

## **Second Public Statement on Collaboration on Sustainable Finance in the UAE**

The global drive to meet internationally-agreed sustainability-related targets, such as reducing greenhouse gases and limiting global temperature rises, presents an opportunity for a well-planned and orderly climate transition. This collective dedication, combined with increased ambition and action from constituent nations, means financing and funding are becoming increasingly critical in achieving the targets of the Paris Agreement and the UN Sustainable Development Goals.

In recognition of the coordinated action at the 27<sup>th</sup> UN Climate Change Conference (“COP27”), this public statement intends to provide a brief overview of the ongoing work of the Sustainable Finance Working Group (“SFWG”) within the United Arab Emirates and re-affirms the government’s commitment to facilitate the UAE’s economic transition and ensure the adoption of sustainable finance at a national level.

### Background

The UAE’s pursuit towards sustainable growth is articulated through the various national declarations and initiatives that have been put in place in line with the UAE’s international commitments. These include the *UAE Green Agenda 2015 – 2030*, the *National Climate Change Plan of the UAE 2017 – 2050* and the UAE’s *Net Zero by 2050 Strategic Initiative* which indicate the importance of the financial sector in the expansion of private capital towards sustainable projects, businesses and products within the UAE.

In response to this, the SFWG was established to support the development of sustainable finance in the UAE and facilitate regulatory cooperation amongst the UAE authorities on practices and frameworks that can enable the financial sector to deliver on this need. As a first step in 2019, the members of the SFWG laid down the foundation for its future work through the publication of *Guiding Principles on Sustainable Finance in the UAE* (“Guiding Principles”), which outlined a framework to guide members in fulfilling their respective tasks. It demonstrated the commitment of its members to foster sustainable finance and actively encourage their regulated entities to harmonise their activities with the UAE’s sustainability priorities.

Subsequently, the *2021 Public Statement on Collaboration on Sustainable Finance in the UAE* (“2021 Public Statement”) built on the Guiding Principles by providing a roadmap (“Roadmap”) through which the required scaling up of sustainable finance within the UAE can occur. Supported by a dialogue with the financial industry, the Roadmap focused on three interlinked topics within sustainable finance that are most relevant to the nature of financial services within the UAE and which are considered internationally as most conducive to enabling the desired changes. They are:

1. Strengthening sustainability disclosure;
2. Fostering sustainability-focused corporate governance; and
3. Designing the UAE’s Sustainable Finance Taxonomy.

Given the diversity of the SFWG members and their regulated entities, the Roadmap made clear that the output of each topic should comprise a harmonised set of principles tailored to the UAE’s specificities, from which each SFWG member authority will have the flexibility to implement within their respective jurisdiction via its preferred approach.

### Working Group Structure

To ensure maximum collaboration and impact across the UAE’s financial sector, the SFWG comprises Federal and Financial Free Zone regulators, relevant governmental bodies and ministries, as well as securities exchanges. The Group is co-ordinated by the Financial Services Regulatory Authority of the Abu Dhabi Global Market. Its membership can be found in Annex.

To put the 2021 Public Statement into action, the SFWG members agreed to establish three separate workstreams focused on deepening the work set out in the Roadmap. This structure aims to optimise

the benefits of the members' relevant expertise and ensure that the appropriate amount of time and attention is given to the technical considerations that are required for the SFWG to deliver on its commitments.

### 2022 Progress Update

Given the extent of the Roadmap as well as the need for close cooperation and alignment of purpose, the members arranged a number of meetings in 2022 across the SFWG and its three workstreams, with the latter all initiated in Q2. In addition, extensive benchmarking and fact gathering exercises were undertaken to gain first-hand understanding of evolving standards and international best practices. In this context, the SFWG met with regulators in other regions and jurisdictions, international organisations, industry standard setters and top-tier consultants with expertise in sustainable finance.

