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Introduction : The Genesis of ESG

Sustainable Development	Environmental, Social and Governance or "ESG" considerations have evolved out of the need for "Sustainable Finance" and the over-arching global drive towards "Sustainable Development". With the recognition by world nations to address sustainability challenges, Sustainable Development is aptly described by the 1987 World Commission on Environment and Development (also known as the Brundtland Commission) in its report "Our Common Future" as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".
Sustainable Finance	"Sustainable Finance" is the process of taking ESG considerations into account when making investment decisions, the objective being to enhance long-term investments in sustainable economic activities and projects. ESG integration and Sustainable finance are an integral part of "Sustainable Development".
ESG	Our focus today is on the integration of ESG considerations in to financing and investment decision making processes and their consequential trickle down into UAE businesses.

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Introduction : The Genesis of ESG

Towards creating an ESG eco-system

- **Global Level:** Sustainable Development at the forefront of the United Nations – the "2030 Agenda for Sustainable Development" and the "Paris Agreement".
- **Country Level:** Strategy, Policy and regulations by individual Governments for implementation of 2030 Agenda, Paris Agreement and related ESG initiatives.
- **Corporate Level:** ESG integration by businesses in financing, investment and business decisions.

The United Nations 2030 Agenda for Sustainable Development- "the 2030 Agenda"

- September 2015: General Assembly of the United Nations adopted the 2030 Agenda.
- In the backdrop of the principle ***"leave no one behind"*** and towards addressing sustainability challenges, the 2030 Agenda includes **17 "Sustainable Development Goals"** or the **"SDGs"** and **169 related targets**.

Introduction : The Genesis of ESG

- The 17 SDGs emphasize a holistic approach to achieving Sustainable Development:

Introduction : The Genesis of ESG

"The Paris Agreement"

- December 2015: Parties to the United Nations Framework Convention on Climate Change (UNFCCC) at "COP 21", adopted the Paris Agreement, which addresses climate change and its negative impacts.
- The UAE signed and ratified the Paris Agreement in 2016.
- The Paris Agreement aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by:
- (a) holding the increase in the global average temperature to well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels;
- (b) making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development; and
- (c) increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development.

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Implementation in the UAE of the SDGs and the Paris Agreement

SDGs and Paris Agreement initiatives by the UAE

- The UAE is racing towards creating an eco-system for ESG integration and Sustainable Finance into business goals through initiatives towards achieving the targets set by the SDGs and the Paris Agreement. Initiatives by the UAE include:

UAE Vision 2021

UAE National Agenda

UAE Green Agenda 2015-2030

UAE National Climate Change Plan 2017-2050

UAE Energy Strategy 2050

UAE National Committee on SDGs

Private Sector Advisory Council

Youth Advisory Council for the SDGs

UAE Centennial 2071

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Implementation in the UAE of the SDGs and the Paris Agreement

- The initiatives broadly prioritize:
- Cohesive Society and Preserved Identity;
- Safe Public and Fair Judiciary;
- Competitive Knowledge Economy driven by Innovation;
- First-Rate Education System;
- World-Class Healthcare;
- Sustainable Environment and Infrastructure.
- The UAE National Committee on SDGs has conducted a mapping exercise between the UAE National Agenda and the SDGs showing much in common between their goals.
- Innovative green finance is one of the objectives of the initiatives, recognizing the need to scale and accelerate green finance uptake in the UAE and alignment of business goals with broader social and environmental sustainability.

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Implementation in the UAE of the SDGs and the Paris Agreement

The UAE initiatives and developments in context of ESG and Sustainable Finance

- Recognizing the need for alignment of business goals of the Private Sector with broad social and environmental considerations, initiatives by the Public Sector along with the Private Sector in the UAE include:

Dubai Declaration on Sustainable Finance (2016)

Dubai Sustainable Finance Working Group (2019)

Abu Dhabi Sustainable Finance Declaration (2019)

Guiding Principles on Sustainable Finance (2020)

DFSA –Discussion Paper: *"Championing Sustainable Finance in the DIFC"* (2020)

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Implementation in the UAE of the SDGs and the Paris Agreement

- Thrust of these initiatives is for the Public and Private Sectors of the UAE to accelerate and expand ESG and Sustainable Finance in the UAE (including in the financial free zones of the UAE (e.g. the Dubai International Financial Centre (DIFC)) and the wider region, encompassing and including:
- responsible business operations;
- responsible investing;
- diversity and inclusion;
- taking into account ESG risk in institutional risk management processes;
- referring to international best practices and guidelines of sustainable finance and investment; and
- regularly compiling and publishing sustainability reports in accordance with international standards.

