered species.

All NCFs will be required to set appropriate natural capital targets and put in place a satisfactory governance framework. Compliance with these requirements is subject to formal regulatory scrutiny and an expectation of third-party expert verification. In addition, the Commission's anti-greenwashing policy, which has been published alongside this paper, applies to all authorised and registered funds, including Natural Capital Funds. The NCF designation therefore aims to provide fund investors with assurance that their capital is being applied in line with their sustainable investment expectations.

Logo

A designated NCF will be permitted to use the NCF logo and branding. Relevant rules and guidance have been added to the NCF Rules.

Fee

There is no additional fee relating to designation as a Natural Capital Fund but the standard funds fees relating to registration or authorisation as prescribed under the Fees Regulations will apply.

Next Steps

The NCF Rules will come into effect on 20 September 2022 and applications for designation may be made by existing funds or as part of new fund applications, from this date.

¹ The Commission does not intend to adopt ISSB standards prior to the endorsement of the developed standards by the relevant international regulatory standard setters such as IAIS and IOSCO. Once the ISSB has issued fully developed standards, the Commission plans to consult on the appropriate approach to adoption. This is unlikely to take place before 2024 at the earliest.

² [FINAL Financing UK Nature Recovery Final Report ONLINE VERSION.pdf \(cdn-website.com\)](#)

³ [Biodiversity financing - Environment - European Commission \(europa.eu\)](#)

⁴ 3. The sustainable use and protection of water and marine resources, 4. The transition to a circular economy, 5. Pollution prevention and control, and 6. The protection and restoration of biodiversity and ecosystems

Links:

- [The Natural Capital Fund Rules and Guidance, 2022](#)
 - [Guidelines on the use of the Natural Capital Fund logo](#)
 - [The Guernsey Green Fund Rules and Guidance, 2021](#)
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Overview

Background

This consultation paper proposes the creation of new fund rules providing for the voluntary application for designation by the Commission of registered or authorised collective investment schemes as Natural Capital Funds.

Designation would be available to funds committed to making a nature-positive investment, setting and monitoring appropriate targets, and making relevant disclosures. Nature-positive investments are those with an objective to contribute positively to and/or significantly reduce the harm done to the natural world, including through transitional strategies.

The draft Natural Capital Fund Rules, which include guidance, are attached to this Consultation Paper at Appendix 1. The Commission welcomes feedback and comments on the draft rules and the proposals as set out in this Consultation Paper.

Related

➔ [Extending the Sustainable Funds Regime: Consultation Paper on Natural Capital Fund Rules](#)

➔ [Appendix 1 - Draft Natural Capital Fund Rules](#)

➔ [Appendix 2 - Convention on Biological Diversity – Draft Post-2020 Global Biodiversity Framework’s 2030 Action Targets](#)

➔ [Appendix 3 - United Nations 2030 Agenda for Sustainable Development – Sustainable Development Goals 12 to 15](#)

Audiences

Consumer Financial Advisor Financial Services Business FinTech Lending, Credit & Finance Business
NRFSB Prescribed Business Lenders FSPID Team ExCo Banks Insurance Managers
Insurance Intermediaries



THE GUERNSEY GREEN FUND RULES and GUIDANCE, 2021

CONSOLIDATED VERSION

The Guernsey Green Fund Rules, as made under the Protection of Investors (Bailiwick of Guernsey) Law, 2020¹ ("the Law"), are set out in this document. This version incorporates amendments made, as set out in the footnote².

Guidance, provided by the Guernsey Financial Services Commission ("the Commission"), is set out in the shaded boxes.

September 2022

¹ Order In Council No. XVIII of 2020.

² Amending instruments incorporated: The Guernsey Green Fund (Amendment) Rules, 2022.

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PART 1 INTRODUCTION

1.1 Application

- (1) The Guernsey Green Fund Rules, 2021 replace the Guernsey Green Rules, 2018³.
- (2) These Rules apply to the use of the description Guernsey Green Fund.
- (3) The Commission may in its absolute discretion, by written notice to a licensee, exclude or modify the application of any provision of these Rules.
- (4) The Commission may issue supplementary guidance regarding the standards of conduct and practice expected in relation to any aspect of the regulatory framework. Such guidance will not constitute rules of the Commission.

Guidance Note:

This document take a two-level approach –

- the Rules set out the standards to be met by the licensee; and
- guidance notes present suggested ways of showing compliance with the Rules.

Licensees may adopt alternative measures to those set out in the guidance so long as it is possible to demonstrate that such measures achieve compliance.

The text contained in shaded boxes contains guidance from the Commission and does not form part of the Rules.

³ G.S.I. No. 33 of 2018.

PART 2 GUERNSEY GREEN FUNDS

2.1 Declaration

- (1) A Guernsey Green Fund must be declared using either Route 1 or Route 2 as set out at Schedule 1.

2.2 Scope

- (1) A Guernsey Green Fund must be established with the objectives of –
 - (a) spreading risk; and the criteria for the spread of risk must be specified in the fund's prospectus; and
 - (b) seeking a return for investors whilst mitigating environmental damage;

and must meet one of the criteria set out in Schedule 2.

2.3 Investment criteria

- (1) The governing body of a Guernsey Green Fund, the designated administrator, and any manager or designated custodian must take reasonable steps to ensure that the Fund –
 - (a) invests its property with the aim of spreading risk and with the ultimate objective of mitigating environmental damage, resulting in a net positive outcome for the environment;
 - (b) comprises 75% of assets, by value, that meet the notified green criteria as set out in Schedule 2. The remaining 25%, by value, of the property must not –

- (i) lessen or reduce the fund's overall objective of mitigating environmental damage; or
- (ii) comprise an investment of a type specified in Schedule 3;
- (c) only comprises of assets permitted to be held under its principal documents or prospectus and be of a nature or type described in its prospectus;
- (d) must not be invested in contravention of limits or restrictions imposed under its principal documents or prospectus.

Guidance Note:

In the event of a breach of the chosen green criteria the governing body of the fund should consider the most appropriate course of action, taking into account the type of assets in the Fund, the type of investors, and the disclosures in the prospectus. Such action could include any of the following non-exhaustive list –

- the suspension of dealing;
- the suspension of promotion;
- the implementation of a risk mitigation programme;
- any other action necessary to protect investors' interests and the reputation of the Bailiwick;
- the removal of the Guernsey Green Fund designation in accordance with rule 2.7.

Responsibilities of the designated administrator

The designated administrator's responsibility is to oversee the adherence to rule 2.3 (1) and the guidance above. Any breaches should be brought to the attention of the manager and the governing body of the Scheme and the Commission should be notified in accordance with rule 2.6. The designated administrator should also monitor to ensure that the investment adviser has been informed.

