

# **UAE Sustainable Finance Working Group**

## **CONSULTATION PAPER PRINCIPLES FOR THE EFFECTIVE MANAGEMENT OF CLIMATE-RELATED FINANCIAL RISKS**

MARCH 28, 2023

## **Why is the UAE Sustainable Finance Working Group issuing this Consultation Paper (CP)?**

1. The UAE Sustainable Finance Working Group (SFWG) was established in 2019 and is co-ordinated by the Financial Services Regulatory Authority of the Abu Dhabi Global Market. The SFWG's main objective is to support the development of sustainable finance in the UAE and facilitate regulatory co-operation amongst the UAE authorities on practices and frameworks that can enable the finance sector to deliver on this goal. The appendix contains a list of SFWG members.
2. In 2020, in its Guiding Principles on Sustainable Finance in the UAE, the SFWG committed to developing standards for the financial sector to integrate Environmental, Social and Governance factors into corporate governance, strategy and risk management. The proposed Principles for the Effective Management of Climate-related Financial Risks ("the Principles") are the result of the SFWG's work stream on governance and risk management.
3. In drafting the proposed Principles, the SFWG have considered a number of standards on this topic published by international standard-setters, primarily the Principles for the effective management and supervision of climate-related financial risks from the Basel Committee on Banking Supervision (BCBS)<sup>1</sup>, and the Guide for Supervisors Integrating climate-related and environmental risks into prudential supervision by the Network for Greening the Financial System (NGFS)<sup>2</sup>.
4. The SFWG is launching this consultation on the Principles with the aim of obtaining feedback on their clarity, relevance to firms within the scope of application as determined by each regulator, and the implementation approach.
5. The draft Principles represent the common understanding among the SFWG members on the minimum standards they expect to implement in their respective jurisdictions and in line with their legal frameworks in the area of climate risk management. The draft Principles are endorsed by the entire SFWG, and they are primarily relevant for the financial services sector.

## **How will the Principles affect firms?**

6. The Principles set the expectations for governance and risk management of climate-related financial risks, and firms will be expected to establish and maintain appropriate oversight and allocation of responsibilities for these risks, and integrate them within the processes and systems for strategy-setting, risk management framework, capital and liquidity planning, and scenario analysis exercises.

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<sup>1</sup> <https://www.bis.org/bcbs/publ/d532.pdf>, 15 June 2022.

<sup>2</sup> [https://www.ngfs.net/sites/default/files/medias/documents/ngfs\\_guide\\_for\\_supervisors.pdf](https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_for_supervisors.pdf), 27 May 2020.

**What are the next steps?**

7. Firms participating in the consultation are invited to provide comments on the proposed Principles via the attached Feedback Form. The deadline for providing comments is close of business, **1 May 2023**.
8. Once comments are received, the SFWG shall consider if any further refinements are required to the proposed Principles, and then proceed to make the relevant changes to the Principles in preparation for issuance. Firms should not act on these proposed Principles until the document has been formally issued by members of the SFWG.

**ANNEX: The UAE 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