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CONSULTATION PAPER

Framework Enhancements Introducing Sustainability Disclosures and Prohibition on the Use of Misleading Fund Names

Comments to be received by 25 November 2025

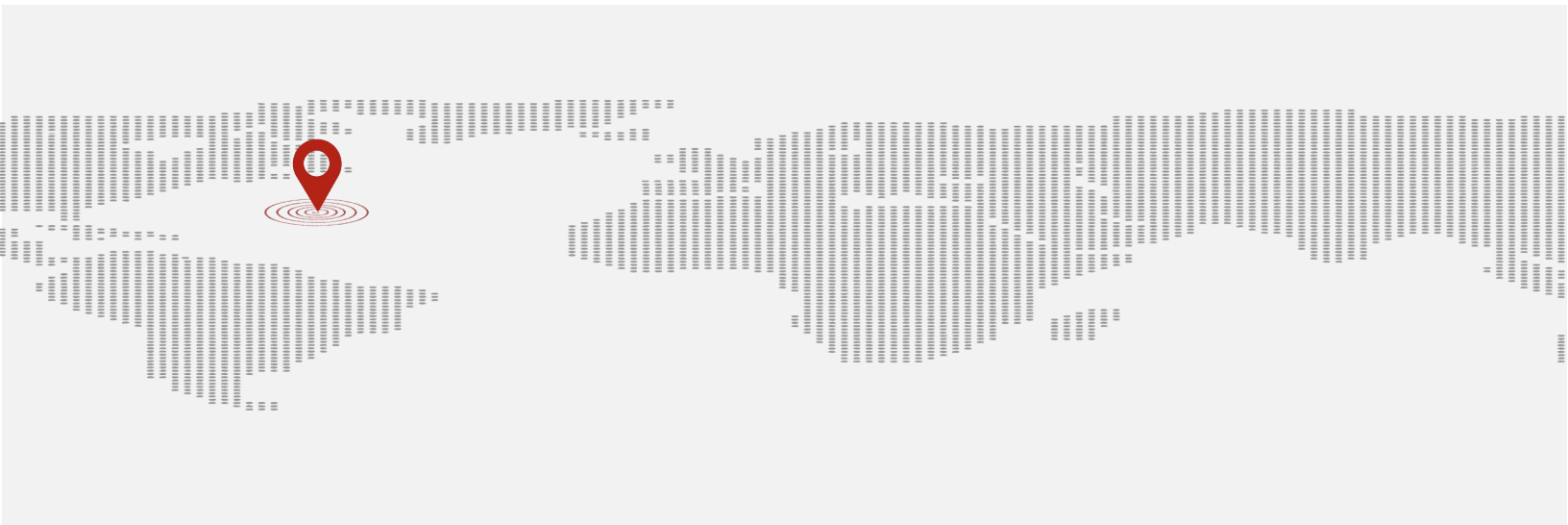


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I. INTRODUCTION

1. In the *BMA Business Plan 2024*, the Bermuda Monetary Authority (Authority or BMA) announced that it would continue integrating sustainability and climate-related considerations into its prudential frameworks across sectors. This included working with the investment funds industry to explore the establishment of an opt-in 'sustainable fund' designation for Bermuda-registered and authorised funds.
2. In line with these efforts, the proposals contained in this Consultation Paper (CP) lay the groundwork for future legislative enhancements. This approach allows for the phased integration of sustainability-related regulatory requirements to ensure a gradual and scalable implementation of framework enhancements, while aligning with international standards and frameworks.
3. Industry workshops and interviews with stakeholders and international sustainable finance experts validated research findings. They provided insights into the development of a sustainable fund framework proposal, starting with measures that enhance transparency and disclosure of sustainability-related information and the prohibition on misleading fund names.
4. The proposals outlined in this CP will collectively enhance Bermuda's regulatory framework for investment funds by ensuring sustainability disclosures are more robust, transparent and consistent across the funds sector, while also preventing funds from using misleading names that could unduly influence an investor's decision to participate in a fund. Moreover, the proposals present an important opportunity for all Bermuda-registered and authorised funds that make sustainability-related claims to improve transparency and distinguish themselves within the market.
5. The Authority does not regulate designated overseas funds. As such, they are not in the scope of the enhancements discussed in this CP.
6. The Authority invites the views of the investment funds sector and other interested stakeholders in response to the proposals set out in this CP. Comments should be addressed to policy@bma.bm no later than 25th November 2025.