2.4 Notifications

- (1) A licensee seeking, on behalf of a scheme, to use the description of Guernsey Green Fund must submit to the Commission –
 - (a) the appropriate notification forms;

- (b) a final version of the prospectus;
- (c) notification of the green criteria to be applied to the scheme;
- (d) in the case of –
 - (i) a Route 1 scheme; a declaration, in accordance with Schedule 1, Part 1, that the scheme meets the notified green criteria which includes –
 - (aa) a certificate from a suitable third party that the prospectus meets the notified green criteria;
 - (ab) details of the third party's name, address, and expertise; and
 - (ac) confirmation that no conflict of interests exists between the third party and the governing body of the scheme;
 - (ii) a Route 2 Scheme; a declaration, in accordance with Schedule 1, Part 2, that the prospectus meets the notified green criteria;
- (e) confirmation of whether the governing body of the scheme will incorporate ESG Principles into its investment analysis and decision making process;
- (f) the requisite fee; and
- (g) such other information as the Commission may require.

Guidance Note:*Certification*

In the case of a Route 2 Scheme the declaration can be provided by either the designated administrator or the manager if an entity is licensed under the Law. A declaration can only be provided by a party contractually connected to the fund. Any changes to those parties would require a new declaration under rule 2.4.

ESG Principles

Where ESG Principles are to be incorporated into the investment analysis and decision making processes any scheme participants are reminded that use of the UN Principles for Responsible Investment, and its logo, are independently governed by the PRI Association. See www.unpri.org

2.5 Designation

- (1) The Commission may designate a scheme to be a Guernsey Green Fund if –
 - (a) it is satisfied that the scheme’s principal documents and prospectus appear, to the Commission, to comply with these Rules; and
 - (b) a declaration has been provided, in accordance with rule 2.4 and Schedule 1, confirming that the scheme meets the notified green criteria.
- (2) A scheme must not describe or promote itself, by any means, as a Guernsey Green Fund unless designated in accordance with these Rules.
- (3) A scheme that meets, and continues to meet, the requirements in these Rules may be designated a Guernsey Green Fund and may use the logo, set out at Schedule 4, subject to any conditions issued by the Commission.

2.6 Oversight of the Fund

- (1) The designated administrator must ensure that the Guernsey Green Fund is monitored against the notified green criteria and the investment criteria. Where the Fund is an open-ended investment scheme such monitoring must be performed, at a minimum, on a monthly basis and where it is a closed-ended investment scheme, at a minimum, on a quarterly basis. Where the scheme is in contravention the designated administrator must –
 - (a) immediately take steps to notify the designated custodian;
 - (b) immediately ensure steps are taken to rectify the position;
 - (c) if the position has not been rectified within one month of the date on which the contravention was identified –
 - (i) notify the Commission; and
 - (ii) provide the Commission with the proposals to rectify the breach; and
 - (d) for a period in excess of two months from the date that the contravention was identified, ensure that all investors are informed or otherwise notify the Commission that such communication has not taken place.
- (2) The governing body of a fund, the designated administrator, and any manager or designated custodian must cooperate with the licensee who submitted the Declaration.
- (3) No change to the licensee, who submitted the Declaration under Schedule 1, must occur without the written consent of the Commission.
- (4) Rule 2.6 (1)(a) to (d) do not apply to any Guernsey Green Funds –
 - (a) during the first six months from the date of designation or until the fund is fully invested, whichever occurs first; or

- (b) once a decision has been taken, notified, and approved by the Commission to wind up the scheme in accordance with the scheme principal documents.

2.7 Removal of designation

- (1) Where a Guernsey Green Fund continues, after a period of three months from the date when a contravention was identified, not to meet the notified green criteria or the investment criteria then the designated administrator must –
 - (a) provide the Declaration of non-compliance, under Schedule 1, Part 3, to the Commission;
 - (b) inform the governing body of the scheme that it must, as soon as possible, cease to use the designation of Guernsey Green Fund and any logo on all documents and other materials, electronic or otherwise;
 - (c) ensure that all investors have been notified of any steps taken under this rule; and
 - (d) ensure that a copy of a Declaration of non-compliance is placed in a prominent position on the fund's website.
- (2) Where a Guernsey Green Fund is being wound up the designated administrator must notify and seek the approval of the Commission if it wishes to continue to use the Guernsey Green Fund designation.
- (3) The Commission may also remove the designation where a Guernsey Green Fund –
 - (a) remains invested, for more than three months, in breach of the notified green criteria or the investment criteria;
 - (b) is being wound up; or

- (c) at any stage after it ceases to meet the notified green criteria, or the investment criteria, to protect –
 - (i) the interests of investors;
 - (ii) the public; or
 - (iii) the reputation of the Bailiwick as a finance centre.
- (4) Where, at any point, the Guernsey Green Fund has been promoted in accordance with ESG Principles and it becomes subject to action under this rule –
 - (a) it must cease to promote itself; and
 - (b) the designated administrator must follow (1)(b) to (d) unless otherwise agreed, in advance, with the Commission.

Guidance Note:

The Commission will take into account the circumstances of the breach and the rectification action taken.

2.8 Prospectus disclosures

- (1) In addition to the disclosures required in any other rules to which the Guernsey Green Fund is subject, the prospectus must contain –
 - (a) notice that the fund has received the designation of a Guernsey Green Fund;
 - (b) the notified green criteria;
 - (c) information as to how the fund will meet its objectives;

- (d) notification as to whether the fund is –
 - (i) Route 1, third party certified; including the name of the independent party who will provide certification; or
 - (ii) Route 2, whereby a licensee will provide a declaration;
 - (e) sufficient information regarding the declaration or certification and the methodology used;
 - (f) if the governing body of the fund and the manager intend incorporating ESG Principles into investment analysis and decision making processes; and
 - (g) any material conflicts of interest.
- (2) Sections (1)(a) and (d) do not apply to a fund which is listed on a recognised stock exchange and where commensurate disclosure has been made by way of a stock exchange announcement.

Guidance Note:

Information disclosed under rule 2.8 (1)(e) must enable any intended investor to be able to make an informed judgment on the merits of investing in the fund.

Material conflicts of interest would be those that an investor would reasonably require to enable them to make an informed judgment about the merits of investing in the fund.

Third Party Providers

The third party evaluation may take the form of a certification that the underlying assets of the scheme are, or will be, invested in accordance with the scheme's prospectus and the green criteria - or it can take the form of a green rating issued by a qualified third party.

The third party must be independent from the governing body of the fund.

2.9 Notification and filings to be submitted to the Commission

(1) Filings –

- (a) without prejudice to any other rules to which the fund is subject, the designated administrator must submit, to the Commission within six months of the fund's accounting year end, details of how the scheme had invested within the green criteria to which it is subject;
- (b) the designated administrator is required to ensure that information on how the scheme meets the green criteria is reported, to investors, on an annual basis.

(2) Notifications –

- (a) the designated administrator must give immediate written notification, to the Commission, of any material change to disclosures in the prospectus required under rule 2.8;
- (b) the designated administrator, or manager, must ensure that investors are notified of any changes to the matters referred to in rule 2.8.

Guidance Note:

Rule 2.9 (1)(a) is to be met by submitting notification using Form 200 at the same time as the Form 143 is submitted via the Commission's On-line Portal.

Rule 2.9 (1)(b) may be satisfied by a disclosure in the fund's annual report and accounts.

PART 3 GENERAL PROVISION

3.1 Interpretation

(1) In these Rules terms have their ordinary meaning unless specifically defined in the Law or in these Rules.

