



ABU DHABI GLOBAL MARKET  
سوق أبوظبي العالمي

*DISCUSSION PAPER*  
*NO. 1 OF 2024*

**ENHANCING THE  
SUSTAINABLE FINANCE  
REGULATORY FRAMEWORK  
FOR ADGM**

**20 May 2024**

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## Introduction

### Why we are issuing this paper

1. The Financial Services Regulatory Authority (“**FSRA**”) and the Registration Authority (“**RA**”) of Abu Dhabi Global Market (“**ADGM**”) have jointly issued this Discussion Paper (“**DP**”) to seek views on proposals for the continued development of ADGM’s regulatory framework for sustainable finance (the “**Framework**” and “**SusFin**” respectively). In this paper “**ADGM**” and “**we**” are generally used to refer to ADGM as a whole, although where appropriate for the context they are used to signify the FSRA, the RA or the ADGM Authority as individual authorities within ADGM.
2. This DP is divided into two parts. The first part seeks comments on proposed guidance outlining the FSRA’s expectations for ESG-labelled investment vehicles (the “**Guidance**”).
3. The second part of this DP solicits feedback on areas where ADGM is contemplating appropriate next steps for ADGM-licensed entities, namely:
  - integration of climate-related risks in their risk management frameworks and governance processes; and
  - transition planning.
4. SusFin continues to be a strategic priority for ADGM. With a view to providing certainty to stakeholders, we have developed our Framework on multiple fronts in recent years, including:
  - the implementation of comprehensive disclosure requirements for appropriate entities within ADGM which promote transparency and accountability on environmental, social and governance (“**ESG**”) matters;
  - the expansion of ADGM’s markets framework to encompass ‘Environmental Instruments’, such as carbon offsets; and
  - rules for the designation of “green” and “climate transition” funds and portfolios, as well as “green” and “sustainability-linked” bonds and sukuks.
5. In coordination with our partners in the UAE Sustainable Finance Working Group (“**SFWG**”), in 2023 we published principles for the effective management of climate-related financial risks<sup>1</sup> (“**SFWG Principles**”) as guidance for ADGM firms on how to integrate climate-related risks into their risk management and governance processes.

<sup>1</sup> [https://en.adgm.thomsonreuters.com/sites/default/files/net\\_file\\_store/ADGM1547\\_26182\\_VER01.pdf](https://en.adgm.thomsonreuters.com/sites/default/files/net_file_store/ADGM1547_26182_VER01.pdf), September 2023

6. The proposals set out in this DP seek to further advance and supplement those developments. The SusFin space continues to evolve rapidly, and we recognise that our regulatory framework must continue to evolve. As such, this DP aims to solicit feedback in the areas where we have assessed that further effort is required.
7. Capitalised terms which appear in this paper have the meanings attributed to them in the Financial Services and Markets Regulations (“**FSMR**”) or the FSRA’s Glossary Rulebook (“**GLO**”), unless otherwise defined herein.

***Who should read this paper***

8. This DP should be of particular interest to the following stakeholders:
  - Fund Managers and Asset Managers, in relation to the Guidance; and
  - all companies governed by the Companies Regulations 2020 in relation to the implementation of the SFWG Principles and next steps towards transition planning.
9. We also welcome feedback from other stakeholders, whether based in ADGM or beyond, regulated firms in other jurisdictions with SusFin experience, think tanks and ESG advocacy groups.

***How to provide comments***

10. All comments should be made in writing and sent to the physical or email address below. If sending your comments by email, please use the Discussion Paper number in the subject line. If relevant, please identify the organisation you represent when providing your comments. We reserve the right to publish any comments you provide, including on our website, unless you expressly request otherwise when submitting those comments. Comments supported by reasoning and evidence will be given more weight.

***Closing date for comment***

11. The closing date for providing comments on the proposed enhancements to the Framework is 19 July 2024.

***Comments to be addressed to:***

Discussion Paper No. 1 of 2024  
Abu Dhabi Global Market  
ADGM Square  
Al Maryah Island  
PO Box 111999  
Abu Dhabi, UAE  
Email: [consultation@adgm.com](mailto:consultation@adgm.com)

## Background

### *ESG-labelling and greenwashing*

1. When the FSRA implemented its rules in 2023 for labelling green and climate transition funds and portfolios, it deliberately focused solely on *environmental* sustainability.
2. There continues to be a need for greater clarity around regulatory expectations pertaining to ESG investment products that pursue sustainability objectives more broadly than only the environmental aspects. Additionally, to foster demand for products and services aimed at “financing green”, investors should be confident that the risk of “greenwashing” has been appropriately mitigated.
3. The proposed Guidance included as Annex A of this DP has been developed with these considerations in mind.

