**UAE Sustainable Finance Working Group**

**Principles for Sustainability-Related Disclosures for Reporting Entities**

## INTRODUCTION

The UAE Sustainable Finance Working Group (SFWG) was established in 2019 to enable the UAE's economic transition and encourage the adoption of sustainable finance at the national level. The members of the SFWG (the UAE Authorities) include ministries (Ministry of Finance, Ministry of Economy, Ministry of Climate Change and Environment, the Office of the UAE's Special Envoy for Climate Change), financial services regulators (the Central Bank of the UAE, the Securities and Commodities Authority, the Financial Services Regulatory Authority of Abu Dhabi Global Market and the Dubai Financial Services Authority), and UAE exchanges (Abu Dhabi Securities Exchange, Dubai Financial Market and Nasdaq Dubai).

In the UAE's first set of Guiding Principles on Sustainable Finance published in January 2020, the SFWG committed to promoting appropriate Environmental, Social and Corporate Governance (ESG)-related reporting and disclosures. The SFWG also recommended that ESG reporting be consistent with national disclosure obligations and take into account internationally recognised reporting standards on ESG matters.

This document is the result of the work of the SFWG and contains Principles for Sustainability-related Disclosures (the Disclosure Principles) for the reporting entities falling under the purview of the UAE Authorities (the Reporting Entities). The SFWG members recognise that adequate transparency in relation to the actual or potential impact of climate change and other environmental, social and governance factors is essential to inform investors and protect consumers, foster efficient functioning of financial markets and promote financial stability, while driving the values of sustainability and social responsibility.

Transparency allows investors to make more informed decisions and evaluate investment risks and opportunities. Measurement and high-quality sustainability-related disclosures allow organisations and their relevant stakeholders to understand better both risk-adjusted returns and the progress being made in managing and adapting to sustainability matters. It can also act as a market discipline mechanism through which investors, shareholders and other stakeholders can exert influence on companies and the investment industry to act in the best interests of society, by directing capital to companies that positively contribute to sustainability.

The members of the SFWG consider it important to encourage transparency on sustainability-related matters. Accordingly, in issuing these Principles, the SFWG members undertake to:

1. Consider implementation of recognised regulatory disclosure frameworks by relevant entities under our respective remits in our respective jurisdictions;
2. Consider progressing towards full implementation of a prevailing disclosure framework or frameworks to help support the UAE's Net Zero Strategic Initiative in the context of stable economic development; and

3. Engage in capacity building activity and industry outreach with the relevant entities in our respective jurisdictions in order to facilitate and prepare any such implementation.

## OBJECTIVES OF THE PRINCIPLES

The objective of these Disclosure Principles is to pave the way and help prepare relevant entities in the UAE to achieve high-quality and relevant ESG disclosures.

The SFWG members recognise the existence and widespread use of numerous reporting initiatives and frameworks, which have developed over time around the globe and are being currently used in the UAE. Some of these are industry-based, regionally or globally recognized frameworks and standards, operating on a voluntary basis, including those issued by the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC), the Task Force on Climate-related Financial Disclosures (TCFD), the Climate Disclosure Standards Board (CDSB) and the International Sustainability Standards Board (ISSB). The SFWG members acknowledge that these frameworks may have different objectives and provide varying perspectives on ESG-related matters.

The SFWG members also recognise that there exists an international movement towards greater uniformity, such as the issuance of the ISSB disclosure standards, which may pave the way for a global baseline framework in the future. Furthermore, the SFWG members note that other standard setting bodies are working towards the development of disclosure standards, such as the Basel Committee on Banking Supervision Pillar 3 disclosure requirements for banks, which may complement and work in parallel to the other general disclosure frameworks.

## APPLICATION OF THE PRINCIPLES

The Disclosure Principles constitute a declaration of common understanding among the SFWG members on their minimum expectations in this area in their respective jurisdictions. Members of the SFWG will consider the development and implementation of disclosures frameworks in line with the Principles, if they have not already done so. Reporting Entities should also be aware of the Principles as they relate to current and future efforts undertaken by Reporting Entities in the area of ESG disclosures.

