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Sustainable Finance and ESG Integration in the UAE

Introduction: Businesses in the financial and non-financial services sectors in the United Arab Emirates (**"UAE"**) and internationally, are increasingly embedding environmental, social and governance (**"ESG"**) considerations in to their processes and practices. There are multiple reasons for focus on ESG integration, including to name a few (which are elaborated on later in this paper), the ever-increasing global focus on sustainable development (and by extension on sustainable finance and investment); changes in investment approach by investors; the approach to ESG integration by regulators; and not least, the advantages of ESG considerations being part of investment decision-making process and business practices.

By way of context, sustainable development today forms a leading basis for the structure of international cooperation at public and private sector levels. It has been defined in different ways, but has been an aptly described by the 1987 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"*. The public and the private sectors both play pivotal roles in driving forward sustainable development. Globally, whilst the public sector of individual jurisdictions continue towards creating an eco-system towards the implementation of sustainable development targets through policy and regulation, it is however a challenge for the public sector to alone meet the funding and related challenges to achieve sustainable development and thus participation of the financial and non-financial private sector is crucial. The private financial sector is in a position to create an environment for sustainable finance leading to a positive effect on industrial and services sectors across the board towards sustainable investment. The UAE is consistently enhancing its framework for creating a wholesome eco-system for sustainable development and by extension for sustainable finance, and promoting the consideration of ESG integration into the investment decision-making process and business operations. The fast developing eco-system for sustainable finance and drive towards ESG integration and reporting on ESG matters, highlights the importance for investors and businesses in the UAE to weave ESG considerations into the fabric of their operations.

Sustainable Development Goals: In September 2015, the General Assembly of the United Nations adopted the 2030 Agenda for Sustainable Development that includes 17 Sustainable Development Goals (**"SDGs"**) and 169 related targets. In the backdrop of the principle *"leave no one behind"*, the SDGs emphasize a holistic approach to achieving sustainable development. The 17 SDGs are: **GOAL 1:** No Poverty; **GOAL 2:** Zero Hunger; **GOAL 3:** Good Health and Well-being; **GOAL 4:** Quality Education; **GOAL 5:** Gender Equality; **GOAL 6:** Clean Water and Sanitation; **GOAL 7:** Affordable and Clean Energy; **GOAL 8:** Decent Work and Economic Growth; **GOAL 9:** Industry, Innovation and Infrastructure; **GOAL 10:** Reduced Inequality; **GOAL 11:** Sustainable Cities and Communities; **GOAL 12:** Responsible Consumption and Production; **GOAL 13:** Climate Action; **GOAL 14:** Life Below Water; **GOAL 15:** Life on Land; **GOAL 16:** Peace, Justice and Strong Institutions; and **GOAL 17:** Partnerships for the Goals.

The Paris Agreement: In the context of GOAL 13 (Climate Action) of the SDGs, in December 2015 the United Nations Framework Convention on Climate Change (UNFCCC) at the 21st Conference of the Parties (COP 21) adopted the Paris Agreement, which addresses climate change and its negative impacts. 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, in a manner that does not threaten food production. In the context of the Paris Agreement, the attention of world leaders on climate matters was highlighted at the recent *"Leaders Summit on Climate"* held in April 2021 in which a number of world leaders participated virtually and included the world's largest economies and greenhouse gas emitters. The Summit underscored the climate crisis and countries, amongst other matters, announced ambitious new climate targets and commitments to emission reductions.

Implementation in the UAE of the SDGs and the Paris Agreement: In order to implement an effective eco-system for sustainable finance and ESG principles, it is important for the public sector of each jurisdiction to create an over-arching environment for the SDGs and the Paris Agreement. The UAE was amongst the first countries to ratify the Paris Agreement in 2016 and its continuous support for achieving the targets set by the SDGs and the Paris Agreement are expressed in, among others: the UAE Vision 2021 (launched in 2010); the UAE National Agenda (launched in 2014); the UAE Green Agenda 2015-2030; the UAE National Climate Change Plan 2017-2050; the UAE Energy Strategy 2050 (launched in 2017); the Abu Dhabi Declaration (2019); the Dubai Declaration on Sustainable Finance (2016); and the Abu Dhabi Sustainable Finance Declaration (2019). In January 2017, the UAE's National Committee on SDGs was formed for the national implementation plan for SDGs and related matters. In addition, a UAE Working Group on Sustainable Finance was set up in 2019 comprising of several regulatory authorities in the UAE and which in 2020 published the UAE Guiding Principles on Sustainable Finance (discussed later in this paper). In 2019, the Dubai Sustainable Finance Working Group was launched jointly by the Dubai International Financial Centre and the Dubai Financial Market.