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Implementation in the UAE of the SDGs and the Paris Agreement

Guiding Principles on Sustainable Finance in the UAE

- In 2020, the first Guiding Principles on Sustainable Finance in the UAE were announced at the Abu Dhabi Sustainable Finance Forum during Abu Dhabi Sustainability Week.
- The Guiding Principles represent the joint work of several Regulatory Authorities in the UAE as part of their efforts towards achieving increased implementation and integration of sustainable practices among UAE financial entities.
- **Three Guiding Principles** were expounded:
- **Principle 1:** The integration of ESG factors in to Governance, Strategy and Risk Management of organizations under the purview of each of the Regulatory Authorities.
- **Principle 2:** Minimum Eligibility Requirements covering at a minimum the following components in financial instruments and products sought to be categorized as 'sustainable': (a) project evaluation and selection from a sustainability/ESG standpoint; (b) use of proceeds and benefit to ESG goals; (c) management of proceeds towards tracking the continuous 'sustainability' of the product; and (d) recording, disclosing and reporting.
- **Principle 3:** Promotion of appropriate ESG related reporting and disclosures, covering, amongst others matters: the measurement, monitoring and adoption by organizations of ESG related practices and disclosure of ESG specific risks, processes, initiatives and performance.

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What is ESG

E	Environment: includes climate change, natural resources, pollution and waste, with the financial and investment community considering, amongst other matters, a business': utilization of materials and resources; energy consumption; water and effluents use; biodiversity; emissions and levels of pollution produced (e.g. GHG emissions); waste generation and management.
S	Social: includes the attitude of business towards matters such as : employment (new employee hires and turnover); employee relations; health and safety; training and education; diversity and equal opportunity; non-discrimination; customer protection; supply chain management; marketing and labelling; data protection; technological change; anti-corruption.
G	Governance: robust governance is key and includes relationships. with shareholders and partners, board and committee composition and independence, internal control systems, audits, and executive compensation.

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Developments in the UAE on ESG disclosures and reporting

Joint Stock Companies Governance Guide

- In 2020, the UAE Securities and Commodities Authority (SCA) issued the "Chairman of the Authority's Board of Directors Decision No. (3/Chairman) of 2020 concerning Approval of Joint Stock Companies Governance Guide" (the **"Joint Stock Companies Governance Guide"**) - applies to Public Joint Stock Companies listed on the Dubai Financial Market (DFM) or the Abu Dhabi Securities Exchange (ADX) in the UAE.

Sustainability Report

- Provisions of the Joint Stock Companies Governance Guide contains requirements for the publication of a sustainability report.
- Clarified that a sustainability report is required to be published annually and reflect the company's long-term strategy and expected effects in the following areas:

(i) **Environment:** the impact of the company's activities and decisions on the environment and the communities where the company operates its business;

(ii) **Social:** the company's impact on social justice, the well-being of workers and employees and the surrounding community; and

(iii) **Economics and Governance:** the company's contribution to the economic benefits of the community and the impact of the company's operations on the local economy.

- Requirement for compliance with the Global Reporting Initiative (GRI) standards and also any sustainability requirements and standards issued by the DFM or ADX, as applicable to the company.

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Developments in the UAE on ESG disclosures and reporting

DFM - ESG Reporting Guide

- The DFM in 2019 introduced an ESG Reporting Guide to assist companies listed on the DFM to incorporate ESG information into their reporting processes.

ADX - ESG Disclosure Guidance for Listed Companies

- The ADX in 2019 introduced an ESG disclosure guidance to support its listed issuer's sustainability reporting journey.