While the Disclosure Principles are endorsed by the entire SFWG, it remains at the discretion of each of the Authorities to determine how the Disclosure Principles may be translated into their respective regulatory frameworks. This means that the relevant Authority, when implementing disclosure requirements based on these Disclosure Principles, may decide on matters including but not limited to:

- which Reporting Entities the requirements apply to;
- the Reporting Entity's type, profile or size threshold (if any) that must be crossed before disclosure is applicable;
- the respective disclosure requirements to be followed;
- whether to use voluntary, 'comply or explain' or mandatory avenues for given Reporting Entities;

- whether additional requirements or modalities relevant for specific types of Reporting Entities are necessary to improve transparency; and
- the timeline to implement disclosure requirements in its jurisdiction.

## IMPLEMENTATION

The SFWG members will communicate to the Reporting Entities their expectations in relation to the publication of the sustainability-related information relevant to their investors, markets and customers as well as to regulators. It is understood that the term "sustainability-related information" may encompass both ESG and climate related considerations. The timing, frequency, scope, materiality and level of granularity required for the reported information will need to be considered carefully for the purpose of providing meaningful and adequate information.

To ensure that adequate progress is being made, the SFWG members would expect to track the respective Reporting Entities' use and implementation of the applicable ESG disclosures frameworks, including through the use of relevant regulatory tools.

In some instances, the SFWG may work in cooperation with the relevant stock exchanges who may have a role to play in promoting and supporting this process. In some instances, exchanges may wish to issue additional guidance in line with standards set by the relevant Regulator(s).

## THE PRINCIPLES

### PRINCIPLE 1

**Reporting Entities should put in place adequate policies, procedures and systems allowing them to report on sustainability-related matters.**

**1.1 Systems:** Reporting Entities should put in place the internal reporting systems for monitoring, and reporting on, material sustainability-related risks, and the processes to ensure that data gaps are addressed within their data governance framework.[1]

**1.2 Internal communication:** Reporting Entities should ensure timely reports of data, information and analysis to the board of directors and senior management to enable and underpin robust decision-making internally.

**1.3 Reporting:** Reporting Entities should provide timely reports of data and sustainability-related information to the public.

### PRINCIPLE 2

[1] The details related to the application of this Principle1 are also cross-referred to in the UAE SFWG's "Principles for the effective management of climate-related financial risks", in particular in Principle 5 on Monitoring and reporting of climate-related financial risks.

**In disclosing information about their sustainability-related risks and opportunities, Reporting Entities should consider including the following factors.**

**2.1** **Transparency**: Reporting Entities should disclose relevant information about their sustainability policies, practices, and performance to the public, including investors, customers, and stakeholders.

**2.2** **Materiality:** Reporting Entities should focus on disclosing all material sustainability risks and opportunities that are relevant to their business and that have or could have a significant impact on their financial performance. Information is deemed as material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that investors or other stakeholders make.

**2.3** **Relevance:** Reporting Entities should ensure that their sustainability disclosures are relevant and useful to stakeholders, including investors, customers, and regulators, by providing context, analysis, and insights that help them understand the risks and opportunities associated with sustainability issues.

**2.4** **Comprehensiveness:** The disclosure should facilitate comprehensive insight into Reporting Entities exposures to potential sustainability-related impacts; the potential nature and size of such impacts; the organisation's governance, strategy, and processes for managing such risks, and its performance with respect to managing the related risks and opportunities.

**2.5** **Consistency and comparability**: Reporting Entities should use consistent and comparable sustainability metrics and reporting standards. The disclosures should be presented using consistent formats, language, and metrics from period to period to allow for assessment over time.

**2.6** **Clarity**: the information and data presented should be easy to read and understand by the relevant audience. Necessary definitions, explanations and illustrations should be used to facilitate the comprehension of the data and information presented.