### *Climate-related risks and transition planning*

4. Across the globe regulatory authorities play an important role in encouraging or requiring entities to account and plan for the impacts of climate-related risks. One rationale for this is that, once climate-related risks are appropriately incorporated into those entities’ risk management frameworks and governance processes, it is anticipated that those entities will be motivated to take action to mitigate such risks. This in turn benefits not just the entities themselves, but society more broadly.
5. We wish to explore the role that ADGM could or should play in encouraging our licensed entities to identify and address climate-related risks to their business. In particular, as an international financial centre within the United Arab Emirates (“UAE”), ADGM can further efforts under the UAE’s Net Zero by 2050 Strategic Initiative<sup>2</sup> (“NZSI”) by encouraging ADGM-licensed entities to develop their own net zero transition plans (“NZTPs”).
6. ADGM wishes to take a consultative approach in identifying the most appropriate and effective ways to encourage or require companies to embed climate-related risks within their risk management frameworks and governance processes in order to facilitate collective buy-in. In addition, seeking feedback from market participants will enhance our understanding of how transition planning should be approached, as there may not be a one-size-fits-all approach in this regard.
7. This DP furthers these consultative efforts by seeking stakeholder feedback prior to undertaking any regulatory actions on these fronts.

<sup>2</sup> <https://u.ae/en/more/uae-net-zero-2050>, last updated on 13 May 2024

**Part I - ESG-labelling and greenwashing**

8. ESG-labelled funds and portfolios are already popular globally and are expected to remain so. PWC predicts that by 2026, ESG portfolios will gather around US \$33.9 trillion in assets under management, compared with US \$18.4 trillion in 2021<sup>3</sup>. As this segment of the asset management sector grows within ADGM and globally, it is important to provide clarity around regulatory expectations for ESG labels to bring discipline to and develop investor confidence in this market sector.
9. ESG-related practices, policies, procedures and disclosure in asset management continues to be an area of focus for international regulatory standard-setting bodies such as IOSCO<sup>4</sup>. A recently published report from IOSCO<sup>5</sup> provides insights on some of the initiatives that regulators have undertaken globally to address the risks of greenwashing and the challenges that hinder implementation of IOSCO's recommendations in this area.
10. We plan to take a step-by-step approach to developing a regulatory framework for the use of ESG labels, starting with the publication of guidance and eventually evolving to rule-making as ESG-related practices become more established globally and the sustainable finance industry becomes more entrenched within ADGM. This approach has been informed by recommendations from market participants.
11. The proposed Guidance provides regulatory expectations for ESG-labelled products around:
  - “greenwashing” and the provision of clear, fair and not misleading disclosures;
  - appropriate use of fund names in line with the ESG strategies being undertaken;
  - clarity on ESG investment strategies being pursued;
  - use of ESG taxonomies and third-party attestation;
  - use of ESG indices; and
  - disclosure expectations for ESG-labelled products.

**Greenwashing**

12. “Greenwashing” is a broad term meant to capture any misrepresentation of sustainability-related practices or features of an investment product or service. Greenwashing can occur in relation to any aspect of a product's profile including representations around its name, investment strategies, targets etc. Given the

<sup>3</sup> [https://www.pwc.com/gx/en/industries/financial-services/asset-management/publications/asset-and-wealth-management-revolution-2022.html?WT.mc\\_id=CT11-PL1000-DM2-TR2-LS4-ND1-TTA9-CN\\_gx-fy22-xlos-esg-awm-esg-revolution-pressrelease](https://www.pwc.com/gx/en/industries/financial-services/asset-management/publications/asset-and-wealth-management-revolution-2022.html?WT.mc_id=CT11-PL1000-DM2-TR2-LS4-ND1-TTA9-CN_gx-fy22-xlos-esg-awm-esg-revolution-pressrelease)

<sup>4</sup> <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD688.pdf>, November 2021

<sup>5</sup> <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD750.pdf>, December 2023

number of disclosure practices that are prone to greenwashing, expectations around the prevention of greenwashing are addressed throughout the proposed Guidance.

