**Third Public Statement on Sustainable Finance in the UAE**

The UAE is steadfastly committed to sustainable growth, as evidenced by its numerous national declarations, strategies, and international commitments. The UAE Green Agenda 2015-2030, National Climate Change Plan 2017-2050, Net Zero by 2050 Strategic Initiative, G20 participation, and COP28 hosting are all testaments to the nation's unwavering dedication to sustainability.

To complement these efforts, the UAE Sustainable Finance Working Group (SFWG) has been instrumental in steering the development of sustainable finance in the UAE, fostering regulatory cooperation among authorities, and aligning with the nation’s sustainability goals. The SFWG is coordinated by the Financial Services Regulatory Authority of the Abu Dhabi Global Market and its membership comprises:

* Central Bank of the UAE (CBUAE)
* Securities and Commodities Authority (SCA)
* Financial Services Regulatory Authority of the Abu Dhabi Global Market
* Dubai Financial Services Authority
* Ministry of Finance of the UAE (MoF)
* Ministry of Economy of the UAE
* Ministry of Climate Change and Environment of the UAE
* Office of the UAE’s Special Envoy for Climate Change
* Abu Dhabi Securities Exchange
* Dubai Financial Market
* Nasdaq Dubai.

The foundational work began in 2019 with the introduction of the "[Guiding Principles on Sustainable Finance in the UAE](https://www.adgm.com/documents/fsra/sustainable-finance/abu-dhabi-sustainable-finance-guiding-principles.pdf?la=en&hash=94CC2FE187660C45C522EE845670A6E3)" followed by the [2021](https://www.adgm.com/documents/fsra/sustainable-finance/2021-public-statement-on-collaboration-on-sustainable-finance-in-the-UAE.pdf) and [2022](https://www.adgm.com/documents/fsra/sustainable-finance/20221109-sfwg-progress-report-final.pdf) Public Statements, which identified three pivotal areas in sustainable finance and assigned dedicated workstreams from its membership. In 2023, the SFWG completed major milestones in all three of its workstreams:

# Workstream One on Sustainability-focused Corporate Governance

The "*Principles for the Effective Management of Climate-related Financial Risks*”, issued by the SFWG in November 2023, aim to provide a framework for financial firms to manage climate-related financial risks effectively in line with international standards of climate risk management. The Principles emphasise the importance of integration of climate-related financial risks into the overall business strategy of financial firms. The SFWG members will implement supervisory expectations based on the Principles aimed at enhancing sound climate-related financial risk management frameworks at financial firms. The board and senior management of financial firms will be expected to deliver proper oversight of these risks, particularly when the risks are deemed to be material.

The Principles also provide guidance on incorporating these risks into the firms’ frameworks, such as oversight, assignment of management responsibilities, monitoring and reporting, scenario analysis and stress testing. Another important element is the incorporation of material climate-related financial risks into the firms’ internal capital and liquidity adequacy assessment processes, including the evaluation of the liquidity, capital, and solvency impact of climate-related financial risks that may manifest within specified time horizons. The UAE’s financial services regulators will determine which financial firms will be subject to their expectations set out in the Principles. They may introduce additional requirements for specific types of firms and will retain flexibility to facilitate future changes to accommodate evolving international standards. The full text of the Principles is attached here:



**Workstream Two on Sustainability Disclosure**

The “*Principles for Sustainability-Related Disclosures for Reporting Entities*”, published for public consultation by the SFWG in September 2023, aim to enhance transparency and the quality of reporting by entities on environmental, social, and governance (ESG) matters. The Principles emphasise that sustainability-related disclosures should reflect the way in which an entity operates, including in the areas of governance, strategy and risk management, and incorporate relevant metrics and targets. They also cover aspects such as internal reporting systems, transparency, materiality, relevance, consistency, stakeholder engagement, and integration of sustainability disclosures. Another important element is the verification and assurance of sustainability reports to enhance credibility and reliability.

The SFWG notes that the use of internationally recognised disclosure standards and comparable sustainability metrics is progressing towards greater uniformity. It is expected that this will facilitate the comparative assessment of reporting entities’ performance by stakeholders.

The Principles, while still requiring implementation by the regulatory authorities, provide an early indication of regulatory expectations for market participants offering sustainability-related products. The UAE’s regulators will determine which reporting entities should be subject to the Principles, the applicable timelines and frequency, as well as aspects such as whether they should have a voluntary, ‘comply or explain’ or mandatory nature and when any such obligations should be introduced. The full text of the draft Principles is attached here:



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

The “*Summary of the High-level Design Principles to inform the development of the UAE Sustainable Finance Taxonomy*” (the Design Principles) lays the groundwork for the Taxonomy's establishment in future. The Design Principles emphasise the importance of a qualitative approach in evaluating climate change mitigation and adaptation efforts underpinned by quantitative eligibility criteria, along with the establishment of a common language across the economy. They also cover important aspects such the implementation of a traffic-light classification system facilitating orderly economic transition and the establishment of minimum safeguards to encourage adherence to the Taxonomy and environmental objectives.

Lastly, an important element set out in the Design Principles is for the Taxonomy to be reviewed periodically to ensure that it remains current with market and technological advancements. Going forward, the SFWG plans to integrate its work on the Taxonomy with existing and developing UAE economic classification systems and sustainability initiatives to foster the UAE economy’s green competitiveness. This integration aims to enhance ease of use and adoption, promote interoperability, and strengthen the Taxonomy's effectiveness and integrity. A summary of the Principles is attached here:



**Planned Next Steps**

Following public consultations on the first two sets of Principles, the SFWG has now finalised the Principles and communicated its intentions to stakeholders. Next steps will include determining appropriate implementation strategies, reflecting regulatory best practices and global developments as needed. The SFWG will continue to advance its work aiming to publish additional outputs in 2024 and beyond to contribute to the transition of the UAE economy to net zero.