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BERMUDA MONETARY AUTHORITY

DISCUSSION PAPER

Innovative Sustainable Finance in Bermuda: Opportunities, Risks and Regulatory Pathways

Comments to be received by 31 March 2027

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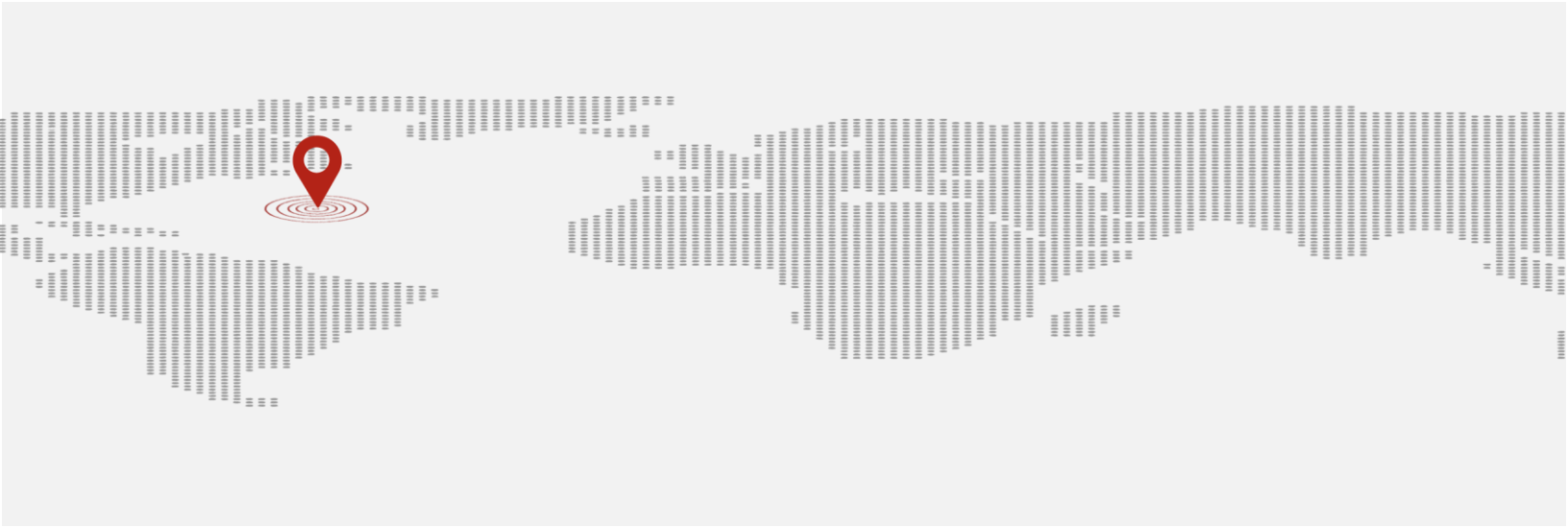

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Status of this paper

This paper is exploratory. It does not create legal obligations, amend any statute, rule, code or guidance, confer regulatory approval or determine the treatment of any particular product or activity. References to possible approaches are presented to obtain stakeholder views on the viability of such approaches and to explore the risks and opportunities in developing a sustainable-finance ecosystem in Bermuda. Regulatory treatment will continue to depend on the underlying nature, scale and complexity of the proposed business.

The Bermuda Monetary Authority (Authority or BMA) will use the feedback gained from this discussion paper to inform its further work in this area. Once a course of action is chosen, the Authority will engage in further public consultation regarding the specific provisions required, whether that involves changes to existing regulatory frameworks or the introduction of new instruments.

EXECUTIVE SUMMARY

1. Climate- and nature-related risks are becoming increasingly material to the financial system, affecting financial resilience, insurance availability, infrastructure investment, asset valuation and market conduct across financial sectors globally. Sustainable finance seeks to mobilise and direct capital, investment and risk-transfer capacity towards climate risk mitigation, adaptation, resilience, transition, nature and related environmental outcomes. However, these markets still face practical constraints in connecting credible projects and assets with reliable data, verification, financing, risk transfer and settlement.
2. Emerging technologies, including tokenisation, digital measurement, reporting and verification, advanced data and automated execution, may help reduce these frictions by improving provenance, transparency, efficiency, claims payment and end-to-end capital and data flows within the financial sector.
3. Bermuda's opportunity lies in connecting capabilities that already operate at the institutional scale. Its insurance, reinsurance, captives and Insurance-Linked Securities (ILS) sectors can price, retain, transfer and distribute climate-related risks; its funds, investment-management and capital-markets sectors can aggregate projects and structure investable exposures; and its digital assets ecosystem can support data, issuance, custody, settlement and reporting.
4. The strategic question is not whether Bermuda should build a wholly new sustainable-finance market, but where these established capabilities can solve identifiable financing, protection and infrastructure problems more effectively when combined.
5. This paper cites two product and market-infrastructure areas as early, but not exhaustive, examples: (a) digital environmental assets and (b) digital green, transition and resilience bonds and related use-of-proceeds instruments. It also highlights two enabling capabilities: (a) Internet of Things (IoT)- and data-enabled parametric insurance infrastructure and (b) Artificial Intelligence (AI) enabled climate-risk modelling and decision support. These capabilities are considered where they improve the measurement, underwriting, verification, monitoring, settlement or governance of a regulated financial activity, rather than as standalone markets in their own right.
1. This paper continues work the Authority began in 2021, when it established a cross-sector subject-matter expert team focused on innovation climate change, and, and builds on its subsequent work on climate-risk management for commercial insurers, sustainability-related investment disclosures, responsible digital innovation and operational resilience.
6. The Authority's preliminary assessment is that Bermuda should pursue controlled enablement rather than establish a comprehensive new regime for innovative sustainable finance. Existing frameworks should govern the underlying economic activity and risks, supported where necessary by proportionate safeguards, targeted clarification and controlled testing through the Authority's innovation pathways. Success would mean credible transactions progressing through existing pathways with clearer allocation of regulatory responsibility, stronger links among project sponsors, risk-transfer providers, investors and technology firms, and evidence that innovation improves access, integrity, efficiency or resilience.
7. New rules, classifications or legislative amendments would be drafted and consulted on where innovative sustainable finance activities cannot be addressed adequately through existing regulatory frameworks, supervision, guidance, external standards or coordination. The table below translates this overall approach into an indicative posture and immediate supervisory focus for each priority area.

Priority area	Preliminary approach	Principal considerations
Digital environmental assets	Further market testing and potential controlled development	Environmental integrity, legal rights, authoritative records and lifecycle controls
Digital green bonds and related instruments	Use of existing regulatory frameworks	Instrument classification, proceeds, disclosure, custody, settlement and distribution
IoT- and data-enabled parametric insurance	Monitoring and facilitation	Risk transfer, triggers, basis risk, data continuity and policyholder protection
AI-enabled climate-risk modelling	Cautious, facilitative monitoring	Data quality, model testing, accountability and material provider dependencies

8. The paper's central proposition is that technology may improve records, verification, settlement and risk transfer of climate risks and sustainability-linked assets, but it does not establish the legal status or environmental quality of an asset. Credible structures should identify the authoritative record for each material status and establish clear precedence and reconciliation arrangements where records diverge. The paper sets out initial views and seeks feedback on the evidence and controls that may be expected across the value chain and distinguishes matters within the Authority's remit from environmental policy, scientific validation, project delivery and public-law decisions. Responses to the discussion questions in Section VIII will inform the Authority's medium- to long-term approach and any subsequent market-engagement initiatives.
9. The Authority is seeking views through targeted discussion questions grouped around four themes: credible demand and market constraints; regulatory clarity and perimeter issues; integrity, disclosure and governance considerations; and external standards, coordination, controlled testing and proportionate regulatory response.