13. The FSRA already has binding requirements that require that statements or disclosures to clients be clear, fair and not misleading nor deceptive. The Guidance would augment and support the operation of those regulations and rules in the ESG space. The Guidance applies to Domestic Funds and Model Portfolios which have, or are held out as having, ESG characteristics (“**ESG Investment Vehicles**”). It establishes a common understanding of key terms, including “greenwashing”.
14. The proposed Guidance outlines broader expectations that ESG Investment Vehicles should (among other things):
  - accurately describe the extent to which an ESG Investment Vehicle is focussed on ESG factors or goals, and be clear about which of the ESG factors it is focussed on;
  - provide appropriate qualifications, limitations or explanations when making ESG-related claims;
  - not make ESG performance-related claims that suggest direct causal links between the fund’s strategies and ESG outcomes when such links do not exist, or cherry-pick information to put ESG performance in a positive light; and
  - not make ESG claims that may be vague, exaggerated or factually incorrect.

**Question 1:** Do you agree with the definition of “greenwashing” in the proposed Guidance?

**Question 2:** Do you agree with the broad regulatory expectations laid out to prevent greenwashing?

**Question 3:** While we are taking an iterative approach to addressing greenwashing by providing the proposed Guidance for consideration, should we consider developing binding requirements to counter greenwashing in the future similar to some other jurisdictions<sup>6</sup> in order to make expectations in this area more enforceable?

### ***Undesirable or misleading names***

15. The Guidance sets out expectations around undesirable practices relating to the naming of ESG Investment Vehicles.
16. The Guidance states that there should be alignment between an ESG Investment Vehicle’s investment objectives and its name i.e., an ESG label is only appropriate if ESG-related objectives or strategies form a central focus for the product.
17. Additionally, the Guidance makes clear that the “ESG” label should only be used if all three components of “E”, “S”, and “G” are being considered as part of the

<sup>6</sup> As an example, the FCA has now has an anti-greenwashing rule in place and has provided guidance to supplement the rule: <https://www.fca.org.uk/publications/guidance-consultations/gc23-3-guidance-anti-greenwashing-rule>, April 2024

investment mandate of the product. If only a subset of the three components is being considered rather than all three, the use of the broader “ESG” term risks conflating these factors and creating investor confusion.

**Question 4:** Do you agree with the proposed regulatory expectations around appropriate use of the “ESG” label, particularly in relation to the risk of conflation of the three individual components of “E”, “S”, and “G”?

**Question 5:** Should the FSRA establish expectations around minimum investment thresholds for investment vehicles that use sustainability-related terms in their names, for example, a fund that uses “ESG” or “sustainable” in its name should invest at least 75% of its assets in ESG-aligned investments?

### **ESG investment strategies**

18. The Guidance classifies ESG investment strategies into four distinct categories:

- ESG Integration
- Screening
- Impact Investing
- Thematic Investing.

Given that employment of these distinct categories entails distinct considerations and processes, there is the risk of investor confusion arising from “category error”. As such, the Guidance sets certain expectations in relation to these ESG investment strategies.

19. The Guidance states that the ESG investment strategy of an ESG Investment Vehicle should be clearly described in plain language and such disclosures should provide sufficient details around:

- the screening, selection and prioritisation of the ESG investment strategy(ies) pursued;
- the types of assets that may be acquired in pursuit of the ESG investment strategy;
- the ESG factors or screens that are used and how they are evaluated; and
- the prioritisation or interplay of multiple ESG strategies.

20. Where an ESG Investment Vehicle retains the ability to invest a portion of its portfolio in assets not consistent with its overall ESG values, this should be clearly disclosed in a clear and concise manner to investors.

21. For ESG Investment Vehicles that aim to achieve a measurable ESG impact, the Guidance introduces the concept of “additionality”, i.e. the ESG benefits that occur as a direct result of the deployment of an ESG strategy by the ESG Investment Vehicle. The Guidance encourages ESG Investment Vehicles to consider and disclose how the ESG investment strategy creates “additionality” and how that impact is measured using ESG indicators and/or metrics on a regular basis.

22. For ESG Investment Vehicles that undertake stewardship to influence outcomes, the Guidance sets expectations around disclosure of an ESG Investment Vehicle's approach to stewardship, including potentially providing details of its proxy voting policies and procedures, and its proxy voting records.

**Question 6:** Are the four main ESG investment strategies identified in the Guidance appropriate? If not, what might be more appropriate categorisations?

**Question 7:** Do you agree that ESG Investment Vehicles that aim to achieve ESG impact should measure and disclose their performance against relevant ESG metrics on a regular basis?