**2.7** **Frequency and timeliness**: Reporting Entities should provide timely and regular updates on their sustainability performance, so that stakeholders can track their progress over time and make informed decisions. When appropriate, the Reporting Entities should be prompt in their issuance of interim reports and statements of interest and relevance to their stakeholders.

**2.8** **Stakeholder engagement**: Reporting Entities should, where relevant, engage with stakeholders, to understand their sustainability concerns and priorities, and use this feedback to improve their sustainability disclosures and performance.

**2.9** **Verification and assurance**: Reporting Entities should use third-party verification and assurance independent from their internal or external audit mechanisms to confirm the accuracy and reliability of their sustainability disclosures, particularly for key performance indicators, metrics and targets.

**2.10** **Integration**: Reporting Entities should integrate their sustainability disclosures into their overall corporate reporting and governance frameworks, including their board discussions and annual reports, financial statements, to ensure that sustainability is adequately embedded in their business strategies and decision-making processes.

**2.11** **Continual review and improvement:** Reporting Entities should strive for continual improvement in their sustainability disclosures and performance, by setting adequate sustainability targets and regularly reviewing and updating their sustainability policies, practices, and reporting.

**PRINCIPLE 3**

**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. While additional, specific disclosure requirements may apply depending on the type of Reporting Entity, the following minimum disclosures would be expected from the Reporting Entities.**

**3.1** **Governance**: Information about the governance processes, controls, and procedures in place to manage sustainability-related risks and opportunities. Disclosures should include information on how the board of directors determines whether sufficient knowledge and skills are available to understand and assess the impact of sustainability-related risks on the Reporting Entity, and how sustainability-related risks and opportunities are taken into account in the board's oversight, decisions and actions. Disclosures should also cover the role of the senior management in the governance processes for sustainability-related risks and opportunities.

**3.2** **Strategy**: Information about how the Reporting Entity's strategy incorporates sustainability-related considerations, including risks and opportunities, as well as any relevant transition plans. Information disclosed should include a description of how identified sustainability risks and opportunities are expected to affect the Reporting Entity's business model and financial results over the short-, medium- and longterm, and the measures the Reporting Entity has undertaken or plans to undertake to manage such risks and take advantage of the potential opportunities.

**3.3** **Risk management**: Information about sustainability-related risks and opportunities and how they are being managed. Information disclosed should include the processes and policies the Reporting Entity uses to identify, assess, measure, mitigate, monitor and report on sustainability-related risk exposures, how those processes are integrated into the overall risk management framework of the Reporting Entity, including capital and liquidity monitoring and, if applicable, how scenario analysis is used to identify sustainability-related risks.

**3.4** **Metrics and targets**: Information about the metrics and targets used to measure, manage and monitor sustainability-related performance.

**PRINCIPLE 4**

**To improve transparency and quality of sustainability-related, product-level disclosures, market participants should consider the following elements when dealing with and offering sustainability-related products.**

**4.1** **Naming:** Naming of sustainability-related products should ensure that the name of the product accurately reflects the nature and extent of the product's sustainability focus, including promoting consistency with the product's objectives, characteristics and strategies.

4.2 **Labelling and classification:** Labelling and classification systems used for the purpose of sustainability-related products should be clearly and correctly explained and inconsistent application should be avoided.

4.3 **Objectives disclosure:** Sustainability-related products should contain clear disclosures in a form appropriate for the product about sustainability-related objectives.

4.4 **Strategies disclosure:** Disclosures should be made in product offering documents about the strategies of the sustainability-related products to achieve their sustainability goals.

4.5 **Risk disclosure:** Sustainability-related products should contain disclosures of material risks unique to the product profile and arising from a product's focus on sustainability.

4.6 **Marketing materials:** Marketing materials relating to sustainability-related products should be fair, clear and not misleading.

4.7 **Monitoring and reporting:** Monitoring of compliance and reporting to customers in respect of the sustainability-related product's compliance with its objectives and characteristics, containing as appropriate and available qualitative and quantitative information, should be put in place.