I. INTRODUCTION

Purpose

10. The Authority is publishing this paper to determine whether credible innovative sustainable-finance activity in or from Bermuda is constrained by uncertainty about how existing financial-regulatory frameworks apply, or whether it creates risks that those frameworks do not sufficiently address. It seeks evidence on commercially credible opportunities, material financial and market-integrity risks, areas requiring regulatory clarification and use cases suitable for controlled testing.
11. The paper focuses on financial products, investment vehicles, risk-transfer arrangements and market infrastructure supporting climate mitigation, adaptation, resilience, transition, nature or related environmental outcomes through digital technologies, advanced data or automated execution.
12. Responses are invited by **15 March 2027**.

Terminology

13. For the purposes of this paper, *innovative sustainable finance* means financial products, investment vehicles, risk-transfer arrangements, market infrastructure and enabling technologies that support climate mitigation, adaptation, resilience, transition, nature or related environmental outcomes through digital technologies, advanced data or automated execution.
14. *Climate finance, green finance, nature finance and other environmental finance* refer to the relevant subcategories. *Sustainable finance* is considered the umbrella term, although this does not imply that every social or governance-related product falls within scope for the purpose of this paper.
15. *Digital environmental asset* and *use-of-proceeds instrument* have the meanings set out in Annex 1.
16. These working terms do not, however, determine legal classification and are established for discussion purposes only in this paper.
17. For the complete list of terms used in this paper, please refer to **Appendix 1: Glossary**.

Scope

18. The paper considers the two product and market-infrastructure areas and the two enabling capabilities identified in paragraph 5. Project finance, investment vehicles and tokenised participation are discussed in Section III as cross-cutting channels through which these priority areas may be financed, rather than as a separate priority area.
19. Sustainability-linked instruments are included where financial terms vary by reference to defined performance targets but are not treated as use-of-proceeds instruments unless their legal terms create that structure. Enabling functions – including Digital Measurement, Reporting and Verification (MRV), registries, oracles, custody, payment and settlement, data assurance and verification – are considered only where they affect a regulated financial product, activity or entity.
20. The paper also complements the Authority's *Consultation Paper on Asset Tokenisation* and focuses on the additional issues arising where an underlying asset, claim, data source or financing purpose is climate-, nature-, adaptation- or resilience-related. Respondents are invited to identify any material overlap, inconsistency or unresolved interface between these two workstreams.

II. WHY INNOVATIVE SUSTAINABLE FINANCE MATTERS FOR BERMUDA

Background and institutional context

21. Climate- and nature-related risks are no longer peripheral environmental issues. They are increasingly relevant to financial resilience, insurance availability, infrastructure investment, asset valuation, market conduct and the credibility of transition and adaptation finance. The international policy context includes the Paris Agreement, particularly its objective of making finance flows consistent with low-greenhouse-gas and climate-resilient development; the United Nations 2030 Agenda and Sustainable Development Goals, particularly Goals 7 (affordable and clean energy), 9 (industry, innovation and infrastructure), 11 (sustainable cities and communities), 13 (climate action), 14 (life below water) and 17 (partnership for the goals); and the Kunming–Montreal Global Biodiversity Framework, which calls for increased and better-aligned public and private finance for biodiversity, including through blended finance and innovative instruments. These frameworks provide strategic context only; they do not determine any legal classification, environmental quality or the Authority's regulatory treatment of the sectors contemplated within sustainable finance.

22. For Bermuda, the underlying issues are not abstract. The jurisdiction is exposed to physical climate risks as an island economy, while its financial services sector plays a significant international role in insurance, reinsurance, insurance-linked securities, funds, capital markets and digital finance.

2. The Authority has already recognised climate-related risk and sustainable finance within its supervisory and institutional agenda. In 2021, when announcing a cross-sector subject-matter expert team focused on innovation and climate change, it committed to supporting industry efforts to mitigate climate-related business risks and to contributing to global solutions addressing climate change and the insurance protection gap. As the underlying problem has since grown in scale and consequence, there is a stronger case for renewed, evidence-led consideration of where Bermuda's financial, insurance and digital-innovation capabilities can contribute credibly to climate mitigation, adaptation, resilience and protection-gap solutions.

23. The Authority's recent publications address climate-risk disclosure for commercial insurers, sustainability-related investment disclosures, enhancements on sustainability disclosures for Funds, evaluation of regulatory frameworks in relation to climate change, responsible digital innovation and the Authority's own sustainable business practices. This work also aligns with the BMA's 2026 Business Plan, which emphasises responsible financial innovation, the Authority's sustainability strategy, prudent oversight of AI and support for solutions to protection gaps. Together, these initiatives reflect a staged approach to improving transparency and risk management, assessing how existing frameworks apply, and considering targeted clarification or innovation pathways where meaningful market activity develops. This paper continues that approach.

24. This paper does not reposition the Authority as a climate policy agency or environmental standard-setter. It considers where climate, nature and resilience-related objectives intersect with regulated financial activities, digital infrastructure, risk transfer, investment products and market conduct. The Authority's focus is therefore on the *financialisation* of climate, environmental and other sustainability-linked assets and risk transfer, whether structures are properly governed, disclosed, supervised and tested, and on whether Bermuda can support credible innovation without compromising prudential soundness, customer protection, financial-crime controls or market integrity.

The market problem

25. Sustainable-finance markets face persistent frictions in measuring outcomes, connecting projects to verification and finance, and maintaining reliable records through issuance, transfer, risk transfer and retirement of assets. Capital, environmental methodologies, project developers, assurance providers and public-policy objectives may exist without forming an investable end-to-end value chain for sustainability-linked assets.

26. While technologies such as distributed ledgers, smart contracts, satellite and IoT data, AI and digital issuance may improve traceability, analysis, settlement and operational efficiency, they do not establish legal rights, validate environmental quality or create credible supply and demand. The Authority's role is therefore to identify the regulatory interfaces, risks and dependencies affecting supervised firms and activities; project preparation, aggregation, environmental policy and public or philanthropic support remain the responsibility of market participants and relevant public bodies.

Bermuda's strategic adjacency

27. Bermuda does not need to build a sustainable-finance ecosystem from zero. Its insurance and reinsurance market already prices and transfers climate-related risk; its ILS market connects global capital with catastrophe and other insurance risks; and its long-standing captive market offers an

established risk-management vehicle. Subject to the purpose, substance and applicable regulatory requirements of the arrangement, Bermuda funds, captives, special-purpose vehicles and other structures may support multinational groups in financing, managing or transferring climate-related risks and pursuing defined sustainability objectives. Complementarily, the digital-asset frameworks – the Digital Asset Business Act 2018 (DABA), the Digital Asset Issuance Act 2020 (DAIA) and the Innovative Insurer frameworks – support regulated issuance, exchange, custody and related services; the funds and capital-markets ecosystem can structure and distribute investment products; and the Authority's Innovation Hub and regulatory sandboxes provide routes for early engagement and controlled testing.