**Question 8:** Do you agree that details of an ESG Investment Vehicle's stewardship activity to influence investees to align with positive ESG outcomes should be provided? Are there details other than proxy voting strategies or records that can be provided to facilitate transparency in relation to stewardship practices?

### ***Use of ESG taxonomies and attestation***

23. The Guidance outlines that a third-party, publicly-available and credible taxonomy should be used to select assets that align with the ESG values of an ESG Investment Vehicle. The FSRA is of the view that the use of an ESG taxonomy will establish a common understanding with investors about the ESG ambitions being pursued.
24. Where such taxonomies are used, the Guidance encourages clear disclosure around:
- the choice of ESG taxonomy;
  - why the selected ESG taxonomy was chosen; and
  - key attributes of the taxonomy, including its scope, coverage and granularity.
25. The Guidance outlines that ESG Investment Vehicles should use a third party to attest that the assets of an ESG Investment Vehicle are aligned with its chosen ESG taxonomy on a periodic basis.

**Question 9:** Do you agree with our view that the use of a third-party ESG taxonomy to assist with selection of assets aligned with ESG ambitions adds value and reduces the risk of misunderstanding?

**Question 10:** Do you agree with the key areas of disclosure in relation to the use of an ESG taxonomy that we have highlighted within the Guidance?

**Question 11:** Given that there are costs associated with third party attestations, do you agree that the benefits of attestation regarding the alignment of assets in a portfolio with a recognised taxonomy for ESG Investment Vehicles and/or investors thereof outweigh the costs associated with securing such attestations? Should third-party attestation be expected of all ESG Investment Vehicles or should certain ESG Investment Vehicles, for example, Qualified Investor Funds be exempt from such expectations?

**Question 12:** While there are numerous taxonomies focussed on environmental aspects, are there taxonomies focussed on “S” or “G” aspects, or ESG as a combination, that ADGM should consider?

### ***Use of ESG indices***

26. We see an important role for ESG indices in the development of passive, lower-cost ESG Investment Vehicles. The Guidance lays out the expectation that, where an ESG Investment Vehicle uses an ESG index to guide its asset selection, it should:
- disclose the name and provider of the index;
  - provide a description of the methodology for selection of constituents;
  - explain how the index supports the underlying ESG objectives of the ESG Investment Vehicle; and
  - provide clear disclosure of all potential or actual conflicts of interest from the use of such indices.

**Question 13:** Do you agree with the key disclosure aspects pertaining to the use of an ESG index highlighted in the Guidance? Are there other disclosure aspects to consider here?

**Question 14:** Do you agree with the assertion in the Guidance that, if assets are selected from within an ESG index, then there is limited or no utility of third-party attestations around the ESG credentials of investment assets?

## ***Part II - Climate-related risks and transition planning***

### ***Management of climate-related risks***

27. Climate-related risks are no longer an abstract concept but have tangible and measurable impacts on businesses and their financial well-being. Entities, including those within ADGM, are increasingly likely to suffer from climate-related physical risks, e.g. arising from severe weather events, and/or transition risks, e.g., the impact of climate change on economies, policies, demographics and sentiments. As such, climate-related financial risks require appropriate management, much like any other risks that a business faces.
28. The SFWG Principles provide guidance in relation to how climate-related risks should be managed and were developed after consideration of a number of standards on this topic published by international standard-setters, primarily the *Principles for the effective management and supervision climate-related financial*

risks<sup>7</sup> from the Basel Committee on Banking Supervision. As such, the SFWG Principles are primarily targeted towards financial institutions. While acknowledging this, the SFWG Principles may, nonetheless, be adapted to non-financial services firms.

29. The SFWG Principles were published by the FSRA in the form of guidance and the FSRA is considering whether to adopt the underlying tenets of the SFWG Principles more formally as enforceable rules for financial services firms. If that were to happen, we would consider whether the SFWG Principles need further adaptation or elaboration to make them more specific to varying financial services activities e.g., whether separate principles are required for asset management firms as opposed to banking entities.
30. This DP requests feedback on any regulatory actions that ADGM should consider to further encourage, or even require, effective management of climate-related risks by ADGM-licensed entities. In particular, we seek feedback on how best to adapt the SFWG Principles to varying business models, and whether the application of these principles can or should be extended beyond financial services firms to all ADGM-licensed entities.
31. We also wish to explore to what extent, and how, should “proportionality” be addressed when considering application of possible regulatory requirements pertaining to climate-related risk management by ADGM-licensed entities. As a point of reference, ADGM’s ESG disclosure requirements<sup>8</sup> only apply to entities that achieve more than US\$ 68 million turnover in a financial year or an asset management company that manages assets exceeding US\$ 6 billion at any time during a financial year.