(2) In these rules the following definitions should be followed -

“company” means any scheme constituted as a body corporate; including protected cell companies and incorporated cell companies;

“ESG Principles” means environmental, social, and governance issues as set out by the UN supported Principles for Responsible Investment (the PRI);

“governing body” means, in the case of a company, its directors; in the case of a limited partnership, its general partner; in the case of a trust, its trustees;

“Guernsey Green Fund” means a scheme designated in accordance with these Rules and meeting the green criteria;

“manager” means a manager of a Guernsey Green Fund licensed under the Law. If the Scheme does not have a manager licensed in Guernsey then the references to manager should be read as references to the designated administrator;

“principal documents” means, in relation to –

- (a) a unit trust scheme, the trust instrument and management agreement, if any;
- (b) a company scheme, the articles of incorporation of a Guernsey company (or an equivalent document under the applicable law of a non-Guernsey body corporate), the management agreement and the trustee agreement; and
- (c) a collective investment scheme other than a unit trust scheme or a company scheme, the documents dealing collectively with the same or similar obligations and duties as the principal documents constituting a unit trust scheme or a company scheme;

“scheme” means an authorised collective investment scheme or a registered collective investment scheme.

PART 4 SAVINGS, REVOCATIONS, CITATION AND COMMENCEMENT

4.1 Savings

- (1) Guernsey Green Funds designated as such under the 2018 Rules continue to be designated Guernsey Green Funds under these Rules.

4.2 Revocations

4.2.1 Revocation of The Guernsey Green Fund Rules, 2018

- (1) The Guernsey Green Fund Rules, 2018 are revoked.

4.3 Citation and commencement

- (1) These rules may be cited as the Guernsey Green Fund Rules, 2021.
- (2) These rules come into force on 1st November 2021.

SCHEDULE 1

Part 1 - Route 1

Route 1

- I hereby provide a copy of a certification provided by *[insert name of certifier]* an independent third party that disclosures made to shareholders, or potential shareholders, and the investment criteria of the Scheme meets the notified green criteria as defined in Schedule 2 of The Guernsey Green Fund Rules, 2021.
- I confirm that I have advised *[insert name of certifier]* that it is an offence, under the Financial Services Business (Enforcement Powers) (Bailiwick of Guernsey) Law, 2020 in respect of which the Commission exercises its functions, to knowingly or recklessly provide the Commission with information which is false or misleading in a material manner.
- I confirm that we, as proposed designated administrator/manager *[delete as applicable]* of the scheme, are satisfied that the third party certifier is independent from the scheme and its associated parties and that, to the best of our knowledge, the third party certifier has adequate expertise to provide a reliable and accurate assessment of the scheme's ability to meet the green criteria as defined in Schedule 2 of The Guernsey Green Fund Rules, 2021.
- I confirm that we, the proposed designated administrator/manager *[delete as applicable]* of the scheme, are satisfied that the disclosures made in relation to the scheme meet the requirements of The Guernsey Green Fund Rules, 2021.
- I confirm that the information supplied is complete and correct, to the best of my knowledge and belief at the time of the submission, and that there are no other facts, material to the notification, of which the Commission should be aware.

Part 2 – Route 2

Route 2

- I confirm that we, as proposed [*insert nature of role*] of the scheme, are satisfied that the objective of the scheme encompasses the mitigation of environmental damage and that the scheme's investment criteria meets the notified green criteria as defined in Schedule 2 of The Guernsey Green Fund Rules, 2021.
- I confirm that we, the proposed [*insert nature of role*] of the scheme, are satisfied that the disclosures made to shareholders, and potential shareholders, with regards to the scheme meet the requirements of The Guernsey Green Fund Rules, 2021.
- I confirm that the information supplied is complete and correct to the best of my knowledge and belief at the time of submission and that there are no other facts material to the notification of which the Commission should be aware.

Part 3 – Declaration of Non-compliance

Declaration of Non-compliance

- We, as [*insert nature of role*] of the scheme, have assessed the scheme against disclosures made to shareholders, and potential shareholders, and The Guernsey Green Fund Rules, 2021 and, in accordance with rules 2.3, 2.6 and 2.7 of The Guernsey Green Fund Rules, 2021, hereby confirm that the scheme no longer meets the notified green criteria/investment criteria.
- We, as [*insert nature of role*], hereby confirm that, to the best of our knowledge, the scheme will no longer use the designation of a Guernsey Green Fund and will ensure that no references are made to it in any further disclosures to shareholders, or to potential shareholders, or in marketing materials.

- We, as [*insert nature of role*], hereby confirm that, to the best of our knowledge, all investors in the scheme have been notified that the scheme no longer meets the notified green criteria/investment criteria and is no longer a designated Guernsey Green Fund.
- I confirm that the information supplied is complete and correct, to the best of my knowledge and belief at the time of the submission, and that there are no other facts, material to the declaration, of which the Commission should be aware.
- I am aware that it is an offence, under the Financial Service Business (Enforcement Powers) (Bailiwick of Guernsey) Law, 2020, in respect of which the Commission exercises its functions, to knowingly or recklessly provide the Commission with information which is false or misleading in a material manner.

SCHEDULE 2

Green Criteria

This Schedule contains a list of green criteria that are endorsed by the Commission as standards that can be adopted by a Guernsey Green Fund.

A fund must, in accordance with rule 2.3, comply with one of the criteria listed below and the chosen criteria must be set out in the notification to the Commission under rule 2.4.

Criteria	Date added	Reference
The Common Principles for Climate Mitigation Finance Tracking - [Version 2 (issued 15 June 2015)]	9 July 2018 ⁴	Appendix 1
The Common Principles for Climate Mitigation Finance Tracking – Version 3	1 September 2022	Issued by the Joint Climate Finance Tracking Group of multilateral development banks (MDBs) and a group of representatives of the International Development Finance Club (IDFC) member banks on 18 October 2021 ⁵
European Union Taxonomy for Sustainable Activities – technical screening criteria for determining the conditions under which an economic	1 September 2022	European Commission Delegated Regulation(EU) 2021/2139 of 4 June 2021 – Annexes I and II] ⁶

⁴ Added into the previous version of these Rules – The Guernsey Green Fund Rules, 2018, No. 33 of 2018.

⁵ Accessed at: <https://www.idfc.org/wp-content/uploads/2021/10/cp-mit-update-final-2021-10-18.pdf>, on 08 August 2022.

⁶ Text added by The Guernsey Green Fund (Amendment) Rules, 2022.

activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives		
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Guidance Note:

The Commission will add to the published list of standards, where it considers it appropriate, and will consider applications for the inclusion of new green criteria. However, we would encourage any person wishing to add a new standard to give the Commission adequate time to review the standards and consult third party expert opinion.

SCHEDULE 3

Exclusion policies

This Schedule contains a list of different exclusion policies that have been developed by various international institutions that have relevant environmental expertise.

A Guernsey Green Fund must, in accordance with rule 2.3(1)(b)(ii), comply with one of the exclusion policies listed below. It is the decision of the governing body of the fund to select the policy which is most relevant to the scheme.