28. This combination gives Bermuda a potential regulatory-adjacency advantage: many components of an innovative sustainable-finance value chain already sit within, or close to, established supervisory frameworks. The practical question, and one of the main purposes of this paper, is to clarify the connections among them and build on them, while maintaining the prudential, conduct, Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF), sanctions, operational-resilience and reputational safeguards that already apply across these sectors.

Evidence from the Authority's market assessment

29. An independent market assessment commissioned by the BMA reviewed global trends, Bermuda's capabilities, comparator jurisdictions and stakeholder views. It identified tokenised environmental credits and digital green bonds for further market testing and, where evidence supports it, potential controlled development; IoT-enabled parametric insurance for monitoring and facilitation; and AI-enabled climate-risk modelling for cautious, facilitative monitoring. It concluded that digital green bonds and similar instruments can largely be accommodated within existing frameworks, whereas digital environmental assets raise integrity and record-linkage questions better suited to controlled testing, as reflected in the Executive Summary.
30. The assessment was also informed by two exploratory stakeholder workshops in Q4 2025, which broadly supported the proposition that FinTech could advance sustainable finance in Bermuda and showed stronger interest in tokenised environmental credits and blockchain-enabled green bonds. Participants also identified fragmented standards, limited institutional-grade assets, high setup and assurance costs, and the challenge of aggregating issuers, insurers, exchanges and investors across a small domestic market, albeit with plenty of opportunity internationally. These findings support further market testing but do not constitute an assurance opinion, market-demand forecast, legal assessment or statistically representative view.

Jurisdictional benchmarking and implications for Bermuda

31. Benchmarking of selected jurisdictions, including the United States, the United Kingdom, the European Union, the Abu Dhabi Global Market and Singapore, identified four recurring features of credible sustainable-finance markets: (a) clear classification and market-access rules; (b) reliable methodologies, verification and registry infrastructure; (c) robust controls over issuance, transfer, use and retirement of assets; and (d) identifiable demand from compliance obligations, institutional mandates, sovereign participation or major purchasers.
32. Recent EU developments also reinforce the need to distinguish product information from offset-based claims and to make sustainability reporting, taxonomy information and financial-product disclosures interoperable and proportionate. Further, international work by the International Association of Insurance Supervisors (IAIS), the International Organization of Securities Commissions

(IOSCO) and the Organisation for Economic Co-operation and Development (OECD) similarly support application of established financial-regulatory principles, using credible external standards where appropriate, and tracking the alignment of financial flows and strengthening project pipelines and risk allocation.

33. For Bermuda, the implication is not to reproduce larger markets or create a standalone taxonomy or framework. The near-term objective would instead be to clarify existing pathways, apply credible external methodologies, engage with credible proposals and test selected use cases under controlled conditions, while clarifying expectations for legal status, data lineage, verification, custody, retirement, claims and cross-border acceptance.
34. This approach would allow Bermuda to build from proven capabilities. The immediate priorities are to clarify legal status and regulatory pathways, improve connections among data, verification, financing and risk transfer, and establish whether credible proposals can achieve cross-border acceptance.
35. Limited, transparent and time-bound measures – such as common templates, sponsored pilots, anchor participation, guarantees, aggregation vehicles or co-investment platforms – may be considered where respondents identify a genuine market failure, a responsible body, eligibility and exit criteria, allocation of risk and return, and safeguards against artificial activity, weakened standards or regulatory arbitrage.

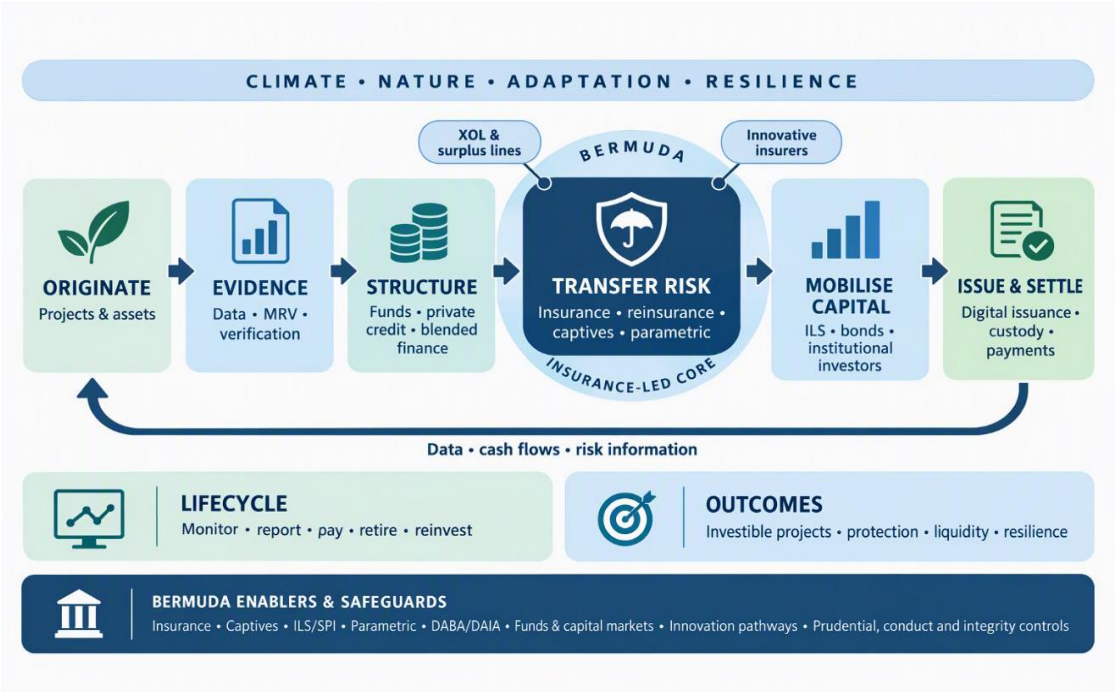
III. PRIORITY OPPORTUNITY AREAS

36. Bermuda's opportunity in innovative sustainable finance lies not in a series of standalone products but in connecting its existing capabilities into a coherent end-to-end value chain – from project origination, data generation and independent verification through financing, risk allocation, capital mobilisation, issuance, custody, settlement, monitoring and eventual payout, retirement or exit. The established insurance and reinsurance market already prices, transfers and diversifies climate-related risks, and better, more granular and interoperable exposure, hazard, vulnerability and loss data could further strengthen underwriting, catastrophe modelling, claims execution and the investibility of climate and resilience projects.
37. The commercial opportunity is broader than products carrying a sustainable-finance label. Climate mitigation, adaptation and resilience projects generate familiar underwriting, financing and investment needs, including construction and operational cover, catastrophe protection, credit enhancement, post-event liquidity, long-duration capital and portfolio diversification. Bermuda can add value by improving risk allocation, making projects more financeable, or distributing exposures to investors with suitable mandates, applying the same prudential, conduct, and governance disciplines that underpin its existing markets.
38. Captives, insurers, reinsurers and ILS provide complementary channels for converting climate and resilience risks into insurable, financeable and investible exposures. Captives allow corporate groups, public-sector sponsors or project consortia to retain and manage defined risks; commercial insurers and reinsurers can provide construction, operational, catastrophe, credit and performance-related protection; and parametric and innovative-insurer structures may deliver faster, data-driven liquidity where conventional cover is unavailable or inefficient. ILS and special-purpose structures can transfer appropriately modelled risks to capital-market investors, subject to credible triggers, robust modelling, clear collateral arrangements and genuine risk transfer.
39. Funds, private-credit, managed-account and co-investment structures can aggregate projects, diversify exposure and tailor duration, liquidity, governance and reporting to investor mandates. Capital-markets channels – including green, transition and resilience bonds, securitisations and

tokenised participation – can support construction finance, refinancing and broader distribution where the underlying projects produce credible cash flows and the legal rights, priority, use of proceeds, valuation and continuing disclosures are clear.