**Question 15:** If the FSRA were to adopt the SFWG Principles as binding rules, what modifications should be considered to facilitate this? For example, would such rules need to be tailored for firms providing different financial services, e.g., for banks versus asset management firms?

**Question 16:** Should rules and/or regulations to implement SFWG Principles be applied to all ADGM-licensed entities or be limited to financial services companies only? Where specifically do the SFWG Principles need to be adapted to make them applicable for non-financial services firms?

**Question 17:** How should regulatory requirements pertaining to climate-related risk management address “proportionality” in their application? For example, should the requirements only apply to entities of similar size to those to which ADGM’s ESG disclosure requirements apply?

### ***Transition planning and transition plans***

32. One aspect of the prudent management of climate-related risks is to have a transition planning process which encompasses strategic planning for the transition

<sup>7</sup> <https://www.bis.org/bcbs/publ/d532.htm>, June 2022

<sup>8</sup> [https://en.adgm.thomsonreuters.com/sites/default/files/net\\_file\\_store/ADGM1547\\_25816\\_VER01040723.pdf](https://en.adgm.thomsonreuters.com/sites/default/files/net_file_store/ADGM1547_25816_VER01040723.pdf), July 2023

to a net zero global economy. In many cases the tangible output of the transition planning process is a transition plan.

33. While ADGM requires that companies exceeding the threshold mentioned above provide relevant ESG disclosures on a “comply or explain” basis, such disclosures are typically *backward-looking* and relate to an entity’s previous financial year(s). In contrast, a transition plan outlines an organisation’s *forward-looking* plans to align it with specific climate outcomes, while often spelling out how an organisation plans to achieve a net zero status.
34. Given the UAE’s NZSI, we continue to explore whether and how ADGM can play a role in the national drive to achieve net zero by 2050. One of the mechanisms is to encourage, or even require, the development and publication of credible NZTPs by the entities operating within ADGM. Developing and adopting credible transition plans would not only encourage prudent risk management of the forthcoming transition to a net zero economy, but also formalise plans by the companies to play their part in the NZSI.
35. We note, however, that transition planning frameworks and standards are still in relatively early stages of development and will likely continue to evolve over time. There is a lack of consensus on what a transition plan should contain as well as around whether it should address both mitigation and adaptation aspects of transition.
36. Given the above, we request feedback on what regulatory actions ADGM should take to encourage ADGM-licensed entities to conduct transition planning alongside developing their own transition plans.

**Question 18:** Should ADGM develop or provide detailed guidance on transition planning? Should the guidance on transition planning encourage entities to publish transition plans that arise from their transition planning?

**Question 19:** Should separate guidance on transition planning be prepared for financial and non-financial services entities? Within the financial services sector, is tailored guidance on transition planning required for entities that provide different financial services e.g., for banks versus asset management firms?

**Question 20:** How should ADGM catalyse the development of transition plans by licensees? Should ADGM require all licensed entities to develop their own NZTPs in support of the national NZSI? In the absence of specific regulatory requirements, are ADGM-licensed entities likely to develop transition plans or NZTPs of their own accord?

**Question 21:** To what extent and how should “proportionality” be addressed in any regulatory requirements to conduct transition planning or to develop transition plans?

**Question 22:** Should it be a requirement to make transition plans publicly available? If not, why not?

**Question 23:** Is there a way for ADGM to provide better recognition of companies within ADGM which are doing important work to enable the transition to net zero?

For example, should ADGM maintain a register of “sustainability enablers” or similar?

## Conclusion

37. ADGM believes that the proposed Guidance would further support the growth of the SusFin ecosystem in ADGM by setting clear expectations for ESG-labelled investment products. This will engender increased investor confidence in the sector and, subsequently, mobilise increased capital allocation towards this sector.
38. Industry feedback on the management of climate-related risks and transition planning by ADGM-licensed entities will greatly assist in developing our approach in a consultative manner. As always, we place a high value on stakeholders’ feedback on the measures proposed in this paper to continue to drive our regulatory actions forward in the SusFin space and encourage responses to the questions posed here.

**Question 24:** Do you have any broader feedback on our approach to SusFin within ADGM that is not covered by the questions set out above?

## Attachments

- **Attachment 1:** Proposed Guidance on ESG Funds and Model Portfolios in ADGM