II. ENHANCED DISCLOSURE OF SUSTAINABILITY-RELATED INFORMATION

7. The evidence is increasing that today's investors are not focused exclusively on generating returns –they are also focused on positively impacting the environment through their investments. This increase in demand for *sustainable investing* creates a positive and forward-looking opportunity for all Bermuda-registered and authorised funds that make sustainability-related claims to demonstrate leadership in promoting transparency to investors through enhanced disclosure of sustainability-related information.
8. 'Sustainable investing' refers to the practice of making investment decisions based on ESG factors, alongside traditional financial metrics. In doing this, the aim is to generate long-term financial returns while contributing to positive environmental and social outcomes.
9. The International Organization of Securities Commissions (IOSCO), of which the Authority is a member, has highlighted the importance of consistent, reliable and comparable sustainability disclosures for investment funds. In its guidance¹, IOSCO stresses that investors need transparent and standardised sustainability-related information to make informed investment decisions and to ensure that funds accurately represent their marketed sustainability-related environmental, social and governance characteristics.
10. IOSCO has also emphasised that consideration should be given to creating new regulatory requirements or guidance to improve product-level disclosures that help investors better understand sustainability-related products and any material sustainability-related risks for all products. The new regulatory requirements or guidance are intended to promote consistency, comparability and reliability to help prevent *greenwashing* at the product level. Greenwashing occurs when entities misrepresent their sustainable investing efforts purely for marketing purposes.
11. Evolving global standards have caused many jurisdictions to consider enhancements to regulatory frameworks requiring enhanced disclosure of sustainability-related information. The focus on improved transparency reflects a shift in practices among sustainable finance stakeholders, with an emphasis on providing sufficient information to investors to support decision-making regarding sustainable and responsible investment.
12. To ensure Bermuda's funds regime is aligned with evolving global standards, the Authority will focus on enhancing the following product-level disclosures as they are considered foundational:
 - Investment objectives
 - Investment strategies
 - Risk
 - Reference benchmarking
 - Valuations
 - Conflicts of interest disclosures
 - The availability of ad hoc reporting
13. All Bermuda-registered and authorised funds that make sustainability-related claims about their products will be required to ensure that disclosures are accurate, clear and complete. Additionally, all claims related to sustainability must be substantiated.

¹ *Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management, 2021*, Final Report, International Organization of Securities Commissions.

14. The Authority proposes to expand the definitions within the Investment Funds Act 2006 (the Act) as well as the requirements stated in the *Investment Fund Offering Document Rules 2019* (Disclosure Rules). These will be enacted as appropriate to achieve the outcomes set out in the CP and the Appendix entitled 'Summary of Proposed Changes'.
15. Disclosures contained in the fund's offering document that appear to be false or misleading may render the fund in breach of the Disclosure Rules. In such a case, the Authority will consider the appropriate actions to take.
16. The enhancements to the Disclosure Rules will ensure that those responsible for preparing and updating the fund's offering documents and marketing materials provide clear and accurate information that enables current and potential investors to assess the investment's merits, risks and sustainability characteristics.
17. Sustainable objectives may be a key driver for an investor's decision to invest in a fund. As such, in cases where a fund's investment objectives no longer include sustainability-related considerations, it will be considered a *material change*, requiring notification to both the Authority and investors by the relevant sections of the Act and the related rules.

III. PROHIBITION ON THE USE OF MISLEADING FUND NAMES

18. The use of misleading fund names can create confusion and misguide investors, potentially leading them to invest based on false assumptions. Therefore, the BMA is promoting the enforcement of clarity and honesty in fund naming. This prohibition reduces the risk of greenwashing and other forms of deceptive marketing, fostering greater market integrity.
19. It is proposed that the *Investment Fund Rules 2019* (Fund Rules) be amended to include provisions that prohibit the use of misleading fund names that do not accurately reflect the business activities of the fund. For example, a fund that does not integrate sustainable considerations into its investment strategy will be prohibited from using terms in its name that suggest it does. Similarly, a fund that does not invest in Insurance-linked Securities (ILS) will not be permitted to include references to insurance-linked securities or ILS in its name. These proposals formalise existing practices related to fund naming.
20. Implementation criteria will be incorporated into the *Investment Funds Guidelines* to assist compliance with these updated Fund Rules. Where a fund is found to be in breach of the prohibition, the operator of the fund will be required to undertake appropriate measures to restore compliance; this may mean amending the fund name or revising the fund strategy.
21. While Fund Rules prohibiting the use of misleading names are particularly important for funds that make claims about sustainable investing, they will apply to all funds, regardless of their investment focus.