40. Bermuda's digital asset business and issuance frameworks, together with exchange, custody, payment and settlement infrastructure and the Authority's innovation pathways, could support more reliable and efficient financial activity where technology solves a defined market problem – for example, by linking authoritative records across systems, improving data provenance and reconciliation, automating contractual or reporting processes, reducing issuance or servicing costs, and enabling faster settlement or claims payment. The value of a technology proposition should be assessed by the measurable improvement it delivers, without displacing the regulatory requirements applicable to the activity.
41. The diagram below illustrates how these capabilities could operate as a connected ecosystem. The specific priority areas that follow should then be read as entry points within this broader opportunity chain rather than as separate markets.

Figure 1. Bermuda's potential end-to-end sustainable-finance ecosystem



Digital environmental assets

42. Digital environmental assets are digital or tokenised representations of environmental units, such as carbon, renewable-energy, biodiversity or water credits (see Annex 1). Bermuda's opportunity lies in combining its regulated digital-asset issuance, custody and exchange frameworks with the verification and risk-transfer capabilities described above. For example, these capabilities could support institutionally oriented issuance, trading and settlement of credible carbon credits where there is identifiable demand, reliable price formation and cross-border acceptance.
43. Digital architecture may improve provenance, transaction histories, reconciliation, controls against duplicate use, processing efficiency and integration with financing or risk-transfer structures.

However, it cannot validate a weak methodology, prove project outcomes or resolve unclear legal rights.

3. Digital MRV may draw on sensors, meters, satellite observations, project records, registries, application program interfaces (APIs) and other measurement systems. A credible proposition should explain which decision or transaction the data supports, how accuracy, calibration, availability and reconciliation are controlled, and how interruptions, corrections, invalidation or disputes are managed. Because environmental units differ by methodology, project type, location, timing and intended claim, technology should improve traceability and control without being presented as proof of environmental quality. The Authority is particularly interested in solutions that produce measurable improvements in verified issuance, cross-system reconciliation, reporting or retirement.

44. A credible structure should govern the full lifecycle – from project origination, methodology and baseline selection, data generation and independent verification through issuance, ownership, transfer, reconciliation, use or retirement and purchaser claims. Controls should address legal rights, environmental quality, duplicate issuance or claims, suspension, reversal, invalidation and loss of recognition. Where land, natural resources or community participation are material, disclosures should explain project rights, allocation of revenues and benefits, and any recognised local participation or ownership interests. Interoperable identifiers should link product or transaction records to the authoritative retirement record without implying an adjustment to the product's measured footprint.
45. Bermuda's near-term opportunity is therefore to test end-to-end infrastructure – digital MRV, registry connectivity, regulated custody, exchange, settlement and verifiable retirement – rather than introducing new frameworks before credible supply and demand are demonstrated. Any trading-related use case should remain subject to the legal-rights, verification, valuation, market-conduct, financial-crime and operational-resilience safeguards described in this paper.

Digital green bonds and related instruments

46. Digital green, transition and resilience instruments may use digital infrastructure for issuance, ownership records, transfer, payment, settlement, use-of-proceeds tracking and reporting. Digitisation does not alter the core requirements governing the instrument, offering, investor eligibility, proceeds, disclosure, verification, custody, settlement, conflicts, secondary markets or cross-border distribution. Use-of-proceeds instruments should retain clear eligible-project criteria, documented project evaluation and selection, formal tracking of an amount equal to net proceeds, continuing allocation and impact reporting and proportionate external review.
47. Sustainability-linked instruments require material targets, credible baselines, clear financial consequences, continuing reporting and independent verification, while transition instruments require forward-looking plans, capital-expenditure alignment and safeguards against carbon lock-in. Where project risks inhibit investment, blended or tranched structures, guarantees, insurance, reinsurance or other risk-sharing may improve bankability, subject to clear legal rights, contractual responsibility and appropriate target-market controls.

Project finance, investment vehicles and tokenised participation

48. Project finance and structured-credit pathways may connect identifiable climate, nature, adaptation or resilience projects with Bermuda's capabilities in private credit, funds, securitisation, insurance, reinsurance and capital markets. Private lending can finance specialised projects outside conventional bank portfolios; aggregation and securitisation can convert portfolios of smaller assets – such as distributed-energy, electric-mobility or efficiency-related receivables – into more

standardised exposures; and insurers, reinsurers and other long-duration investors may provide capacity where cash flows, credit quality, duration and liquidity fit their liabilities and mandates. Structures could include project bonds, private-credit or infrastructure funds, co-investment and feeder vehicles, managed accounts, asset-backed securitisations, tokenised participation interests and blended-finance vehicles.

49. Viability would continue to depend on credible project pipelines, enforceable rights, capable sponsors, reliable repayment sources, transparent underlying exposures and appropriate allocation of construction, operating, market, credit and other risks. Digital records and MRV may improve administration, monitoring, settlement and reporting but must remain linked to enforceable legal rights, authoritative records, contractual remedies and effective governance, while Bermuda's risk-transfer capabilities may further support bankability. These pathways are illustrative rather than endorsements of an asset class or strategy; commercial participants remain responsible for underwriting, viability, investment and asset-liability decisions. The Authority's role is to ensure that material exposures remain within applicable prudential and conduct boundaries.

IoT- and data-enabled parametric insurance

50. International work on climate finance increasingly recognises parametric insurance as a mechanism for narrowing protection gaps and supporting climate adaptation, while emphasising clear classification, reliable data, proportionate governance and transparent customer outcomes. Bermuda's insurance, reinsurance and ILS expertise provides a strong foundation for such structures, which can deliver faster liquidity and help allocate physical climate risks that might otherwise constrain investment.
51. The Authority's 2026 consultation on a Parametric Special Purpose Insurance class illustrates how the existing Special Purpose Insurer (SPI) platform may be adapted for climate-related and other underserved risks. The proposed class would serve as an additional pathway for suitable parametric structures. An objective trigger, automated calculation or digital settlement mechanism, however, does not by itself determine classification, which remains based on legal form, economic substance, obligations assumed and the parties involved.
52. Regulatory assessment should address genuine risk transfer, trigger design, basis risk, data reliability and continuity, collateral, policyholder understanding, payment mechanics and dispute arrangements. For special-purpose or alternative-capital structures, the Authority's initial view is that there should also be clarity on funding, permitted assets, counterparty exposure, claims priority and failure scenarios affecting data, collateral, settlement or service providers at the point of trigger.

AI-enabled climate-risk modelling

4. AI may enhance climate-risk analytics, scenario generation, exposure mapping, catastrophe modelling, data aggregation, portfolio monitoring, underwriting and anomaly detection. It may also support environmental verification by identifying inconsistencies in satellite, sensor or registry data. These capabilities can improve speed and granularity, but they can amplify poor data, obscure assumptions and increase reliance on concentrated third-party providers.