Policy	Date Added	Location
The Climate Bonds Initiative Green Bonds Methodology – Exclusion Policy	9 July 2018 ⁷	Appendix 2

Guidance Note:

The Commission will add to the published list of exclusion policies where it considers it appropriate and will consider applications for the inclusion of new policies. However, we would encourage any person wishing to add a new policy to give the Commission adequate time to review the policy and consult third party expert opinion where necessary.

⁷ Added into the previous version of these Rules – The Guernsey Green Fund Rules, 2018, No. 33 of 2018.

SCHEDULE 4

Use of the Guernsey Green Fund logo



The logo must be reproduced from original artwork provided by the Commission and must comply with the Guernsey Green Fund Brand Guidelines which can be found at www.gfsc.gg.

The use of the Guernsey Green Fund logo must not be misleading. For example, due consideration should be given to the placement of the logo on stationary or the homepage of an investment manager's website if other funds within its portfolio are not designated as Guernsey Green Funds.

As soon as possible after a Scheme's designation has been removed, pursuant to rule 2.7, the Scheme and its designated administrator, or any manager or designated custodian of the Scheme, must cease to use the Guernsey Green Fund logo in respect of the scheme.

It should be noted that use of the words 'Guernsey Green Fund' are separately restricted under rule 2.5.

APPENDIX 1

Common principles for Climate Mitigation Finance Tracking

Category	Sub-category	Example
1. Renewable Energy	1.1 Electricity Generation	<p>Wind power</p> <p>Geothermal power (only if net emission reductions can be demonstrated)</p> <p>Solar power (concentrated solar power, photovoltaic power)</p> <p>Biomass or biogas power that does not decrease biomass and soil carbon pools (only if net emission reductions can be demonstrated)</p> <p>Ocean power (wave, tidal, ocean currents, salt gradient, etc.)</p> <p>Hydropower plants (only if net emission reductions can be demonstrated)</p>
	1.2 Heat Production or other renewable energy application	<p>Solar water heating and other thermal applications of solar power in all sectors</p> <p>Thermal applications of geothermal power in all sectors</p> <p>Wind-drive pumping systems or similar</p> <p>Thermal applications of sustainability/produced bioenergy in all sectors, incl. efficient, improved biomass stoves</p>

	1.3 Transmission systems, greenfield	<p>New transmission systems (lines, substations) or new systems (e.g. new information and communication technology, storage family, etc.) and mini-grid to facilitate the integration of renewable energy sources into the grid</p> <p>Renewable energy power plant retrofits</p> <p>Improving existing systems to facilitate the integration of renewable energy sources into grid</p>
2. Lower-carbon and efficient energy generation	<p>2.1 Transmission and distribution systems</p> <p>2.2 Power Plants</p>	<p>Retrofit of transmission lines or substations and/or distribution systems to reduce energy use and/or technical losses, excluding capacity expansion</p> <p>Thermal power plant retrofit to fuel switch from a more greenhouse gas intensive fuel to a different, less greenhouse gas intensive fuel type</p> <p>Conversion of existing fossil-fuel based power plant to cogeneration technologies that generate electricity in addition to providing heating/cooling</p> <p>Waste heat recovery improvements</p> <p>Energy efficiency improvement in existing thermal power plant, industrial energy efficiency improvements through the installation of more efficient equipment, changes in processes, reduction of heat losses and/or increased waste heat recovery</p>
3. Energy efficiency	3.1 Brownfield energy efficiency in industry	Installation of co/generation plants that generate electricity in addition to providing heating/cooling

		<p>More efficient facility replacement of an older facility (old facility retired)</p>
	<p>3.2 Brownfield energy efficiency in commercial, public and residential sectors (buildings)</p>	<p>Energy efficiency improvement in lighting, appliances and equipment</p> <p>Substitution of existing heating/cooling systems for buildings by co/generation plants that generate electricity in addition to providing heating/cooling</p> <p>Retrofit of existing buildings: architectural or building changes that enable reduction of energy consumption</p>
	<p>3.3 Brownfield energy efficiency in public services</p>	<p>Energy efficiency improvement in utilities and public services through the installation of more efficient lighting or equipment</p> <p>Rehabilitation of district heating systems</p> <p>Utility heat loss reduction and/or increased waste heat recovery</p> <p>Improvement in utility scale energy efficiency through efficient use, and loss reduction</p>
	<p>3.4 Vehicle energy efficiency fleet retrofit</p>	<p>Existing vehicles, rail or boat fleet retrofit or replacement (including the use of lower-carbon fuels, electric or hydrogen technologies, etc)</p>
	<p>3.5 Greenfield energy efficiency in commercial and residential sectors (buildings)</p>	<p>Use of highly efficient and architectural designs, energy efficiency and equipment, and building techniques that reduce building energy consumption,</p>

	3.6 Energy audits	<p>exceeding available standards and complying with high energy efficiency certification or rating schemes</p> <p>Energy audits to energy end-users, including industries, buildings and transport systems</p>
4. Agriculture, forestry and land-use	<p>4.1 Agriculture</p> <p>4.2 Afforestation and reforestation, and biosphere conservation</p> <p>4.3 Livestock</p>	<p>Reduction in energy use in traction (e.g. efficient tillage), irrigation and other agriculture processes</p> <p>Agriculture projects that do not deplete and/or improve existing carbon pools (reduction in fertiliser use, rangeland management, collection and use of bagasse, rice husks, or other agricultural waste, low tillage techniques that increase carbon contents of soil, rehabilitation of degraded lands, etc.)</p> <p>Afforestation (plantations) on non-forested land</p> <p>Reforestation on previously forested land</p> <p>Sustainable forest management activities that increase carbon stocks or reduce the impact of forestry activities</p> <p>Biosphere conservation projects (including payments for ecosystem services) targeting reducing emissions from the deforestation or degradation of ecosystems</p> <p>Livestock projects that reduce methane or other greenhouse gas emissions (manure management with biodigestors, etc.)</p>

	4.4 Biofuels	Production of biofuels (including biodiesel and bioethanol)
5. Non-energy greenhouse gas reduction	5.1 Fugitive emissions	Reduction of gas flaring or methane fugitive emissions in the oil and gas industry Coal mine methane capture
	5.2 Carbon capture and storage	Projects for carbon capture and storage technology that intend to prevent release of large quantities of CO ₂ into the atmosphere from fossil fuel use in power generation and process emissions in other industries
	5.3 Air conditioning and refrigeration	Retrofit to existing industrial, commercial and residential infrastructure to switch to cooling agent with lower global warming potential
	5.4 Industrial processes	Reduction in greenhouse gas emissions resulting from industrial process improvements and cleaner production (e.g. cement, chemical), excluding carbon capture and storage
6. Waste and wastewater		Treatment of wastewater if not a compliance requirement (e.g. performance standard or safeguard) as part of a larger project that reduces methane emissions (only if net emission reductions can be demonstrated) Waste management and waste-to-energy projects that reduce methane emissions and generate energy (e.g. incineration of waste, landfill gas capture, and landfill gas combustion) Waste-recycling projects that recover or reuse materials and waste as inputs into new products or as a

		resource (only if net emission reductions can be demonstrated)
7. Transport	7.1 Urban transport modal change	Urban mass transit Non-motorised transport (bicycles and pedestrian mobility)
	7.2 Transport oriented urban development	Integration of transport and urban development planning (dense development, multiple land-use, walking communities, transit connectivity, etc.) leading to a reduction in the use of passenger cars Transport demand management measures to reduce GHG emissions (e.g. speed limits, high-occupancy vehicle lanes, congestion charging/road pricing, parking management, restriction or auctioning of licence plates, car-free city areas, low emission zones)
	7.3 Inter-urban transport	Railway transport ensuring a modal shift of freight and/or passenger transport from road to rail (improvement of existing lines or construction of new lines) Waterways transport ensuring a modal shift of freight and/or passenger transport from road to waterways (improvement of existing infrastructure or construction of new infrastructure)
8. Low-carbon technologies	8.1 Products or equipment	Projects producing components, equipment or infrastructure dedicated for the renewable and energy efficiency sectors
	8.2 R&D	Research and development of renewable energy or energy efficiency technologies

		carbon standards like VCS or Gold Standard
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APPENDIX 2

