

UAE Sustainable Finance Working Group

Principles for Climate Transition Planning

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A. BACKGROUND

1. The UAE Sustainable Finance Working Group (SFWG) was established in 2019 to support the UAE's economic transition to address climate change and encourage the adoption of best practices around sustainability at the national level. This follows on from the ratification of the Paris Agreement by the UAE in 2016 and domestic acts and initiatives, including the UAE Green Agenda 2015-2030, the National Climate Change Plan of the UAE 2017-2050 and the UAE Net Zero 2050 Strategic Initiative.
2. In 2020, the SFWG issued the Guiding Principles on Sustainable Finance in the UAE, through which the SFWG committed to developing standards for the financial sector to integrate Environmental, Social and Governance (ESG) factors into corporate governance, strategy and risk management.
3. To give effect to this commitment, the SFWG issued the Principles for the Effective Management of Climate-related Financial Risks ("Risk Management Principles") in November 2023. The Risk Management Principles address the oversight and allocation of responsibilities for climate-related financial risks, their integration into the strategy-setting process, risk management frameworks, capital and liquidity planning processes, and scenario analysis exercises in financial firms.
4. Subsequently, the SFWG issued the Principles for Sustainability-related Disclosures for Reporting Entities ("Disclosure Principles") in June 2024 to help prepare relevant financial firms in the UAE to achieve high-quality and relevant sustainability disclosures.
5. In progressing these efforts, and to complement the SFWG's previous publications, the SFWG is now issuing the Principles for Climate Transition Planning (the "Principles"). The Principles are designed to help financial firms develop an adequate approach to climate transition planning in support of the UAE climate transition objectives.

B. APPLICATION

6. The Principles are primarily relevant for financial sector entities in the UAE that are considering implementing transition planning and those who already produce climate transition plans for risk management and strategic purposes. For the purpose of the Principles, financial sector entities are referred to collectively as 'financial firms'. The Principles are drafted to cater for a wide spectrum of financial firms without drawing distinctions between the various business models or categories of financial services conducted.

7. Where relevant, it should be read in conjunction with the SFWG's Risk Management Principles, and the Disclosure Principles.
8. Financial firms are encouraged to consider the Principles in a manner proportionate to the materiality of the risks and opportunities presented by the transition to address climate change. Other considerations around implementing the Principles may include, but are not limited to, specific business models, organisational structure, risk profiles, and regulatory environment, among others.
9. The SFWG recognises that standards in this area are still evolving at an international level and across jurisdictions worldwide. This fact has been reflected in the Principles allowing for flexibility to adapt to future developments.

C. GENERAL CONSIDERATIONS

10. Transition planning may be broadly viewed as a forward-looking exercise that may assist financial firms in identifying climate-related actions and adjustments to their business strategy, risk management processes, governance structures, data management, stakeholder engagement and disclosure and reporting practices, to meet their climate targets.
11. Financial firms may use inputs from their climate-related financial risk management process and other sources to develop strategies, policies and actions to help manage transition-related risks and support the viability of their business over the medium- and long-term while also meeting any climate-related targets they may have. Considerations and inputs into transition planning may encompass, among other things, climate scenarios and pathways, the firm's business model, physical and transition risks to which the financial firm is exposed, and the climate-related opportunities available to the firm.
12. Reference to the board and senior management throughout the Principles is to be understood in accordance with their respective roles and responsibilities, and is meant to include the members of the board of directors (or equivalent) and senior management.

D. THE PRINCIPLES

Principle 1 – Objectives of transition planning

- 1. Financial firms should set clear objectives for their transition planning. The objectives should reflect the purpose of transition planning as undertaken by the financial firm, and be informed by international best practices, regulatory mandates and sectoral strategies applicable to the financial firm.**
 - 1.1 Financial firms should develop objectives that reflect how the firm plans to utilize transition planning, and whether it will be used for strategic or risk management purposes.
 - 1.2 Financial firms should ensure that transition planning objectives are aligned with their climate policy objectives.