Board Membership and Executive Administration

- Joint Stock Companies Governance Guide contains requirements for companies falling within its scope:
- the representation of women not being less than one member in the formation of the Board of Directors of a company and an obligation to disclose this in the company's annual governance report;
- the development of a policy for membership of the Board of Directors and Executive Administration, with the aim of taking in to account gender diversity and encouraging women through incentive and training programs and benefits and to provide the SCA with a copy of such policy and amendments.

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Developments in the UAE on ESG disclosures and reporting

Dubai International Financial Centre (DIFC)

- **Dubai Law No. 5 of 2021 concerning the DIFC** - includes as part of the DIFC's objectives, the DIFC's participation in the achievement of the sustainable economic growth vision of Dubai.
- Various initiatives in the DIFC include:
- **DFSA in September 2020 issued Discussion Paper 4 titled *"Championing Sustainable Finance in the DIFC"*** – prompts debate on suitable ways to foster development of Sustainable Finance in the DIFC, discussing several considerations, including international standards and industry initiatives, and whether they could usefully be incorporated in the DFSA's supervisory approach and regulatory framework. See: www.dfsa.ae
- **"Whistleblowing"** - DIFC law contain provision for whistleblowing protection. Building on existing requirements, DFSA in July 2021 issued Consultation Paper No. 141 on "Whistleblowing", seeking public comment on DFSA proposals to introduce whistleblowing measures applicable to a range of specified DFSA regulated entities. See: www.dfsa.ae
- **DFSA Green Bond Practice Guidelines (Markets Brief (Issue No.18 – August 2018)** - DFSA provided issuers and market practitioners with information about the DFSA's approach to the listing of green bonds. The Markets Brief sets out voluntary best practices guidelines for issuers seeking to fund environmental and social related projects and assets. See: www.dfsa.ae

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Developments in the UAE on ESG disclosures and reporting

ESG integration – How to measure whether ESG considerations are integrated in a business

- ESG integration – incorporation of ESG considerations in to investment analysis and decisions, and operations of a business, to understand the exposure of an investment or business to ESG risk.
- To understand the ESG risk - an “ESG rating” is important. ESG rating is a measure of how a business is seen to be performing on a wide range of ESG factors.
- Robust ESG data is imperative to assess exposure to ESG risk. Data is sourced from a broad array of resources globally.
- For a meaningful ESG rating, identification of all ESG factors is required which are material to the business, its business sector, its investors and all stakeholders.
- Alignment to international standards and reporting frameworks play a key role in: (i) provides confidence to investors and stakeholders by making of reliable information available; and (ii) acting as a guide in developing a strategic approach to ESG.

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Developments in the UAE on ESG disclosures and reporting

Risks of "Greenwashing" in measuring ESG considerations

- Presently little established consensus globally (amongst regulators, policy makers and the private sector) as to the consistent use of terminology (or "taxonomy") connected with sustainable finance and terms such as "ESG", "green", "sustainable".
- Absent standardized taxonomy and criteria for ESG considerations and integration, compounded by varying and subjective methodologies of measuring ESG, lead to higher risks of:
- (i) greenwashing of products; and
- (ii) the superficial consideration and integration of ESG matters, in attempts to seek satisfying investors and other stakeholders' requirements, and compliance requirements.

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Developments in the UAE on ESG disclosures and reporting

Putting in place an ESG Policy

- ESG Policy lays the foundations towards the successful integration of ESG considerations into financing, investment, ownership and business operations.
- No “one size fits all” approach.
- Different considerations apply to individual businesses in different sectors.

Approach to an ESG Policy

- (i) identification of the core values, principles and ESG related regulations applicable to a business;
- (ii) identification of which ESG matters are material to a business;
- (iii) alignment to international standards best suited to the business and the sector in which it operates;
- (iv) alignment to international disclosure and reporting standards best suited to the business;
- (v) customizing the ESG Policy by inputting the above factors;
- (vi) putting in place an ESG compliance program;
- (vii) implementation of the ESG Policy; and
- (viii) periodic reviews and updates of the ESG Policy.