Exclusion policies

Sector	Excluded area
Energy	<p>Uranium mining for nuclear power</p> <p>Any fossil fuel-based power generation including; gas, 'clean' coal and other coal</p>
Energy efficiency	<p>Efficiency upgrades to greenhouse gas intensive power sources – e.g. cleaner coal technology</p> <p>Energy savings in fossil fuel extraction activities – emission reduction requirements require a rapid phase-out of all fossil fuel usage. Anything that helps to extend the life of a fossil fuel usage is excluded.</p>
Waste	<p>Landfill without gas capture</p> <p>Waste incineration without energy capture</p>
Transport	Rail lines where fossil fuels account for more than >50% of freight.



Guernsey Financial
Services Commission

Natural Capital Fund

Brand guidelines

EST. 2022



Natural Capital Fund

This document contains the set brand guidelines for the Natural Capital Fund.

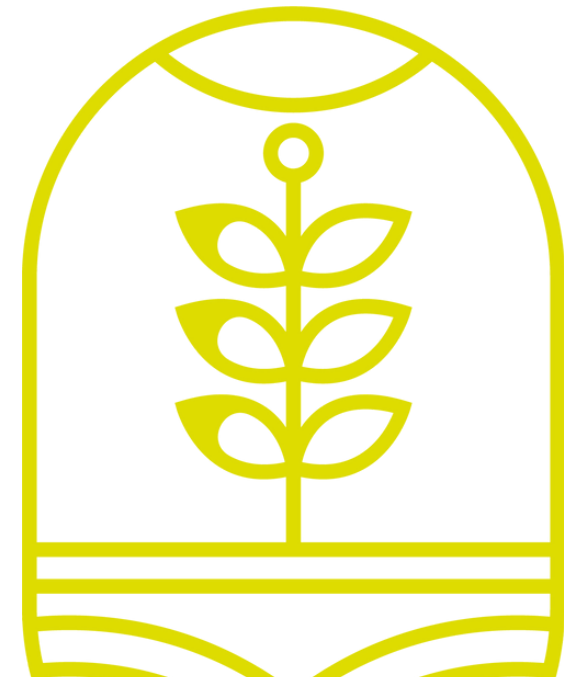
Included are rules and examples of applications that will help you understand the brand's visual guidelines as well as its identity.

The purpose of this document is to ensure correct use and application of the Natural Capital Fund branding across all uses.

Guidelines created in 2022.



**Natural
Capital Fund**
Guernsey Sustainable Funds





Natural Capital Fund

Guernsey Sustainable Funds

Logo & Icon

The Natural Capital Fund designation and the right to use the associated logo and icon is issued by the Guernsey Financial Services Commission. They certify compliance with the Natural Capital Fund Rules. It is a sister designation and logo to the Guernsey Green Fund and forms part of the suite of Guernsey Sustainable Funds.

The logo brings together elements of land, sea and light in a minimalistic modern illustrative style. It can be recognised as a standalone icon or a full typographic-icon pairing.

The primary logo is placed above. Alternate logos have also been created for use on dark backgrounds.

A custom gradient has been used to create a bold but corporate and professional visual aesthetic, ready for multiple applications.

01

Primary Logo



**Natural
Capital Fund**

Guernsey Sustainable Funds

01

Secondary Logo



**Natural
Capital Fund**

Guernsey Sustainable Funds

01

Icons





Clearspace

The Natural Capital Fund's icon should always be surrounded by at least 10mm of clear space for proper visual distribution during application.

Typography

Here are the fonts and weights to use for the Natural Capital Fund's various collaterals. Text should be used in left alignment.

Poppins is a sleek, modern sans serif that lends itself to print and digital application. Poppins provides a stylish corporate identity that will stand the test of time.

Poppins Bold

ABCDEFGHIJKLMNOPQRSTUVWXYZ

abcdefghijklmnopqrstuvwxyz

1234567890- = ! @ # \$ % ^ & * () _ +

Poppins Regular

ABCDEFGHIJKLMNOPQRSTUVWXYZ

abcdefghijklmnopqrstuvwxyz

1234567890- = ! @ # \$ % ^ & * () _ +

The quick
brown fox

LINE HEIGHT: 1.3



Spacing

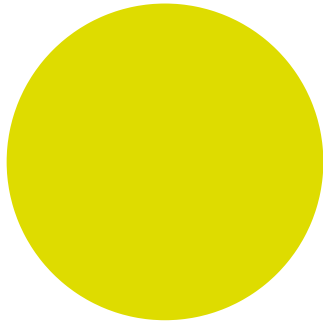
When using the font for the Natural Capital Fund, please always follow these guidelines for body text to maintain consistency.



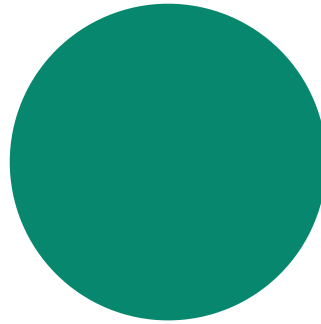
LETTER SPACING: 0

Colour Palette

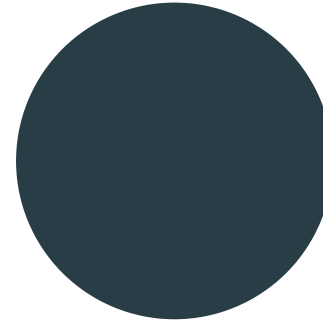
Here are the colours and their codes to use with the Natural Capital Fund brand collaterals.



LEAFY SUNSHINE
#DEDC00



OCEAN TEAL
#07886E



CORPORATE NAVY
#283D46

Logo Placement

The Natural Capital Fund logo should be placed on different colours as follows. This is to maintain consistency and legibility across all applications of the branding. Examples of the below are on the following page.

On a **white background**, the Gradient Logo should be used wherever possible. The full Corporate Navy Logo may also be used if better suited.

On a **Corporate Navy background**, the Leafy Sunshine logo should be used wherever possible. The full White Logo may also be used if better suited.

On an **Ocean Teal background**, the Leafy Sunshine logo should be used wherever possible. The full White Logo may also be used if better suited.