Principle 2 – Governance

- 2. Climate transition planning, its outputs and implementation should be overseen by the board and senior management, and incorporated into the financial firm's governance framework.**
 - 2.1 The financial firm's board may formally assign roles and responsibilities for climate transition planning, implementation, monitoring and review to either board committees or appropriate senior management. Appropriate individuals and teams should be assigned to carry out related activities.
 - 2.2 Roles and responsibilities should be clearly defined across the firm functions to ensure clarity and accountability. Appropriate governance structure, escalation processes and reporting procedures across the financial firm should be put in place in relation to climate transition planning and implementation.
 - 2.3 Financial firms may consider aligning remuneration and incentives with the firm's climate transition targets. Firms may also consider implementing a change management program and an internal communication strategy to assist in embedding transition planning into the firm's culture and practices.

Principle 3 – Incorporation of climate transition planning into overall business strategy and risk management processes

3. Climate-related transition planning should be a part of, and aligned with, the financial firm’s activities related to addressing climate-related risks and opportunities and its business strategy.

- 3.1 Financial firms should embed transition planning in developing and reviewing their business strategies and models in the short-, medium- and long-terms, and in the strategic plans approved at board level.
- 3.2 Financial firms should consider transition-related impacts on their business model, including on their customer base and other stakeholders in transition planning, their business operations, their policies and procedures, and their financial planning.
- 3.3 Financial firms should consider transition-related impacts on their business model, including on their products and services, their business operations, their policies and procedures, and their financial planning.
- 3.4 Climate transition planning should be embedded into the risk management framework, processes and tools. This includes the firm’s risk appetite, scenario analysis, and considerations of climate transition activities and targets as part of the financial firm’s financing, investment, underwriting decisions and due diligence processes.
- 3.5 In incorporating transition planning into its risk management process, the financial firm should consider and assess the materiality of its exposure to transition risks and set targets for areas of material risk exposures.

Principle 4 – Metrics and targets

4. Financial firms should identify a set of metrics and targets that reflect the firm’s climate transition objectives and strategy, and measure progress towards their achievement over time.

- 4.1 Financial firms should identify metrics and establish targets which may be quantitative and qualitative, and selected based on robust methodologies, clear milestones, and for various time horizons. Limitations of any metrics and targets should be understood, explained and disclosed, as necessary.
- 4.2 Financial firms should ensure that metrics and targets used for climate transition planning are consistent with science-based assumptions relevant to the financial

firm, and align with the firm's commitments and obligations (if any). They should support the firm's climate transition strategy, and enable the firm to drive and monitor its climate transition progress and performance.

- 4.3 Metrics and targets should be monitored and reviewed regularly to address any limitations, data gaps and/or material developments to data methodologies or business models.

Principle 5 – Data and customer engagement

5. Financial firms should consider the necessity of developing and implementing appropriate customer engagement mechanisms and data strategies to understand their customers' transition strategies, implement a transition planning process that takes into account customers' transition approaches (if any), and maintain relevant data to inform decision-making.

- 5.1 Financial firms seeking to better understand their customers' transition strategies and risks should consider collecting relevant data from their customers on a regular basis to inform the firm's transition planning objectives and activities.
- 5.2 Financial firms should have clear criteria identifying customers for engagement and tailor engagement goals, timelines and methods to the relationship and/or the context of customer's business.
- 5.3 Financial firms should identify appropriate courses of action based on the engagement's outcomes. Feedback obtained from customer engagement should be considered in the firm's review and update of its transition planning objectives and activities, including potential adjustments to product offerings and an appropriate escalation framework, where necessary.
- 5.4 Financial firms may use data proxies as appropriate to bridge data gaps, based on documented and robust methodologies and assumptions.
- 5.5 Financial firms that undertake investment activity for themselves or their clients should consider supporting transition planning at the companies that they invest in. Elements of this engagement strategy can include:
- (i) Process for identifying and prioritising investee companies for engagement, including size of investment as well as the transition-related risks and opportunities that they may be exposed to.
 - (ii) Encouraging investee companies to develop their own frameworks for identifying, measuring and monitoring climate and transition-related risks and opportunities.

- (iii) Developing engagement toolkits to facilitate consistent engagement with investee companies.

Principle 6 – Reporting and transparency

6. Financial firms should ensure that the board and senior management receive regular reports on climate transition planning and implementation. The firms should consider enhancing the transparency of their transition planning.