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Developments in the UAE on ESG disclosures and reporting

Role of the governing body and senior management in ESG integration

- The governing body (e.g. the board of directors) of a business sets the "tone at the top" along with senior management for putting in place and the implementation of an ESG Policy, ESG integration and an ESG compliance program.
- **Principle 1** of the UAE's 2020 Guiding Principles on Sustainable Finance - contemplates integration of ESG considerations into organisations' risk framework, governance, business conduct, investment process, corporate strategic oversight and product development through the board of directors and senior management of the company.
- The Joint Stock Companies Governance Guide: (i) requires the board of directors to set policy regulating the relationship between the company and its stakeholders-including the policy towards the "local community and environment"; and (ii) requires the board of directors to supervise publishing "sustainability reports".

Role of internal counsel in ESG integration

- Along with senior management members responsible for ESG integration, internal counsel of businesses play a critical role in integrating ESG strategies into business operations, by:
- raising awareness within the business on timely compliance with ESG related laws and regulations and changes thereto;
- incorporating ESG compliance matters into new agreements and amending existing agreements;
- advising on changes in day to day business operations and practices impacted by ESG compliance;
- pre-emptively taking steps to enable the business to meet ESG compliance requirements in new business areas or new countries where the business is looking to expand.

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International sector-specific standards relating to ESG considerations

The SDGs of the 2030 Agenda: the 17 SDGs and 169 related targets provide goals and actions which are ESG considerations that can be incorporated into investment decision-making, ownership practices and business operations.

United Nations Environment Programme Finance Initiative (UNEP FI): include: (i) Principles for Responsible Investment; (ii) Principles for Sustainable Insurance; and (iii) Principles for Responsible Banking. See: www.unepfi.org

The Equator Principles (EP): a risk management framework adopted by financial institutions to determine, assess and manage environmental and social risk in projects. There are ten Equator Principles apply globally to all industry sectors and to five financial products. See: www.equator-principles.com

Recommendations of the Task Force on Climate-related Financial Disclosures: four widely adoptable recommendations were developed by the Task Force on Climate-related Financial Disclosures, which are tied to: Governance; Strategy; Risk Management; and (iv) Metrics and Targets. See: www.fsb-tcfd.org

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International sector-specific standards relating to ESG considerations

Green Bond Principles (GBP): voluntary process guidelines that recommend a clear process and disclosure for issuers, which investors, banks, underwriters, placement agents and others may use to understand the characteristics of any given Green Bond. The GBP (updated from time to time), cover four core components: Use of Proceeds; Process for Project Evaluation and Selection; Management of Proceeds; and Reporting. See www.icmagroup.org

The Green Loan Principles (GLP): the GLP comprises of voluntary recommended guidelines. Green loans are required to align with the four core components of the GLP (updated from time to time) which are: Use of Proceeds; Process for Project Evaluation and Selection; Management of Proceeds; and Reporting. See www.lma.eu.com

Conclusion on standards

Above are some sector specific standards which have emerged. Which standards to adopt will depend on factors peculiar to the organization - e.g. type of industry and the products and services offered by the organization; and any specific regulatory requirements Businesses in the UAE use a mixture of the above standards as part of their ESG integration.

International reporting standards relating to ESG considerations

General

- Several international disclosure and reporting standards have emerged.
- Focus here is on the Global Reporting Initiative (GRI) and the United Nations Global Compact.
- The GRI Standards are required to be complied with by listed Public Joint Stock Companies falling under the purview of the Joint Stock Companies Governance Guide discussed earlier.

The Global Reporting Initiative (GRI)

- The GRI was established in 1997 and in 2016 issued the GRI Sustainability Reporting Standards ("GRI Standards" - as updated from time to time). See www.globalreporting.org
- GRI Standards designed to be used by organizations to prepare a sustainability report about their impacts on the economy, the environment, and/or society.

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International reporting standards relating to ESG considerations