The Ocean Teal shade's primary function is as an accent, and should be used for headers or sub-headers on text as used in this document.

Black Background: White Logo

Note: Black Background should only be for print purposes if the print settings are greyscale. Dark Blue background should be the standard for all block colour applications.

Logo Placement Examples





Guernsey Financial
Services Commission



Natural Capital Fund

Guernsey Sustainable Funds

GUERNSEY SUSTAINABLE FUNDS: THE NATURAL CAPITAL FUND RULES and GUIDANCE, 2022

The Natural Capital Fund Rules, made in accordance with the Protection of Investors (Bailiwick of Guernsey) Law, 2020¹ (“the Law”), are set out in this document.

Further guidance, provided by the Guernsey Financial Services Commission (“the Commission”), is set out in shaded boxes.

¹ Order In Council No. XVIII of 2020.

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PART 1 INTRODUCTION

1.1 Application

- (1) These Rules apply to the use of the description Natural Capital Fund.
- (2) The Commission may in its absolute discretion, by written notice to a licensee, exclude or modify the application of any provision of these Rules.
- (3) The Commission may issue supplementary guidance regarding the standards of conduct and practice expected in relation to any aspect of the regulatory framework. Such guidance will not constitute rules of the Commission.

Guidance

This document takes a two-level approach –

- the Rules set out the standards to be met; and
- guidance notes set out the Commission's approach to regulation and present suggested ways of showing compliance with the Rules.

Alternative measures to those set out in the guidance may be adopted so long as it is possible to demonstrate that such measures achieve compliance.

The text contained in shaded boxes contains guidance from the Commission and does not form part of the Rules.

PART 2 GENERAL RULES

2.1 Objectives and investment criteria

2.1.1 Objectives

- (1) The objectives of a Natural Capital Fund must reflect the following –
 - (a) spreading risk, and the criteria for the spread of risk must be specified in the scheme's prospectus; and
 - (b) seeking a return for investors whilst either –
 - (i) making a positive contribution; or
 - (ii) significantly reducing harm

to the natural world.
- (2) The objectives of a Natural Capital Fund must align with either –
 - (a) the United Nations Convention on Biological Diversity's Post-2020 Global Biodiversity Framework's 2030 Action Targets;
 - (b) the United Nations Sustainable Development Goals 12-15; or
 - (c) the European Union Taxonomy for Sustainable Activities' Environmental Objectives (c) to (f).

Guidance

An objective of significant reduction in harm to the natural world may involve a strategy of investment, and possibly also active investee engagement at a governance or management level, in enterprises implementing a programme to materially transition business activity away from practices detrimental to nature.

The frameworks listed in rule 2.1, as the bases of Natural Capital Fund objectives incorporate the immense variety of natural capital and provide a comprehensive understanding of what strategies and goals are necessary to abate natural capital loss. This affords the scheme the flexibility to adopt the sections of the frameworks relevant to its specific investment focus and strategy while operating in line with internationally recognised standards.

A Natural Capital Fund's objectives do not have to align with every single one of the Post-2020 Global Biodiversity Framework's 2030 Action Targets, each of the United Nations Sustainable Development Goals, or EU Taxonomy Environmental Objectives but must merely identify those relevant to its investment strategy.

Investment in stark contravention of any of the relevant international targets or goals, even where these are not expressly aligned with the scheme's objectives, is likely to be incompatible with an overall objective of making a positive contribution or significantly reducing harm to nature.

2.1.2 Investment criteria

- (1) The governing body must set appropriate investment criteria and take reasonable steps to ensure that the scheme –
 - (a) invests its property with the aim of achieving the scheme's objectives;
 - (b) only comprises of assets permitted to be held under its principal documents, or prospectus, and be of a nature or type described in the prospectus; and
 - (c) must not be invested in contravention of limits, or restrictions, imposed under its principal documents or prospectus.

2.2 Targets and monitoring

- (1) The governing body must set natural capital targets against which the scheme's positive contribution to the natural world and any reduction of harm, to the natural world, may be tracked. These targets must –
 - (a) be relevant to the scheme's objectives;
 - (b) be based on up-to-date, good quality scientific research;
 - (c) make reference to a relevant baseline position to enable meaningful measurement of progress;
 - (d) be clearly documented; and
 - (e) be reviewed not less than once every twelve months.
- (2) The governing body must –
 - (a) ensure that an appropriate framework of policies, procedures, and controls is in place to monitor and measure performance as well as progress against the targets;
 - (b) use appropriate metrics to measure performance against the targets; and
 - (c) review progress against targets periodically and at least annually.

Guidance

The Rules do not prescribe the use of any one methodology for the setting and monitoring of targets and the governing body may, with reference to appropriate internal or external expert advice, adopt an approach appropriate and tailored to the investment strategy of the scheme.

Consideration may be given to the adoption of a target setting approach based on the Science Based Targets for Nature (SBTN). The SBTN have their basis in the methodology of, and are part of, the Science Based Targets Initiative which is the current global standard. This methodology involves the following key elements –

- Assessment of the scheme's biggest impacts and dependencies on nature and the environment;
- Prioritisation of particular areas across the whole 'sphere of influence' and setting appropriate targets;
- Measurement of baseline data (especially for priority targets and locations);
- Action to avoid future impacts, reduce current impacts, regenerate and restore ecosystems, and transform systems; and
- Tracking progress towards targets and reporting on such progress.

The metrics chosen to measure performance against targets must be appropriate to the objectives and the natural capital targets set by the scheme. Measurement tools/metrics should be meaningful and relevant and the governing body of the scheme would be expected to consider the extent to which these tools permit the measurement to be (where relevant) –

- Derived from a deep, global, scientifically robust base of knowledge that is directly linked to an underlying key component of natural capital;
- Geographically targeted – meaning that a metric is able to measure relative impact on a sufficiently focussed geographical area – many areas (even though adjacent to each other) differ greatly in terms of their natural capital value both in terms of dependency (services the area is providing to people) and their intrinsic natural capital value;
- Quantitative – meaning that units of some form are established, with clear meaning of what a unit is and what it signifies;
- Directional – meaning it has to be clear whether an increase in units or a decrease in units is desirable.
- Additive – meaning addition of units (positive and negative) ultimately arrives at a final total measuring impact and/or dependencies, and progress across the entire portfolio;
- Temporally responsive – meaning you need to be able to calculate how many units more (or less) you have compared to your baseline. The tools should also be adaptable to changes in circumstances (for example, as a result of conservation or restoration activity in a specific geographical area).

Guidance – continued

Proprietary models and measurement tools may be used, provided that the scheme has access to the internal or external expertise necessary to ensure that such proprietary tools are robust, science based, and fulfil the criteria above. Where a scheme does not use a proprietary model, it should use a measurement tool developed by a reputable source and ensure the above criteria are still met.