Furthermore, several recent publications have informed the SFWG's work this year, notably: the International Sustainability Standards Board's (ISSB) proposals on *General Sustainability-related Disclosure Requirements* and *Climate-related Disclosure Requirements*, which are being considered by international standard-setters such as the International Organization of Securities Commissions (IOSCO) and International Association of Insurance Supervisors (IAIS); and the Basel Committee's *Principles for the Effective Management and Supervision of Climate-related Financial Risks*. The SFWG's approach is also being influenced by global policy priorities set by the G20, namely the G20 Sustainable Finance Roadmap.

#### **Workstream One on Sustainability Disclosure**

To initiate this workstream, a fact-finding exercise amongst members was undertaken to understand the extent of entity-level and product-level disclosure currently in place within UAE regulatory regimes. The results of the survey showed that some UAE regulators require entities issuing and/or listing securities to disclose 'Environmental, Social and Corporate Governance' ("ESG") and sustainability reports. There are no mandated disclosure requirements specific to financial service firms, although it was noted that some within the UAE undertake voluntary sustainability disclosures. With regard to financial products labelled as ESG or Socially Responsible Investing (or similar), most regulators have relied on their general disclosure obligations and have not issued specific disclosure requirements, except for some non-mandatory Green Bond Guidelines on the issuance of green bonds and sukuk.

The workstream recognises key international initiatives on ESG-related disclosures, in particular proposals by the ISSB that aim to provide a global, uniform set of disclosure standards. The SFWG intends to consider the option of aligning with these standards in due course, once the final standards are adopted by the ISSB and endorsed by international standards-setters. This work will necessarily involve engagement with industry in the UAE, both financial and non-financial, and other stakeholders.

#### **Workstream Two on Sustainability-focused Corporate Governance**

Workstream Two seeks to enhance climate-related corporate governance and risk management standards in the UAE's financial services entities. It is working on a principles-based document which can provide direction for how financial services firms are to incorporate climate-related considerations and practices into their governance and risk management structures. At this stage, it is considered that its scope will be the financial services firms regulated by the four UAE Financial Services Regulatory Authorities represented on the SFWG, with wider application to be explored in the future. The high-level content of the document has been considered and once the final document has been agreed, the proposed solutions, which will derive from international standards and best practices, will be shared with the UAE's financial sector and relevant stakeholders for feedback.

#### **Workstream Three on the UAE Sustainable Finance Taxonomy**

The workstream has explored the rationale and overall objectives of a UAE Sustainable Finance Taxonomy in order to support the achievement of the UAE's climate objectives and to enable the transition to a net zero economy. It aims to provide guidelines for the classification of activities and

entities according to their level of sustainability. This will also provide transparency for investors on the environmental impact of certain economic activities.

The workstream has been focusing on developing design principles for the taxonomy, which have been informed by a survey, benchmarking of other live taxonomies and insights from 3<sup>rd</sup> party experts. Going forward it intends to explore the application of an activity classification system.

#### *Planned Next Steps*

This progress update intentionally coincides with COP27's Finance Day, given the international focus on addressing environmental concerns that COP provides. The SFWG re-affirms its commitment to promote regulatory consistency amongst its members, whilst acknowledging the evolving international standards at a global level.

In anticipation of the UAE's hosting of COP28 and in order to meet the above high-level commitments, the SFWG, via the three workstreams, will continue to progress its work over the coming year with the intention of publishing more specific outputs in 2023 and beyond. In the build up to this, the SFWG intends to seek feedback from industry and relevant stakeholders on these proposals and incorporate their views where appropriate.

## **ANNEX: Sustainable Finance Working Group Members**

- Ministry of Finance of the UAE
- Ministry of Economy of the UAE
- Ministry of Climate Change and Environment of the UAE
- Central Bank of the UAE
- Securities and Commodities Authority
- Office of the UAE's Special Envoy for Climate Change
- Financial Services Regulatory Authority of the Abu Dhabi Global Market
- Dubai Financial Services Authority
- Abu Dhabi Securities Exchange
- Dubai Financial Market
- Nasdaq Dubai