

UAE's green growth - The story so far...

Adjou Ait Ben Idir and Matthew Shanahan of Norton Rose Fulbright offer an overview of the UAE's journey to becoming a sustainable finance centre, highlighting the recent developments in regulations and what they expect to see in the future.

As the global move towards a more sustainable economy gathers pace, and the need to respond to the risks presented by climate change becomes more urgent, regulators across the world have started to introduce regulatory frameworks focused on sustainable finance. As a global financial centre, the United Arab Emirates (UAE) has invested heavily in promoting sustainable finance across all sectors and the Dubai Financial Services Authority (DFSA) in Dubai and the Financial Services Regulatory Authority (FSRA) in Abu Dhabi are taking a more active role in enabling the development

of sustainable finance in the UAE. In this article, we provide an overview of recent key developments regarding sustainable finance regulation in the UAE.

UAE Statement on sustainable finance

In November 2021, the UAE Sustainable Working Group issued a statement on its commitment to achieving the sustainability objectives of the UAE (including the UAE's Net Zero by 2050 Strategic Initiative) and developing sustainable finance policies in the UAE. The statement provides a roadmap for the participating authorities to achieve



these objectives, setting out three key deliverables:

1. In the first half of 2022: strengthening environmental, social and governance (ESG) corporate disclosure standards across the UAE in line with UAE and international best practices.
2. During 2022: encouraging companies to adopt good corporate governance to embed sustainability across corporate governance structures in the UAE.
3. Developing a taxonomy of sustainable activities to inform investors and set a path for economic transition.

The roadmap builds on the commitments set out in the *Guiding Principles on Sustainable Finance in the UAE* which was signed by financial regulators and other authorities in the UAE in 2020. The Guiding Principles, which are based on the United Nations Agenda for Sustainable Development, constitute a commitment on the minimum elements of a sustainable finance framework and serve as a guide to implement and integrate consistent sustainable practices in financial entities in the UAE. In order to progress the Guiding Principles financial institutions across the UAE were surveyed to gauge sentiment and assess the extent of implementation. The results of the survey suggested the need for more targeted actions to encourage the

financial industry's role in catalysing the sustainability agenda.

DUBAI/DIFC

Dubai Sustainable Finance Working Group

Dubai has a Sustainable Finance Working Group, a part governmental, part stakeholder group launched for the purpose of creating the most sustainable financial hub in the region. In February 2021, the Group published two ESG and sustainable finance guides, being the: (i) Sustainable Investing Guide; and (ii) Sustainable Issuance Guide.

The Sustainable Investing Guide provides investors with an overview of ESG and sustainable investments and highlights ESG investment offerings available in Dubai. The Sustainable Issuance Guide sets out, among other things, an overview of ESG and sustainable financial products and a framework for their issuance. The DIFC is part of this initiative.

Sustainability framework

As part of its 2024 Strategy, the DIFC has a general *Sustainability Framework* underpinning its sustainability initiatives. The framework is underpinned by four main pillars:

1. **Social:** Aims to bring together communities of individuals to collaborate on projects that will benefit those in need, while embedding the values of philanthropy and talent development in future generations, to ensure the wellbeing and happiness of the community.
2. **Environmental:** Aims to preserve the environment through strategic partnerships with specialised organisations that champion conservation initiatives.
3. **Governance:** Aims to protect the organisation and ensuring economic sustainability through effective partnerships and stakeholder management that encourage transparency and disclosure.
4. **Government alignment:** Aims to support UAE Government initiatives.

Sustainable FinTech Alliance

More recently, the Dubai International Financial Centre (DIFC) (along with the Abu Dhabi Global Market of which more below) has become an institutional partner of the Sustainable FinTech Alliance, which was launched by the MENA Fintech



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Association (MFTA) on January 17, 2022. Members joining the Alliance commit to implementing credible and transparent sustainable strategies in their organisations to contribute towards the UN Sustainable Development Goals and net zero pledges. The Middle East Free Trade Area Initiative is working with the DIFC (among others) to design an education programme for members, with the aim of members ultimately implementing and realising their sustainability and climate-related goals.

DFSA Consultation Paper

In September 2020, the DIFC financial services regulator, the DFSA issued a consultation paper on *Championing Sustainable Finance in the DIFC* to promote discussion on the most suitable methods to foster the development of sustainable finance in the DIFC. The consultation paper sought stakeholder feedback on, among other things, the proposed role and supervisory plans of the DFSA in the area of sustainable finance, the suitability of standards relating to ESG, and the potential creation of a *Green Hub* in the DIFC.

Task Force on Sustainable Finance

More recently, in November 2021, the DFSA announced the launch of a new Task Force on Sustainable Finance in the DIFC, comprising 12 DIFC-based entities, to drive discussions on sustainable finance in the DIFC to support the consistent application and adoption of global regulatory standards relating to sustainable finance in the DIFC.

DIFC ESG Hub

In the same month, the DFSA also announced future plans in November 2021 to launch a DIFC ESG Hub which will serve as a platform for dialogue and education on sustainable finance. The DIFC ESG Hub aims to serve as a platform for stakeholders interested in ESG matters to exchange experiences and knowledge, discuss questions and challenges, and attend training opportunities. No further details have been announced.