Consideration may be given to –

- ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) – developed by the Natural Capital Finance Alliance and UNEP-WCMC;
- BFFI (Biodiversity Footprint for Financial Institutions) – developed by CREM and PRé Sustainability, together with ASN Bank;
- CBF (Corporate Biodiversity Footprint) – developed by Iceberg Data Lab and I Care Consult as scientific partner;
- STAR (Species Threat Abatement and Restoration) – developed by the IUCN Species Survival Commission’s Post-2020 Taskforce (to be incorporated into ENCORE’s biodiversity risk measure);
- GBSFI (Global Biodiversity Score for Financial Institutions) – developed by CDC Biodiversité (France) and the B4B+ Club, or
- BIA-GBS (Biodiversity Impact Analytics powered by the Global Biodiversity Score) developed by Carbon4Finance and CDC Biodiversité.

This is only a small selection of tools available, and the Commission will accept other frameworks that can be proven to be credible and based on scientific methods. Nevertheless, any measurement tool chosen needs to be appropriate for the targets set.

2.3 Application

- (1) A governing body applying on behalf of a scheme, for designation as a Natural Capital Fund, must submit to the Commission –
 - (a) the appropriate applications;
 - (b) a final version of the prospectus, where required to be issued;

- (c) a declaration, in accordance with Part 1 of Schedule 1, made by the governing body, that the scheme's objectives and targets comply with these Rules;
- (d) a report, approved by the governing body, setting out –
 - (i) the investment approach and objectives of the scheme and how these align with relevant international goals set out at rule 2.1.1;
 - (ii) natural capital targets set and the approach used to set them; and
 - (iii) how compliance is monitored;
- (e) a copy of any certification, confirming compliance of the scheme's objectives, targets, and monitoring procedures with these Rules, as provided by a third party expert verifier, where such certification has been obtained;
- (f) the requisite fee; and
- (g) any other information as the Commission may require in a particular case.

Guidance

The Commission has designed the scope of these Rules to include schemes that, through their activities, commit to significantly reduce harm to nature – in addition to those which exclusively aim to contribute positively. It is anticipated that, in calibrating the scope of the regime to encompass schemes with such transitional investment strategies, a wider spectrum of investment strategies may be accommodated, thereby increasing the range of schemes which might seek designation. It is hoped that, as a consequence, a greater contribution can be made to the flow of resources directed towards the effort to preserve and rebuild the planet's reserves of natural capital.

Guidance - continued

This approach is not, however, an invitation for applications of a superficial nature. The Commission expects applicants to make a genuine commitment to their overarching objectives and demonstrate this in their application, particularly in the report set out at rule 2.3, and in their periodic reporting to the Commission.

It is expected that a fund's governing body should engage the necessary third party expertise to confirm the compliance, with these Rules, of the fund's objectives, targets, investment criteria, and the framework for monitoring and measuring the fund's progress against the applicable natural capital targets. It is accepted, however, that certain funds may have access to the appropriate in-house expertise and the use of such expertise is not precluded. In such cases the governing body should evidence, to the Commission, the strength and qualification of the in-house expertise relied on in the making of the application.

2.4 Designation

- (1) A scheme must not describe or promote itself, by any means, as a Natural Capital Fund, unless so designated in accordance with these Rules.
- (2) A scheme that meets, and continues to meet, the requirements of these Rules may be designated a Natural Capital Fund and may use the logo, set out at Schedule 2, subject to any conditions issued by the Commission.

Guidance

When the Commission considers an application for designation as a Natural Capital Fund it will assess –

- the scheme's principal documents;
- the scheme's prospectus;
- the declaration, and other submissions, as required by rule 2.3; and
- any other material supplied, to the Commission, at the time of application.

2.5 Oversight of the scheme

- (1) The governing body must notify the designated administrator where the scheme is in contravention of the Law or these Rules.
- (2) The designated administrator must satisfy itself that the governing body has put in place natural capital targets and a monitoring process, with respect to these targets, in accordance with these Rules.
- (3) Where the designated administrator has been notified, by the governing body, or has otherwise become aware, of a contravention of the Law or these Rules, the designated administrator must –
 - (a) immediately take steps to notify, where appropriate, the governing body, manager, and designated custodian;
 - (b) immediately inform the governing body that it must ensure steps have been taken to rectify the position;
 - (c) if the position has not been rectified within one month of the date on which the contravention was identified –
 - (i) notify the Commission; and
 - (ii) provide the Commission with the proposals to rectify the breach; and
 - (d) if the position has not been rectified within two months of the date on which the contravention was identified, ensure that all investors are informed or otherwise notify the Commission that such communication has not taken place and the reason why.
- (4) Subsection (3) does not apply to Natural Capital Funds –
 - (a) during the first six months from the date of designation, or until the scheme is fully invested, whichever occurs first; or

- (b) once a decision has been taken to wind up the scheme, in accordance with the scheme's principal documents, and the Commission has been duly notified.

Guidance

The administrator is neither responsible for verifying the validity of natural capital targets against which the scheme's positive contribution to and/or reduction of harm may be tracked, nor is the administrator responsible for monitoring progress against such targets.

The designated administrator's responsibilities, as specified in the underlying fund authorisation or registration rules, continue to apply.

2.6 Removal of designation

- (1) Where the designated administrator is aware that a Natural Capital Fund continues, after a period of three months from the date when a contravention was identified, not to meet the requirements of these Rules, then it must –
 - (a) provide the declaration of non-compliance, set out in Part 2 of Schedule 1, to the Commission;
 - (b) inform the governing body that it must, as soon as possible, cease to use the designation of Natural Capital Fund on all documents and other material, whether electronic or otherwise;
 - (c) ensure that all investors have been notified of any steps taken under this rule; and
 - (d) ensure that a copy of the declaration of non-compliance is placed in a prominent position on the scheme's website.
- (2) Where the circumstances detailed in subsection (1) apply, the scheme's designation as a Natural Capital Fund ceases.

- (3) Where a Natural Capital Fund is being wound up the designated administrator must notify and seek the approval of the Commission if it wishes to continue to use the Natural Capital Fund designation.

Guidance

The Commission may, using its statutory powers, remove the designation when it is satisfied that the scheme -

- does not set objectives consistent with the requirements of these Rules;
- does not set and monitor progress against natural capital targets;
- does not set investment criteria consistent with the scheme's objectives;
- remains invested, for more than three months, in breach of the investment criteria;
- is being wound up;
- at any stage, after it ceases to meet the notified natural capital criteria, or the investment criteria, to protect –
 - the interests of investors;
 - the public; or
 - the reputation of the Bailiwick.

2.7 Prospectus disclosures

- (1) In addition to the disclosures required in any other rules to which the Natural Capital Fund is subject, where a prospectus is prepared it must contain –
- (a) notice that the scheme has received the designation of Natural Capital Fund;
 - (b) the objectives, natural capital targets, and investment criteria;
 - (c) information as to how the scheme will meet its objectives and targets; and
 - (d) any material conflicts of interest.

- (2) Subsection (1)(a) does not apply to a scheme which is listed on a recognised stock exchange and where commensurate disclosure has been made by way of a stock exchange announcement.

2.8 Notifications and submissions

2.8.1 Notifications and submissions to the Commission

- (1) The governing body must submit, to the Commission, within six months of the scheme's accounting year end, details of the scheme's performance against its natural capital targets.
- (2) The designated administrator must give immediate written notice, to the Commission, of any material change to disclosure, in the prospectus, set out at rule 2.7.

