

# 2021 Public Statement on Collaboration on Sustainable Finance in the UAE

## UAE COMMITMENT TO THE PARIS AGREEMENT

The finance sector of the United Arab Emirates (UAE) is committed to the delivery of the UAE's climate goals and programmes, notably the Net Zero by 2050 Strategic Initiative, the first-ever net-zero target in the Middle East and North African region. These actions reinforce the achievement of the Paris Agreement as an unprecedented opportunity to strengthen our economy and deliver a sustainable future.

This statement underlines the acknowledgment of the UAE's financial sector of the critical role that sustainability efforts will play in supporting the UAE's economic growth and diversification objectives. In addition to the Net Zero by 2050 Strategic Initiative, these efforts are guided by the 2020 Nationally Determined Contribution, with its target to reduce greenhouse gases by 23.5% by 2030, as well as several other defined targets for renewable energy, green buildings, climate-smart agriculture, biodiversity conservation, and other dimensions of climate action.

In this context, creating the opportunity for private capital investments is essential for the UAE to continue on the sustainable development path, ensure the stability of the financial system, promote transparency and deliver long term sustainable development benefits. Creating such opportunities requires a comprehensive effort on the part of the UAE to foster an environment for sustainable finance to thrive.

## SCALING UP SUSTAINABLE FINANCE

The financial services sector should aim to provide an environment conducive towards diversified innovative sustainable finance products, as well as the opportunity for the mobilisation of private capital towards environmentally sustainable and climate-resilient investments. Sustainable finance is therefore a key pillar in enabling both the UAE and broader stakeholders to achieve net-zero emissions targets.

The UAE ministries, financial services regulatory authorities and exchanges (the Authorities)<sup>1</sup> are committed to addressing existing gaps and challenges related to institutionalizing sustainable finance practices, thereby contributing to improving supply and demand of sustainable finance products and green investments. To attract investors, the UAE is determined to create attractive markets for environmentally sustainable financial products and investments. To this end, the Authorities recognise the need to collaborate and promote greater consistency between the different frameworks and market tools that are key for investors to identify and seize sustainable investment opportunities.

As a first step, the Authorities published the UAE's Guiding Principles on Sustainable Finance<sup>2</sup> (the Guiding Principles), which are intended to catalyse the progress towards the UAE's sustainable finance priorities.

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<sup>1</sup> Please see list of the Member Authorities of the SFWG in the Annex.

<sup>2</sup> <https://www.adgm.com/documents/fsra/sustainable-finance/abu-dhabi-sustainable-finance-guiding-principles.pdf?la=en&hash=94CC2FE187660C45C522EE845670A6E3>

Based on the United Nations Agenda for Sustainable Development, this initiative is a result of cooperation between the Ministry of Climate Change and Environment; the Central Bank of UAE; the Securities and Commodities Authority; the Regulator of Abu Dhabi Global Market; the Dubai Financial Services Authority; the Abu Dhabi Securities Exchange; the Dubai Financial Market; the Dubai Islamic Economy Development Centre; Nasdaq Dubai.

The Guiding Principles serve as a gateway to guide the implementation and integration of consistent sustainable practices among the UAE's financial entities, contributing to the health and tenacity of the nation's economy. These principles represent only the first stage of collaboration among the Authorities and the transition towards a balanced regulatory framework for sustainable finance.

## **THE ROADMAP**

In order to progress these Guiding Principles the Authorities surveyed financial institutions across the UAE to gauge sentiment and assess the extent of implementation of the Guiding Principles amongst these entities. The survey gauged both the extent of actions taken to-date as well as the challenges faced by financial institutions in terms of addressing sustainability aspects in risk, operations, management and governance. The results of the survey have suggested the need for more targeted actions to encourage the financial industry's role in catalysing the sustainability agenda. The Roadmap made by way of a public statement therefore seeks to deliver upon one of the survey's key outcomes.