53. Existing regulatory obligations continue to apply, and governance should be proportionate to the use case. Material models and outputs should be appropriately documented, tested, monitored and challenged, with accountability remaining with the regulated entity. Particular attention is needed for climate applications where historic data are not representative of changing physical risks or where model outputs influence underwriting, pricing, reserving, capital or claims decisions.

54. Model development and validation may also be constrained where relevant exposure, hazard and loss data are sparse, proprietary or concentrated among a small number of providers. Firms should therefore understand material data gaps, proxy assumptions, access and portability constraints, vendor dependencies and the extent to which outputs can be independently tested and challenged.

Related and emerging use cases

55. Workshop respondents also identified several related applications, including blended-finance platforms, digital infrastructure for sovereign or regional risk pools, blue- or nature-finance instruments, resilience bonds, tokenised ILS interests, automated carbon accounting, climate-related Regulatory Technology (RegTech) and payment arrangements linked to verified outcomes.
56. Potential models could include appropriately governed fractional participation by local communities in project revenues or other legally defined interests, where ownership, investor protection, custody, valuation, transferability and financial-crime risks are addressed.
57. The Authority is open to evidence on these use cases, but its initial view is to prioritise those that align most clearly with Bermuda's existing regulatory capabilities and can be tested without premature regime-building.

Blue- and nature-finance considerations

58. As an island jurisdiction, Bermuda has a particular interest in ocean resilience, sustainable fisheries and aquaculture, marine technology, renewable energy, coastal protection and nature-based projects. Potential structures include blue or resilience funds, use-of-proceeds bonds, blended-finance vehicles, parametric protection and insurance-linked structures. Digital MRV may support ongoing evidence, but investability still depends on legal rights, revenue or repayment sources, project preparation, credible methodologies and appropriate risk allocation.
59. For blue, adaptation and resilience-finance structures, substantive outcomes matter more than labels. Relevant assessment may draw on outcomes-based frameworks such as the OECD Climate Adaptation Investment Framework and the Climate Bonds Resilience Taxonomy and related Resilience Criteria, with proportionate attention to climate-risk and vulnerability assessment, adaptation measures, continuing monitoring and safeguards against significant harm or maladaptation, so that resilience bonds and linked parametric structures finance demonstrable physical-risk reduction rather than superficial project labelling.
60. Blue-carbon claims require precision. Coastal-ecosystem projects such as seagrass may support carbon outcomes only where a recognised methodology, baseline, additionality, permanence, leakage, tenure and independent verification are established. Coral-reef protection may deliver significant biodiversity, coastal-protection and resilience value but should not automatically be represented as carbon sequestration, and floating solar is a renewable-energy activity rather than blue carbon merely because it is located on water.
61. Environmental-asset value chains may include project developers, landowners or operators, methodology bodies, data providers, verifiers, registries, token issuers, custodians, exchanges, intermediaries, purchasers and parties making environmental claims. The regulatory analysis should identify responsibility at each stage, distinguish supervision of financial activity from validation of environmental outcomes, and address gaps, overlaps and dependencies across the flow of rights, data, risk and money. Scientific validation, environmental permitting, project operation and technical determination of outcomes will normally remain with another authority or private assurance framework, outside the Authority's remit.

IV. CURRENT REGULATORY PATHWAYS

An activity- and substance-based starting point

62. A climate or sustainability label does not determine regulatory treatment, nor does the use of a blockchain, token, smart contract, AI model or IoT device. The analysis begins with the legal and economic substance of the product, the activities undertaken, where and to whom they are provided, and the roles of each participant. More than one framework may be relevant to a value chain, although the Authority seeks to avoid unnecessary or unintended duplication.
63. The table below maps the principal activities in the sustainable-finance value chain to potentially relevant Bermuda frameworks. It is a navigation tool rather than a definitive classification; applicable requirements will depend on the legal form, economic substance, parties, target market and cross-border features of each proposition.

Potential activity or role	Frameworks that may be relevant	Illustrative supervisory questions
Issuing or operating a digital representation of an environmental asset	DABA[1] and/or DAIA[2]; other sectoral laws depending on substance	Is the activity carried on as a business? What rights does the token confer? Is it an investment, security, payment instrument or other regulated product?
Custody, exchange, transfer or settlement of digital assets	DABA and related rules, codes and guidance; payment or securities requirements where applicable	Who controls the underlying assets and keys? How is ownership recorded? What happens in insolvency, a fork, a bridge failure, or due to error or loss?
Insurance, reinsurance, SPI/ILS or parametric risk transfer	Insurance Act 1978 and applicable rules, codes and guidance	Is there insurable interest and clear risk transfer? Are triggers objective, explainable and operationally resilient? Is basis risk transparent?
Collective investment or fund exposure	Investment Funds Act 2006 and related requirements; investment-business requirements where applicable	How are assets valued, held, redeemed and disclosed? Are liquidity and concentration risks consistent with the fund's terms?
Bond or capital-markets issuance and trading	Applicable securities, digital-asset issuance, investment-business and exchange requirements	What is the legal instrument? Who are the investors? Are offering, listing, settlement and market-conduct requirements satisfied?

[1] DABA stands for the Digital Asset Business Act 2018.
[2] DAIA stands for the Digital Asset Issuance Act.

Potential activity or role	Frameworks that may be relevant	Illustrative supervisory questions
AI models, data services, MRV, registries or oracles	Existing obligations of regulated users; DABA or other requirements if the provider conducts a regulated activity	Is the provider itself regulated? How are data, methodology, accountability, outsourcing and concentration risks governed?

Digital asset business and issuance

64. Bermuda's digital-asset frameworks provide a basis for regulated tokenisation activity. The DABA Framework applies to specified digital asset business activities conducted in or from Bermuda, while digital-asset issuances are addressed under the DAIA legislation, unless the issuance is undertaken as a business. The precise route depends on the facts and any applicable exemptions. Prospective participants should engage with the Authority early rather than assume that an environmental or sustainability-linked project places an activity outside these perimeters.
65. The Authority's Consultation Paper on Asset Tokenisation proposes a cross-framework architecture for tokenised assets and entity-specific requirements, and sustainable-finance proposals involving tokenisation should be considered alongside its final outcome. The sustainable-finance-specific issue is not whether tokenisation is possible in principle, but whether the tokenised structure preserves clear legal rights, reliable linkage to any underlying environmental record, appropriate lifecycle controls and disclosures that do not overstate environmental quality or regulatory endorsement.

Project-finance structures and cross-sector pathways

66. A project-finance proposition may engage several Bermuda frameworks because its vehicle, financing instrument, investment manager, issuer, administrator, digital platform and risk-transfer provider may perform different regulated functions. Early engagement should therefore include a transaction map identifying each entity, instrument, cash flow, regulated activity, investor, service provider, data source, authoritative record, security interest, insurance or guarantee and payment or settlement flow, together with an analysis of the instrument and vehicle classification, offering and investor restrictions, valuation, liquidity and custody, use of proceeds, project-stage risks, defaults, remedies, wind-down and cross-border distribution.
67. DAIA, DABA, fund, investment-business, securities, insurance and other requirements may apply according to legal form and economic substance. Controlled testing may be appropriate where digital issuance, automated cash-flow allocation, data-linked covenants or combined financing and risk-transfer arrangements create a defined question that ordinary supervisory engagement cannot resolve.