International groups

The DFSA has also reiterated its general commitment to a number of international regulatory networks (including International Organization of Securities

Commissions International Association of Insurance Supervisors, Basel Committee on Banking Supervision) and sustainability-oriented groups, including the Network for Greening the Financial System (NGFS) and the Sustainable Insurance Forum. For example, the NGFS is a group of central banks and supervisors aimed at sharing and developing best practices on environment and climate risk management in the financial sector to encourage mainstream finance to support the transition towards a sustainable economy. Notably, the DFSA has previously assisted in the drafting of the NGFS' guide for supervisors in 2020 to integrate climate-related and environmental related risks in their supervisory frameworks. A report on the progress made to comply with the recommendations in that guide was published in October 2021.

ABU DHABI / ADGM Sustainable Finance Agenda

With the aim of creating a hub for sustainable finance, the Abu Dhabi Global Market (ADGM) has a Sustainable Finance Agenda aligned with other UAE initiatives, founded on four main pillars:

- 1. Regulation:** Aims to develop a regulatory framework for sustainable finance based on existing UAE initiatives and global standards.
- 2. Collaboration:** Aims to facilitate cooperation between national and international stakeholders to advance sustainable finance in a consistent manner.
- 3. Awareness:** Aims to increase awareness and acceptance of sustainable finance through events, education and training.
- 4. Ecosystem:** Aims to develop a sustainable finance sector, with a diverse range of institutions, products and services.

Capital Markets Consultation Paper

In March 2022, as part of the “Regulation” pillar of the *Sustainable Finance Agenda*, the ADGM released a consultation paper on proposed amendments to its capital markets framework. The paper proposed amendments including amending the Financial Services Regulatory Authority (FSRA) Market Rules to cover ESG disclosures for listings and offers, the introduction of a spot commodities framework covering the responsible sourcing of commodities and the inclusion

of emissions instruments as a financial instrument under the ADGM's Financial Services and Markets Regulations. As the consultation only closed in May 2022, we should expect to see more movement in this area in the future.

Abu Dhabi Sustainable Finance Declaration

In 2019, as part of the "Collaboration" pillar of the *Sustainable Finance Agenda*, the ADGM launched a voluntary, membership-based sustainable finance initiative with other UAE regulators such as the Central Bank of the UAE and the Securities and Commodities Authority. As of January 2022, there were 59 public and private sector members. The initiative ultimately aims to increase the quality of green financial products and create a thriving sustainable finance industry to meet the UN Sustainable Development Goals. To achieve this, members agree to develop a framework to foster and integrate sustainable investments, raise awareness around and facilitate dialogue on sustainable finance between stakeholders.

Abu Dhabi Sustainable Finance Forum

For the fourth year running, on January 19, 2022, the ADGM held the Abu Dhabi Sustainable Finance Forum (ADSFF), which falls under the "Awareness" pillar of the *Sustainable Finance Agenda*. The ADSFF is a platform aimed at facilitating global collaboration on sustainable financing and accelerating the flow of capital towards sustainable investments. It featured a range of speakers, from key industry stakeholders, regulators, institutional investors, and innovators and entrepreneurs. For the first time, the ADSFF was also a carbon neutral event.

ADGM Sustainable Finance Platform

Announced at the ADSFF in January 2022, and falling under the "Ecosystem" pillar of the *Sustainable Finance Agenda*, the ADGM Sustainable Finance Platform was launched with the aim of promoting sustainable finance by tracking and providing real time access to key data and trends on sustainable finance to enable investors to make informed ESG investment decisions, identify market opportunities and understand ESG ratings. The data relates to five themes:

1. Responsible banking.

2. Responsible investing.
3. Sustainable products.
4. ESG disclosure.
5. Sustainable capital markets.

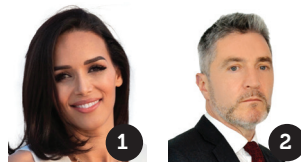
Sustainable Finance Reports

At the ADSFF, the ADGM announced and released its ESG Intelligence *Sustainable Finance Report*. The report highlights the progress made by the ADGM in developing a sustainable finance ecosystem and evaluates its competitive advantage as a sustainable finance hub. This follows the previous State of Sustainable Finance Report, released jointly by the ADGM and the Ministry of Climate Change and Environment, which provided an overview of public and private sector progress on sustainable finance as of 2020.

CONCLUSION

The DFSA is actively working on a regulatory framework for the development of sustainable finance within the DIFC. Its collaboration with international standard-setting groups has helped the regulator to develop its own thinking on emerging standards as shown with the publication last year of two ESG and sustainable finance guides. Financial institutions operating in the DIFC can expect to see more ESG initiatives from the DFSA later this year and further ahead.

Likewise, the ADGM has been making inroads towards its goal of becoming a leading hub for sustainable finance, with a diverse range of initiatives having been introduced in the first half of this year under its overarching Sustainable Finance Agenda. Like firms operating in the DIFC, firms in the ADGM can expect to see more from the ADGM in the ESG space in the second half of this year and into 2023. ➡



Text by:

1. **ADJOU AIT BEN IDIR**, partner, Norton Rose Fulbright, Dubai
2. **MATTHEW SHANAHAN**, partner, Norton Rose Fulbright, Dubai