2.8.2 Notifications and submissions to investors

- (1) The governing body is required to ensure that information on the scheme's performance against its natural capital targets is reported to investors on an annual basis.
- (2) The designated administrator, or manager, must ensure that investors are notified of any changes to the matters set out at rule 2.7.

Guidance

The annual report to the Commission, demonstrating the scheme's performance, may include –

- reports from the chosen measurement tool regarding the scheme's progress against different metrics (and subsequently its natural capital targets);
- reports generated internally by a proprietary model measuring the scheme's progress against natural capital targets;
- information on stakeholder engagement and voting activity (if appropriate due to the investment strategy including active stakeholder engagement);
- a description of the governing body's monitoring and oversight against natural capital targets;

Guidance - continued

- details of any changes to the scheme's natural capital targets and the rationale and process behind any such change;
- progress against transitional plans (with demonstration of the appropriate measurements);
- disclosures made in line with other frameworks that aid in illustrating the scheme's compliance with the objectives and progress against natural capital targets;
- additional frameworks/recommendations of internationally recognised bodies that the scheme complies with; and/or
- any other information demonstrating the scheme's commitment to the objectives.

In preparing annual investor disclosures a scheme should have regard to the draft Task Force on Nature-Related Financial Disclosure's recommendations for nature-related risks and opportunities and seek to make disclosures consistent with this emerging framework. Schemes will be expected to follow the TNFD disclosure recommendations following their finalisation anticipated in late 2023.

The requirement to notify investors of performance against a fund's natural capital targets may be met through appropriate disclosure as part of the fund's annual report.

While a fund has the flexibility to make the disclosures required under the Rules, in a form suitable to its particular objectives and targets, disclosures compliant with Article 9 of the Sustainable Financial Disclosure Regulation may be deemed to be compliant with the Rules.

PART 3 GENERAL PROVISION

3.1 Interpretation

(1) In these rules terms have their ordinary meaning unless specifically defined in the Law or in these rules.

(2) In these rules the following definitions should be followed -

“the European Union Taxonomy for Sustainable Activities’ Environmental Objectives (c) to (f)” means the environmental objectives –

“(c) the sustainable use and protection of water and marine resources;

(d) the transition to a circular economy;

(e) pollution prevention and control;

(f) the protection and restoration of biodiversity and ecosystems,

established by Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088;

“governing body” means, in the case of a company its directors, in the case of a limited partnership its general partner and in the case of a trust its trustees;

“Natural Capital Fund” means a scheme designated in accordance with these Rules;

“principal documents” means –

- (a) in relation to a unit trust scheme, the trust instrument and management agreement, if any;
- (b) in relation to a company scheme, the articles of incorporation of a Guernsey company (or an equivalent document under the applicable law of a non-guernsey body corporate), the management agreement and the trustee agreement; and
- (c) in relation to a collective investment scheme, other than a unit trust scheme, or a company scheme, the documents dealing collectively with the same or similar obligations and duties as the principal documents constituting a unit trust scheme or a company scheme;

“United Nation’s Sustainable Development Goals 12-15” are goals –

- 12 (Responsible Consumption and Production);
- 13 (Climate Action);
- 14 (Life Below Water); and
- 15 (Life on Land),

of the United Nations Sustainable Development Goals established by the United Nations General Assembly in 2015 as part of the 2030 Agenda for Sustainable Development; and

“scheme” means an authorised collective investment scheme or a registered collective investment scheme.

PART 4 CITATION AND COMMENCEMENT

4.1 Citation and commencement

- (1) These rules may be cited as the Natural Capital Fund Rules.
- (2) These rules come into force on 20th September 2022.

SCHEDULE 1

Part 1 – Declaration of compliance

On behalf of the governing body of the scheme:

- I confirm that, as the proposed governing body of the scheme, we are satisfied that the scheme's objectives, targets, and investment criteria meet the requirements of The Natural Capital Fund Rules.
- I confirm that a report, approved by the governing body of the scheme, as required under rule 2.3 of The Natural Capital Fund Rules, has been submitted with this declaration.
- I confirm that, as the proposed governing body of the scheme, we are satisfied that the disclosures made in relation to the scheme meet the requirements of The Natural Capital Fund Rules.
- I confirm that the information supplied is complete and correct, to the best of our knowledge and belief at the time of its submission, and that there are no other facts, material to the notification, of which the Commission should be aware.
- I confirm that we are aware that it is an offence, under the Financial Services Business (Enforcement Powers)(Bailiwick of Guernsey) Law, 2020, to knowingly or recklessly provide the Commission with information which is false or misleading.

Part 2 – Declaration of non-compliance

- I, acting as the designated administrator of the scheme, have become aware that the scheme no longer meets the requirements of the Natural Capital Fund Rules (“the Rules”).
- I, acting as the designated administrator of the scheme, confirm that, to the best of my knowledge, the scheme will no longer use the designation of Natural Capital Fund and will ensure that no references are made to it in any further disclosures to shareholders, or potential shareholders, or in any marketing materials.
- I, as the designated administrator, confirm that, to the best of my knowledge, all investors in the scheme have been notified that the scheme no longer meets the requirements of the Rules and is no longer a designated Natural Capital Fund.
- I confirm that the information supplied is complete and correct, to the best of my knowledge and belief at the time of the submission, and that there are no other facts, material to the declaration, of which the Commission should be aware.
- I am aware that it is an offence, under the Financial Services Business (Enforcement Powers)(Bailiwick of Guernsey) Law, 2020, to knowingly or recklessly provide the Commission with information which is false or misleading.

SCHEDULE 2

Use of the Natural Capital Fund Logo



1. The logo must be reproduced from original artwork provided by the Commission and must comply with the Natural Capital Fund Brand Guidelines which can be found at www.gfsc.gg.
2. The use of the Natural Capital Fund logo must not be misleading.

Guidance

For example, due consideration should be given to the placement of the logo on stationery, or the homepage of an investment manager's website, if other funds within its portfolio are not designated as Natural Capital Funds.

3. As soon as possible, after a scheme's designation has been removed pursuant to rule 2.6, the scheme and its designated administrator, or any manager or designated custodian of the scheme, must stop using the Natural Capital Fund Logo in respect to that scheme.

Guidance

It should be noted that the use of the words “Natural Capital Fund” is separately restricted under rule 2.4.

EXPLANATORY NOTE

These Rules are made, following a public consultation, to make provision for the voluntary designation, by the Guernsey Financial Services Commission, of a collective investment scheme, registered or authorised under the Protection of Investors (Bailiwick of Guernsey) Law, 2020, as a Natural Capital Fund.

A Natural Capital Fund is required to set objectives which either make a positive contribution or significantly reduce harm to the natural world and align such objectives to international standards.

A Natural Capital Fund is required to set appropriate targets, aligning with its objectives, to put in place appropriate governance arrangements to monitor progress against these targets and to make related disclosures to the Commission and to its investors.

These Rules restrict the use of the term ‘Natural Capital Fund’ to schemes designated by the Commission and complying with these Rules. The Rules permit designated schemes to use the Natural Capital Fund logo.