Insurance and ILS

68. Existing insurance requirements remain applicable where a sustainable-finance structure transfers insurance risk or involves a regulated insurer, reinsurer, insurance group, special purpose insurer or intermediary. The Authority will consider the substance of the risk transfer, class and licensing requirements, collateral and solvency treatment, governance, policyholder protection and reporting. The 2026 Parametric Special Purpose Insurance consultation and proposed amendments

requiring insurers to consider climate-related risks within relevant risk-management policies are complementary developments for this workstream.

69. The Authority's Guidance Note on Management of Climate Change Risks for Commercial Insurers already embeds climate-related risk within governance, enterprise risk management and solvency self-assessment on a proportionate basis. Innovative products should be consistent with that framework and with the entity's approved business plan, risk appetite and capabilities.
70. Insurer and reinsurer participation will depend less on a climate or transition label than on whether an exposure meets ordinary requirements concerning security, quality, liquidity, profitability, valuation, concentration, currency exposure, asset admissibility, risk-based capital and asset-liability management. The Prudent Person Principle also provides the governance baseline for investment decisions, while scenario analysis and stress testing – including relevant physical and transition shocks – support forward-looking assessment of credit deterioration, illiquid structured exposures and potential asset-liability mismatches. For private-credit, securitised or tokenised exposures, firms should also maintain proportionate look-through information, legal documentation, cash-flow verification, valuation controls and due diligence.
71. Respondents are invited to identify structures, risk mitigants, data or diversification benefits that could make credible climate- and resilience-related exposures investible on their economic merits without weakening prudential standards or cross-border equivalence.

Funds, investment business and capital markets

72. Where a fund, managed account, co-investment vehicle or other investment product has exposure to environmental or sustainability-linked assets, tokenised instruments or sustainable-finance projects, existing requirements concerning authorisation, governance, valuation, custody or ownership verification, liquidity, leverage, concentration, subscriptions and redemptions, service providers, conflicts and disclosure remain relevant. The BMA's stakeholder letter on developing sustainability-related investment-disclosure framework remains the principal policy route for fund sustainability claims.
73. Where value or sustainability characteristics depend materially on registries, methodologies, digital MRV, smart contracts, oracles or other providers, disclosures should explain those dependencies and the consequences of suspension, reversal, invalidation or loss of recognition. Tokenisation may assist administration, settlement and reporting, but does not alter the requirements governing the product or the quality of its underlying asset or claim.
74. Listing on the Bermuda Stock Exchange may also provide a domestic route for the admission and continuing disclosure of use-of-proceeds and other sustainability-related debt instruments, subject to its applicable listing requirements.

Innovation Hub and sandboxes

75. The Authority's Innovation Hub supports early dialogue on innovative propositions that may not yet be ready for formal application or testing. Its regulatory sandboxes and test licence pathways can support controlled live activity subject to appropriate safeguards, limits, reporting and exit arrangements. These include the insurance regulatory sandbox, the Class T (test) and Class M (modified) licences under DABA, and the general regulatory sandbox available to all other sectors regulated by the BMA.
76. In the Authority's initial view, a prospective participant should provide a concise end-to-end account of the problem being solved, the customer or market need, the legal rights and regulated activities

involved, the role of each participant, the data and systems on which the proposition depends, and the principal failure or dispute scenarios, together with the methodology, assurance arrangements and authoritative record supporting any environmental claim. For a proposed live test, the participant should also identify the regulatory uncertainty to be resolved, the evidence to be produced, the conditions for scaling, modification or exit, and a substantive Bermuda nexus. Identifiable demand should be supported, where proportionate, by a verifiable commercial signal such as a committed counterparty, indicative term sheet, letter of intent or insurer or lender participation.

77. Equally, in the Authority's initial view, a climate-related purpose, environmental label or use of tokenisation should not, by itself, require sandbox participation. Controlled testing is appropriate where a proposition presents defined regulatory uncertainty, a novel or insufficiently understood risk, or a bounded question that ordinary supervisory engagement or an existing licensing pathway cannot adequately resolve. Each test should have explicit learning objectives and a graduation plan leading to an ordinary licensing or supervisory pathway, perimeter clarification, targeted guidance, a change to supervisory practice, a defined policy proposal, a determination that no change is needed, or evidence that the structure should not proceed.

V. RISK AND INTEGRITY CONSIDERATIONS

78. Innovative sustainable-finance structures can combine environmental assets or claims, regulated financial products, structured credit, digital infrastructure and multiple service providers across jurisdictions. These interconnections can improve financing and risk allocation but also transmit shocks across originators, securitisation vehicles, investors and risk-transfer providers: transition shocks may weaken borrowers or reprice illiquid credit exposures, and physical events may damage assets supporting financed or securitised pools, creating valuation, liquidity or asset-liability pressures for institutional holders. Weak ownership, verification, governance or provider dependencies may further produce financial loss, misleading claims, market misconduct, operational disruption or reputational damage. Controls should therefore be proportionate to the role, scale and consequence of each participant rather than to the use of technology or an environmental label alone.
79. As an initial view, regulated participants should therefore maintain controls proportionate to their role in the value chain. These may include, but are not limited to:
    a) clear legal rights and authoritative records for issuance, ownership, transfer, status and retirement of relevant assets;
    b) sound governance, product approval, due diligence, independent assurance and documented accountability across issuers, developers, verifiers, registries, platforms, custodians, insurers and distributors;
    c) reliable valuation, liquidity, capital, collateral and custody arrangements that reflect the economic risk and the potential suspension, reversal or invalidation of an asset;
    d) fair and non-misleading disclosures that distinguish the technology used, the legal rights created, the environmental quality claimed and the permitted purpose of any claim;
    e) appropriate and effective AML/ATF, sanctions, market-abuse and cross-border controls; and
    f) operationally resilient technology, data and model arrangements covering ledgers, registries, smart contracts, bridges, wallets, sensors, APIs, oracles, AI models and material third parties.

80. Conduct and greenwashing risks arise where a product's name, marketing, offering documents or on-chain metadata overstate its environmental outcomes, legal effect, offset value or regulatory standing. Firms should be able to substantiate each material environmental claim by reference to the applicable methodology, verification and authoritative record, and explain material assumptions, limitations and dependencies to the intended purchaser. Participation in a sandbox, use of regulated infrastructure or supervision by the Authority must not be presented as endorsement of the environmental quality, commercial viability or expected performance of a product.
81. Financial-crime and operational risks require similarly specific treatment. Environmental-asset markets may be exploited through fictitious or duplicated credits, misrepresented project activity, opaque cross-border transfers or mispricing used to move or conceal value. Regulated participants should apply risk-based due diligence to project developers, counterparties and purchasers, monitor unusual issuance, transfer and retirement patterns, and assess sanctions exposure across registries, platforms and bridges. Controls should also address data lineage, reconciliation, cybersecurity, concentration, incident response, correction and fallback arrangements throughout the lifecycle, including disruption or failure affecting material technology, data, models or third-party providers.