- 6.1 Reporting related to transition planning should be meaningful and provide relevant information to enable internal stakeholders to understand how the financial firm is responding to material climate-related risks and opportunities over varying time horizons, and the associated governance around processes for addressing such risks.
- 6.2 Financial firms aiming to develop transition planning disclosures may consider the following areas:
 - (i) The financial firm's climate transition objectives, key assumptions, challenges and external developments considered, the opportunities the firm is prioritising, and the risks it aims to mitigate.
 - (ii) How the financial firm has embedded climate transition into its governance and risk management frameworks.
 - (iii) Actions the financial firm is taking, particularly as part of its business operations, policies and product and service offerings, to pursue its climate transition objectives. This may include the financial firm's engagement strategy with its stakeholders regarding climate transition activities.
 - (iv) Metrics and targets used by the financial firm to direct and monitor its climate transition progress, and its performance against them. This may include disclosing objectives of the targets, time periods applicable to the target, interim milestones, whether the metric relates to external targets set in the financial firm's jurisdiction, whether there is validation from a third party, and any underlying taxonomies, tools, methodologies, assumptions or definitions on which the metrics rely.
 - (v) Implications of climate transition initiatives undertaken by the firm on the firm's products and services, financial results/planning, and business model, among other factors that may be impacted, in the short-, medium- and long-term.

- 6.3 Financial firms should ensure that they have robust risk management tools, processes and measures regarding transition planning disclosures to ensure appropriate risk management, including legal and reputational risks.
- 6.4 Financial firms may refer to the Disclosure Principles for further guidance regarding sustainability-related reporting and disclosures.

Principle 7 – Implementation strategy and actions

7. Financial firms should develop implementation strategies and identify relevant actions and activities to support the achievement of their climate transition targets in line with their transition plans.

7.1 Such actions may include the following:

- 7.1.1 Identification of relevant skill or resource gaps, and recruitment and/or development of relevant resources where necessary, including through capacity-building and provision of training opportunities, to facilitate effective climate transition planning and implementation.
- 7.1.2 Development of appropriate data governance around climate data.
- 7.1.3 Reviewing decision-making and disclosure policies, tools and processes to integrate climate transition considerations within the firm's overall climate objectives.
- 7.1.4 Documentation of assumptions used in the transition planning process, including transition pathways, implementation challenges and prioritized opportunities.
- 7.1.5 Ensuring that relevant personnel and departments participate in climate transition planning and implementation.
- 7.1.6 Assessment of the need in which to adapt products and services, and whether new products and services should be introduced to achieve their climate transition targets in line with the firm's climate transition objectives. The financial firm may consider undertaking this assessment in stages, beginning with products and services in key portfolios or lines of business.
- 7.1.7 Appropriate communication with the financial firm's stakeholders on climate-related transition initiatives.

Principle 8 – Review and updates

8. Climate transition processes and outputs should be regularly reviewed and updated to ensure any material developments are incorporated.

- 8.1 Financial firms should regularly review and, if necessary, update their climate transition planning objectives, targets, assumptions, strategies and implementation actions. This will ensure that a financial firm's transition planning is adaptive to relevant internal and external developments, including in response to scenario analysis, customer feedback, and local and international targets and standards.
- 8.2 Updates to climate transition processes and outputs should be presented to, and approved by, the financial firm's board and incorporated into the firm's governance and relevant policies and frameworks.
- 8.3 Any material outcomes of review and updates to transition planning objectives, targets, assumptions, strategies and implementation actions should be appropriately communicated to internal and external stakeholders.

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- 1- Basel Committee on Banking Supervision (BCBS) – Consultative document: Disclosure of climate-related financial risks (November 2023).
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- 3- Glasgow Financial Alliance for Net Zero (GFANZ) – Financial Institution Net-zero Transition Plans – Fundamentals, Recommendation, and Guidance (November 2022).
- 4- International Organization of Securities Commissions (IOSCO) – IOSCO Report on Transition Plans (November 2024).
- 5- International Sustainability Standards Board (ISSB) – Climate-related Disclosures (June 2023).
- 6- NGFS – Connecting Transition Plans: Financial and non-financial firms (April 2024).
- 7- NGFS – Stocktake on Financial Institutions’ Transition Plans and their relevance to Micro-prudential Authorities (May 2023).
- 8- Task Force on Climate-related Financial Disclosures (TCFD) – Guidance on Metrics, Targets, and Transition Plans (October 2021).
- 9- Transition Plan Taskforce (TPT), UK – Disclosure Framework (October 2023).