IV. CONCLUSION

22. The proposals outlined in this CP represent a significant step forward in promoting transparency within the investment funds sector. They will enable sustainable funds to clearly distinguish themselves in the market and empower investors to make informed investment decisions.

23. The Authority proposes a six-month transitional period for all Bermuda-authorised and registered funds listed on the Investment Funds Act register to comply with the amended legislation.
24. As the Authority continues aligning its regulations with evolving global standards, implementing the recommendations noted above will provide a solid foundation for future regulatory sustainability initiatives.
25. The Authority will continue closely monitoring developments in other jurisdictions and among various standard-setting bodies to assess the impact on funds in Bermuda. This monitoring will determine further enhancements that are fit for purpose for the Bermuda market in the future.

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APPENDIX I – SUMMARY OF PROPOSED CHANGES

I. PROPOSED UPDATES TO DEFINITIONS CONTAINED IN SECTION 2 OF THE INVESTMENT FUNDS ACT 2006

Sustainability: "Operating in a way that meets economic, social or environmental needs, while reducing potential adverse environmental or social impacts."

Sustainable Investing: "The practice of making investment decisions based on environmental, social, or governance ('ESG') factors, with the aim to contribute positively to environmental or social outcomes."

II. PROPOSED UPDATES TO THE INVESTMENT FUND OFFERING DOCUMENT RULES 2019

The following disclosure requirements will apply to funds that make claims about sustainable investing, providing clarity for investors about a fund's sustainability focus/objective, strategies, corresponding risks and benchmarks applied to measure attainment and financial performance of the fund's sustainability goals:

a) Investment Focus/Objective

Sustainability Focus: The fund must disclose a description of its sustainability focus and a list of the sustainability criteria used to measure the attainment of the fund's sustainability focus.

b) Investment Strategy

Sustainable Investing Strategy: A description of the fund's sustainability strategy and a list of the sustainability criteria used to measure the attainment of the fund's sustainability strategy.

Sustainability Criteria in Investment Selection: Any relevant sustainability criteria, metrics or principles considered in the investment selection process. For example, a climate-focused fund might use indicators such as carbon footprint, carbon intensity metrics, greenhouse gas emissions and/or exposure to carbon-related assets.

Minimum Asset Allocation: The minimum asset allocation for assets used to attain the sustainability focus of the fund.

c) Risks

Risks Associated with Sustainability Focus and Strategy: A description of risks or limitations associated with executing and objectively demonstrating the fund's sustainability focus and the related investment strategies. Examples include limitations in methodology and data, a lack of standardised taxonomy, subjective judgement in investment selection, reliance on third-party sources, a high concentration in investments with a sustainability focus, etc.

Qualitative and quantitative information on the sustainability-related risks and opportunities identified for which there is a significant risk of needing to make a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements.

d) Reference Benchmark

Benchmark Index for Sustainability Focus: If the fund uses a benchmark index to measure the attainment of its sustainability focus, the offering document should explain details of the benchmark being tracked. These details should

include the characteristics and general composition of the benchmark, and how the benchmark index is consistent with, or relevant to, its investment focus.

Benchmark Index for Financial Performance: If the fund uses a benchmark index solely for financial performance measurement, this should be clearly stated.

e) Valuations

Details on how often and on what basis sustainable assets within the fund are valued, and who is performing the valuations.

f) Conflicts of Interest

Indication of any conflicts of interest or potential conflicts of interest that may arise due to investments in sustainable assets and any efforts to mitigate them, where feasible.

g) Sustainability Related Ad Hoc Reporting

Information on the nature and frequency of any additional reports and other forms of communication that investors in the sustainability-focused fund will receive.

III. PROPOSED UPDATES TO THE INVESTMENT FUND RULES 2019

Bermuda-authorized and registered funds must ensure that their names accurately reflect their business activities to avoid potentially misinforming investors.