## **A COORDINATED EFFORT TO ADDRESS A GLOBAL CHALLENGE**

The UAE Sustainable Finance Working Group (SFWG) was launched by Abu Dhabi Global Market (ADGM) in 2019. The SFWG has expanded since then and now comprises a range of regulatory authorities, exchanges, governmental bodies and ministries in the UAE in charge of developing environmentally sustainable finance policies<sup>3</sup>.

The SFWG aims to:

- Provide the Authorities with a platform to jointly collaborate and agree on the Roadmap, including designing appropriate policies and regulatory tools as per each Authority's jurisdiction.
- Help promote regulatory consistency and coordination among the Authorities to foster and integrate sustainable finance in the UAE.
- Compare and coordinate efforts on initiatives and approaches to environmentally sustainable finance, while considering national and international contexts.
- Facilitate a constructive dialogue on sustainable finance between all stakeholders, including financial community, business and the public sector. Given the horizontal nature of its tasks, the Group cooperates closely with relevant stakeholder groups including the signatories of the Abu Dhabi and Dubai Sustainable Finance Declarations and other UAE committees.

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<sup>3</sup> Please see list of the Member Authorities of the SFWG in the Annex.

**DELIVERABLES OF THE ROADMAP (The Deliverables)**

This Roadmap details the SFWG’s direction of travel on sustainable finance, which will guide its future work. In particular, the SFWG will aim to i) examine how consistent corporate disclosure standards could be considered and implemented across the UAE; ii) encourage good corporate governance by companies and iii) develop a UAE taxonomy of sustainable activities, which is key for the UAE’s sustainable economic transition

**1. Disclosure**

Reporting on sustainability risks enables investors and stakeholders to assess companies' long-term value creation and sustainability risk exposure. Going forward, an appropriate balance needs to be struck between flexibility and the standardisation of clear and transparent disclosure necessary to generate the data needed for investment decisions. In terms of disclosure by the financial sector, there is merit in enhancing transparency including the way in which sustainability risks and exposure to climate-related risks are considered.

<b>Action 1: Strengthening sustainability disclosure</b>
In H1 2022, the Authorities will examine sustainability disclosures in place in the UAE and consider next steps with a view to promoting standards in line with national and international best practices.

**2. Governance**

Strong corporate governance can significantly contribute to a more sustainable economy, allowing companies to take the strategic steps necessary to deploy new and more sustainable technologies, to strengthen business models and to improve both business and sustainability metrics. Many companies have corporate governance strategies to this end, though they may differ depending on the size, scale and nature of activities.

<b>Action 2: Fostering sustainability-focused corporate governance</b>
During 2022 the Authorities will review corporate governance standards and practices with a view to helping embed sustainability across corporate governance structures in the UAE through focussing on e.g. risk management, stress testing and data collection.

**3. Taxonomy**

A unified UAE taxonomy providing clear guidance on activities that can qualify as sustainable by contributing to, for example, climate change mitigation, adaptation, and environmental and social objectives will help inform investors and set a path for economic transition.. This is an essential step in supporting the flow of capital into sustainable sectors in need of financing while taking into account both international standards and the specific circumstances of the UAE.

<b>Action 3: UAE taxonomy of sustainable activities</b>
Subject to international developments, the Authorities will commence development of a UAE taxonomy of sustainable activities.

## **IMPLEMENTATION**

By raising awareness and facilitating the work ahead, the Roadmap is designed to ensure that sustainability remains embedded in the efforts to furthering sustainable development in the UAE on the path towards its net-zero goal.

The implementation of the Deliverables from the Roadmap may combine both legislative and non-legislative actions within the Authorities' respective jurisdictions and careful coordination among the Authorities to promote convergence on the implementation of sustainability practices, where appropriate. The progress of the Roadmap, as well as monitoring the achievement of its three main Deliverables, will require appropriate technical support, in light of the distinct skills sets and expertise required to incorporate sustainability into regulatory frameworks.

## **Annex 1**

### Member Authorities of the SFWG

- 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 (SCA)
- Office of the UAE's Special Envoy for Climate Change (OSECC)
- Abu Dhabi Global Market
- Dubai Financial Services Authority
- Abu Dhabi Securities Exchange
- Dubai Financial Market
- Nasdaq Dubai