VI. INITIAL SUPERVISORY POSITIONING

82. Subject to market feedback, the Authority's initial view is that a controlled-enablement approach is appropriate. Existing frameworks would apply according to the legal form, economic substance, functions and risks of the proposed activity, including established solvency, investment-governance, scenario-analysis, stress-testing and risk-management requirements where relevant.
83. The Authority would not dictate investment strategies or asset allocations; commercial entities remain responsible for investment decisions, viability assessments and risk appetite. Proportionate integrity, governance, disclosure and look-through safeguards would address material risks, while supervisory clarification, coordination or controlled testing would resolve defined uncertainty. A new rule, classification, capital adjustment or legislative amendment would be considered only where evidence identifies a material need to enhance existing legislation, supervision, credible external standards or coordination, and where the response falls within the Authority's mandate and supervisory capacity.
84. Across both traditional and innovative business models, the Authority is seeking evidence that a proposal addresses a real financing, protection, data or infrastructure need with identifiable users and sources of demand, a clear allocation of legal and financial responsibility, and the ability to operate with integrity throughout the asset lifecycle. Proposals should also explain what Bermuda contributes and whether the model can achieve sufficient scale or cross-border relevance to justify further clarification, coordination or testing.
85. As an initial view, the controlled-enablement approach would be guided by the following principles, beginning with the use of existing frameworks where they already address the relevant economic activity and risks. Neither a sustainability label nor the use of technology would create an exemption or predetermined regulatory classification.
    a) *Comparable functions and risks would receive comparable regulatory treatment*, with additional controls applied only where material technology, custody, settlement, cyber, data or integrity risks justify them.

b) *Integrity would be established before scale*, supported by governance, assurance, disclosure and supervision proportionate to the activity's materiality, complexity, target users, cross-border reach and potential harm.
c) *Early engagement and controlled testing would be encouraged* where they can resolve defined uncertainty, subject to clear limits and learning objectives and without implying endorsement by the Authority of environmental outcomes.
d) *International interoperability would be supported through credible standards* and relevant target-market requirements, while preserving Bermuda's outcomes-based regulatory approach.

VII. ISSUES FOR DISCUSSION

86. The Authority seeks evidence on four connected themes, which also structure the questions in Section VIII: where credible demand exists and what prevents commercially viable activity; how the application of existing financial-regulatory frameworks should be clarified; what evidence, governance, disclosure and lifecycle controls are needed to support integrity; and when external standards, coordination, controlled testing or a dedicated regulatory response would be proportionate.
87. Respondents are invited to distinguish matters within the Authority's remit from environmental policy, scientific validation, project permitting, market development, legislative action and responsibilities of other public authorities or private standard setters.
88. The Authority particularly welcomes evidence from fund operators, investment managers, asset owners, insurers and reinsurers, private-credit providers, digital asset business operators and issuers, and institutional allocators on investability, product structuring, valuation, liquidity, disclosure, distribution and cross-border market access for sustainability-linked assets. The near-term focus is institutional, reflecting the scale, complexity and cross-border features of the use cases considered; any broader distribution would require safeguards proportionate to the product, investor type, legal rights, valuation, liquidity, custody and claim-comprehension risks.
89. Respondents are also requested to explain how climate-mitigation, adaptation, resilience, disaster-risk reduction, nature or other sustainable-investment classifications affect mandates, due diligence, portfolio construction, performance measurement and reporting, and what evidence Bermuda structures would need to qualify under credible investor frameworks. Respondents may address only the questions relevant to their role and should provide concrete examples, transaction structures and supporting evidence where possible.

VIII. DISCUSSION QUESTIONS

a) Which innovative sustainable-finance opportunities are most credible for Bermuda over the near to medium term, and why? Please identify the use cases, market participants and sources of demand most likely to support commercially viable activity, including the evidence that would give investors, issuers or risk-takers confidence to participate.
b) What are the most significant barriers to developing credible and investable sustainable-finance activity in or from Bermuda? Which single action by the Authority, or by others, would be most impactful in supporting innovation in the focus areas identified in this paper? Is there any other area on which the Authority should focus to meaningfully support activity already taking place in the Bermuda market?

c) Are there gaps in, or barriers created by, Bermuda's existing legislation, rules, codes, guidance or supervisory processes that prevent credible innovative sustainable-finance business from being established or scaled in or from Bermuda? For each, please identify the activity and the provision or process concerned, the unintended consequence, and the change you consider necessary (supervisory clarification, guidance, controlled testing, a code or rule amendment, legislative amendment or action by another authority), together with the evidence of demand and the safeguards that should accompany it.

d) Which use cases would benefit from early regulatory engagement or controlled testing, and what specific uncertainty or risk should that process resolve? Please explain the proposed test, the evidence it should produce and how the outcome could inform a scalable market or supervisory approach without implying regulatory endorsement.

e) What minimum evidence, governance and lifecycle controls are necessary to support the integrity of environmental assets and sustainable-finance instruments without imposing disproportionate cost? Please consider the reliability of methodologies and data, verification, legal rights, authoritative records, issuance and transfer, use of proceeds, continuing reporting, retirement or invalidation, and the prevention of duplicate or misleading claims.

f) For the priority areas identified in this paper (digital environmental assets, digital green bonds and related instruments, IoT- and data-enabled parametric insurance, and AI-enabled climate-risk modelling), what disclosures and product-governance safeguards are needed to ensure that purchasers understand the legal rights, environmental claims, material assumptions, limitations, fees and dependencies of a product? Respondents need not revisit the Authority's separate work on sustainability-related disclosures for funds, other than to identify any interaction or inconsistency with these areas. Please also explain how safeguards should remain proportionate to the product, investor type and distribution model.

g) What risks or safeguards require distinct treatment across project finance, funds and investment structures, insurance and ILS, digital assets, capital-markets instruments, or data- and technology-enabled services? Please focus on the issues that cannot be addressed adequately through the common controls discussed in this paper, including risk allocation, valuation, liquidity, custody, model or trigger reliability, operational resilience and orderly exit.

h) Do the working terms used in this paper, including *innovative sustainable finance*, *digital environmental asset* and *use-of-proceeds instrument* (see Terminology section and Annex 1), reflect how these terms are actually used in the market? Please identify any terms that are unclear, inconsistent with market usage or open to misinterpretation, and suggest alternative terms or definitions that you consider more appropriate, particularly before any further work on specific instruments or products is undertaken.

IX. NEXT STEPS AND RESPONDING TO THIS PAPER

90. Following the discussion period, the Authority will assess the evidence received and determine whether targeted clarification, guidance, coordination or further policy work is warranted. Where the evidence points to a need for a new or amended rule, code, guidance or legislative change, the Authority may issue a separate Consultation Paper, which, building on the views received in response to this paper, is expected to be more focused and to run for a shorter period.
91. This assessment may include a focused workstream with project originators, investors, lenders, arrangers and risk-transfer providers to identify the project-preparation, aggregation, capital-

formation and risk-allocation constraints that prevent credible transactions from reaching financial close, and to distinguish those requiring regulatory action from those that fall to market participants or other authorities.

92. Any Innovation Hub, regulatory sandbox or related market-engagement initiative will be considered separately following publication of this paper. The purpose of this paper is to obtain industry feedback on the discussion questions.
93. Responses should be submitted by 15 March 2027 to policy@bma.bm with the subject line 'Discussion Paper on Innovative Sustainable Finance in Bermuda'.

ANNEX 1 — GLOSSARY

The definitions in this glossary support consistent reading of this paper. They explain specialised terms used materially in the paper but do not determine legal classification, regulatory treatment or the meaning of terms under applicable legislation, rules, codes, guidance, methodologies or external standards.