- The GRI Standards are divided into four series:
- The GRI 100 series includes three universal standards:
- **GRI 101:** sets out the **Reporting Principles** for defining report content and quality.
- **GRI 102**: **General Disclosures** is used to report contextual information about an organization and its sustainability reporting practices – covers an array of matters relating to: Organizational Profile; Strategy; Ethics and Integrity; Governance; Stakeholder Engagement; and Reporting Practice.
- **GRI 103: Management Approach** is used to report information about how an organization manages a material topic – material topics are those that reflect an organization's significant economic, environmental and social impacts; or that substantively influence the assessments and decisions of stakeholders.
- The **GRI 200**, **300** and **400** series cover **"Topic-specific Standards"**.
- **GRI 200** covers **"Economic"** matters: Economic Performance; Market Presence; Indirect Economic Impacts; Procurement Practices; Anti-corruption; Anti-competitive behavior; and Tax.
- **GRI 300** covers **"Environmental"** matters: Materials; Energy; Water and Effluents; Biodiversity; Emissions; Waste; Environmental Compliance; Supplier Environmental Assessment.
- **GRI 400** covers **"Social"** matters: includes Employment; Labour/Management Relations; Occupational Health and Safety; Training and Education; Diversity and Equal Opportunity; Non-discrimination; Local Communities; Supplier Social Assessment; Customer Health and Safety; Marketing and Labelling; Customer Privacy; and Socioeconomic Compliance.

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International reporting standards relating to ESG considerations

The United Nations Global Compact (UNGC) and the Global Compact Network UAE

- The United Nations Global Compact (UNGC) was launched in 2000 supporting businesses to do business responsibly by: (a) aligning their operations and strategies with ten universally accepted principles (the **"Ten Principles"**) in the areas of **Human Rights, Labour, Environment and Anti-Corruption**; and (b) taking strategic actions to advance broad societal goals such as the SDGs. See: www.unglobalcompact.org
- The UNGC comprises of organizations in multiple countries and multiple local networks worldwide. In the UAE, the **"Global Compact Network UAE"** was launched in 2015 and looks to mobilize the private sector to adopt the Ten Principles and the SDGs. See: www.globalcompact.ae
- Business participants are expected to publicly report on their progress in an annual '**Communication on Progress**' (which is a public report to stakeholders on progress made to implement the Ten Principles).

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Why are ESG factors important

Change in Investment Approach: Evolving changes in investing approaches include:

- ***Negative Screening:*** where investing in certain sectors or aspects of certain sectors is excluded, e.g. tobacco, gambling, coal, oil and gas sectors;
- ***Norm-based Screening:*** where investments in businesses are restricted to those that meet international norms and standards;
- ***Best in Class Screening:*** this ‘positive screening approach’ comprises of investing in businesses that are leaders in ESG performance compared to other businesses in the same industry;
- ***Impact Investing:*** where the objective of the investor is to invest in a business where the environmental and social impact of the investment is felt, without compromising on financial returns of the investment;
- ***ESG Risk and Opportunity Analysis:*** involving the integration of ESG risk and opportunity analysis as a part of the financial feasibility of an investment.

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Why are ESG factors important

Responsible Investment

- Increasing drive by the financial and investment community for businesses to provide ESG data, which are factored in the investment decision process.
- ESG information enables a broad view of the operational robustness of a business - determining how far it has gone to factor ESG considerations into operations.
- Important: if the investors or customers of a business are focused on ESG but the business is not: high risk of investors and customers steering away from the business.

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The advantages of ESG Integration

Risk Management and Costs

- Management of long-term risk - identification of risk factors which may adversely affect the performance, future liquidity and sustainability of a business, and enable strategic steps to be taken to mitigate such risks.
- By addressing ESG risks, a business is able to provide comfort to the financial and investment community that ESG related risks are effectively managed and mitigated.

Brand Reputation and Profitability

- Taking into consideration of ESG data by a business, enhances its reputation by improving stakeholders' perception and enhancing its public image and reputation.
- Enhances customer loyalty and increase the ability of the business to enter new markets and generate new revenue streams.

Employee Retention

- Employer focus on integration of ESG considerations into operations adds weightage to responsible management by a business;
- Can lead to: attracting, retaining and motivating employees;
- In turn can lead to greater employee productivity and efficient streamlining and profitability of business operations.

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The advantages of ESG Integration

Regulatory Compliance Requirements-Staying Ahead

- Identifying and integrating material ESG issues will be helpful to businesses to stay ahead of emerging voluntary and mandatory ESG disclosure and reporting requirements and thereby mitigate compliance risks and costs related to ESG disclosure and reporting requirements.

National and International Growth Opportunities

- Factoring ESG factors in to business operations at an early stage, enhance the capacity for growth by attracting local investors and enhance the growth potential internationally by attracting investors in markets a business may choose to expand in.

Q&A

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