Additionality, permanence, leakage and reversal: Additionality is the extent to which an environmental outcome would not have occurred without the project, intervention or incentive associated with the environmental unit or claim. Permanence is the durability of an environmental outcome over time, including the risk that a stored or avoided emissions benefit, or another environmental benefit, is later reversed or lost. Leakage is an increase in emissions or other adverse environmental effects outside a project boundary that results from, or materially offsets, the project's claimed benefit. Reversal is the loss or release of a previously credited environmental benefit.

Authoritative record: The registry, ledger, contractual record or other system designated to determine a specified matter such as issuance, ownership or control, transfer, status or retirement, including the precedence rule where other records conflict.

Basis risk: The risk that a parametric payout does not match the policyholder's actual loss.

Blended finance: The strategic use of public or philanthropic capital to mobilise additional private investment, including through guarantees, concessional capital or risk-sharing.

Blue finance: Financing, investment or risk-transfer arrangements directed to sustainable ocean and coastal activities or outcomes; the label does not itself establish environmental integrity or regulatory treatment.

Climate finance: Financing, investment, risk-transfer arrangements or financial infrastructure intended to support climate mitigation, adaptation, resilience or transition outcomes.

Climate-related financial risk: Financial risk arising from physical climate hazards, whether acute or chronic (such as storms, flooding, sea-level rise, heat and drought), or from the transition toward a lower-emission and climate-resilient economy, including transmission through credit, market, underwriting, liquidity, operational, legal, conduct and reputational risks.

Controlled enablement: The use of existing regulatory frameworks, proportionate safeguards, early supervisory engagement and, where necessary, controlled testing to support credible innovation while addressing defined regulatory uncertainty or material risk without implying regulatory endorsement.

Controlled testing: Supervised, time-bound testing of a defined proposition, subject to explicit learning objectives, limits, safeguards, reporting and exit arrangements, to resolve a defined regulatory uncertainty or risk question without implying regulatory endorsement.

Digital environmental asset: A working term for a digital or tokenised representation of an environmental unit, entitlement, claim or instrument; it is not a legal classification.

Digital green bond: A bond that uses digital infrastructure for one or more lifecycle functions and finances, refinances or reports against eligible green, transition or resilience projects or outcomes under the applicable terms, disclosures and external standards.

Digital measurement, reporting and verification: The use of digital tools, including sensors, satellite data, APIs, AI or distributed ledgers, to support measurement, reporting and verification processes; digital tools do not replace the applicable methodology, governance or independent assurance.

Double counting: The creation, use or claiming of the same environmental outcome more than once, including double issuance where more than one unit is created for the same outcome, double use where the same unit is applied more than once, and double claiming where more than one party attributes the same outcome to itself.

Environmental asset: An asset, entitlement or claim that represents, or is derived from, an environmental unit; see also *environmental unit* and *digital environmental asset*.

Environmental integrity: The credibility of an environmental outcome, unit, or claim, assessed through the applicable methodology, baseline, additionality, measurement, durability, independent verification, authoritative records, and controls against reversal, leakage, and duplicate issuance, use, or claiming.

Environmental unit and environmental credit: An environmental unit is a quantified and recorded unit representing a defined environmental outcome, attribute or entitlement under an applicable methodology, programme, registry or legal arrangement. An environmental credit is such a unit associated with a defined environmental outcome, such as a carbon, renewable-energy, biodiversity, nature or water unit.

Financialisation: The structuring of environmental outcomes, climate risks, or sustainability-linked assets into financial products, instruments, or markets that can be issued, held, transferred, insured, or traded.

Greenwashing: A claim, representation or omission that misleads, or is likely to mislead, a person about the environmental characteristics, benefits, risks or performance of a product, activity, entity or investment.

Innovation Hub: The Authority's pathway for early engagement on innovative propositions that may not yet be ready for a formal application or live test.

Innovative sustainable finance: The definition is set out in the Terminology section of this paper.

Invalidation: A determination that an environmental unit or claim is no longer recognised as valid under the applicable methodology, registry, programme or legal arrangement.

Look-through information: Information sufficient to identify and assess the underlying assets, obligors, cash flows, collateral, concentrations and material risks within a pooled, securitised, fund or other indirect exposure.

Nature finance: Financing, investment or risk-transfer arrangements directed towards the conservation, restoration, sustainable use or resilience of biodiversity, ecosystems and related natural assets.

Oracle: A service that supplies external data to a digital system or smart contract.

Parametric insurance: Insurance that pays a predetermined amount when an objective contractual trigger is met, subject to the policy terms.

Project finance: A financing structure in which repayment and investor returns depend principally on the cash flows, assets or contractual arrangements of a defined project or portfolio, commonly using a special-purpose vehicle and project-specific allocation of construction, operating, market, credit and other risks.

Protection gap: The difference between the total economic losses from a hazard and the portion covered by insurance or other risk-transfer arrangements.

Prudent Person Principle: The principle under which a commercial insurer or insurance group establishes and implements an investment framework appropriate to its business and liabilities so that investment risks are identified, assessed, monitored, managed, controlled and reported; the investment portfolio is managed as a whole with regard to security, quality, liquidity, profitability, asset-liability matching, concentration and diversification; and the board and senior management retain accountability, including where investment-related activities are outsourced. The Authority applies these expectations proportionately, having regard to the insurer's nature, scale and complexity.

Registry: A system that records issuance, ownership or control, transfer, status and retirement or cancellation of environmental units.

Regulatory sandbox: A controlled framework in which an eligible proposition may undertake time-bounded live testing subject to defined limits, safeguards, reporting and exit arrangements.

Retirement: The permanent designation of an environmental unit in the authoritative record as unavailable for further transfer or use for the same purpose, in accordance with the applicable methodology, programme or legal arrangement. Burning or cancelling a digital token does not itself establish retirement.

Risk transfer: An arrangement through which specified financial consequences of a risk are contractually transferred to another party, including through insurance, reinsurance, guarantees, derivatives or capital-markets structures, subject to the legal and economic substance of the arrangement.

Smart contract: Code deployed on a digital system that automatically executes or records specified actions when defined conditions are met; its use does not, by itself, determine the legal character or enforceability of the underlying arrangement.

Sustainability-linked instrument: A financing instrument whose financial or structural terms, such as the coupon or margin, vary according to whether the issuer achieves predefined, material sustainability performance targets. Proceeds may be used for general purposes; it is not a use-of-proceeds instrument unless its legal terms create that structure.

Sustainable finance: The umbrella term for financing, investment, risk-transfer arrangements and financial infrastructure intended to support climate, nature and other environmental outcomes, of which climate finance, nature finance and blue finance are subcategories (see the Terminology section).

Tokenisation: The digital representation of an asset, right, interest, or claim, and related lifecycle functions, using distributed-ledger or similar technology; tokenisation does not, by itself, determine legal classification, ownership, enforceability, or the quality of an underlying environmental outcome.

Transition finance: Financing or risk-transfer arrangements intended to support a credible, time-bound transition toward lower-emission or more climate-resilient activities, supported by material targets, implementation plans and safeguards against carbon lock-in.

Use-of-proceeds instrument: A financing instrument under which an amount equivalent to the funds raised is allocated to finance or refinance defined eligible projects or activities in accordance with the instrument's terms. It differs from a sustainability-linked instrument, whose proceeds may be used for general purposes while its financial or contractual terms vary according to specified performance targets.

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