What is ESG: Sustainability at a business level has evolved from the concept of "corporate social responsibility" or "**CSR**" to "**ESG**". CSR, in essence, is focused on business self-regulation for contributing to society-oriented goals of a philanthropic, charitable or activist nature which are part of the internal organisational policy or a corporate ethic strategy of a business, thereby seeking to highlight the qualitative aspects of a business. ESG considerations are focused on quantifiable measures based on sustainability metrics of a business. In this context, sustainable finance refers to the process of taking ESG considerations into account when making investment decisions in the financial sector and for businesses to embed ESG considerations in to their operations. The aim of ESG considerations is to achieve long-term investments in sustainable economic activities and projects and enable the financial and investment community to assess the performance of a business on various ESG factors that may affect financial performance of a business.

The scope of ESG considerations are broad covering the following non-exhaustive aspects: ***Environmental factors:*** include determining how a business manages environmental matters and its ability to mitigate various risks that maybe harmful to the environment such as climate change, natural resources, pollution and waste, with the financial and investment community considering, amongst other matters, a business's energy consumption, water use, waste generation and management, level of the pollution produced, and utilization of resources. ***Social factors:*** include the determination as to the relationships between a business and its employees, suppliers, and the broader community in which it operates, with the financial and investment community considering, amongst other matters, the attitude of a business towards diversity and inclusion; employee training and development; health and safety; equal opportunity; human rights; demographics; customer protection; supply chain management; data protection; technological change; political developments; and anti-corruption. ***Governance factors:*** robust governance is key to the long-term success of a business and good corporate governance in a business is a consideration by the financial and investment community, which includes relationships with shareholders and partners, board and committee composition and independence, internal control systems, audits, and executive compensation.

Why are ESG factors important

Change in investment approach: Whilst environmental and climate concerns have been at the forefront over several years now, the increased focus on these, the SDGs and the Paris Agreement, is leading to a change in investing approaches with a focus on ESG considerations. These evolving changes in investing approaches include: (a) ***Negative Screening:*** where investing in certain sectors or aspects of certain sectors is excluded, such as in the tobacco, gambling, coal, oil and gas sectors; (b) ***Norm-based Screening:*** where investments in businesses are restricted to those that meet international norms and standards; (c) ***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; (d) ***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, yet at the same time without compromising on financial returns of the investment; and (e) ***ESG Risk and Opportunity Analysis:*** involving the integration of ESG risk and opportunity analysis as a part of the financial feasibility of an investment. With change in investment approaches focusing on ESG consideration, in turn businesses need to also focus on aligning their business models and operations with sustainable finance and ESG considerations so as to be in step with investor requirements and benefits.

Responsible investment: There is an 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 through determining how far it has gone to factor ESG considerations into operations, not only to address environmental, and community related matters, but also whether the business is able to identify sustainable revenue opportunities and at the same time be cost efficient. The availability by a business of credible and material ESG performance information, in addition to demonstrating the transparency and effective management of a business, increases the ability of the business to attract long-term capital and investment from the financial and investment community. Importantly, if the investors or customers of a business are focused on ESG but the business is not, there is a high risk of investors and customers steering away from the business and the opportunity being lost for the business to attract long-term capital and investment from the financial and investment community.

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The advantages of ESG Integration

Risk management and costs: The management of long-term risk requires the sustainability performance of a business to be measured and mitigation of ESG risks which are identified and therefore the gathering and integration of ESG data into the operations and management of a business, and improving ESG performance results in enhancing risk oversight and management. By taking in to account a comprehensive view of the risks which ESG data provides, the financial and investment community and businesses are able to identify factors which may adversely affect the performance and future liquidity and sustainability of a business, and enable a business to take strategic steps 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: The taking into consideration of ESG data by a business in its operations and making available such information to the financial and investment community, enhances the reputation of a business by improving stakeholders' perception and enhancing its public image and reputation. Through adopting sustainable business decisions and effectively implementing them into operations, a business builds stakeholder trust by demonstrate commitments to responsibly managing ESG issues. This also enhances customer loyalty and increase the ability of the business to enter new markets and generate new revenue streams.

Employee retention: The focus by employers on the implementation of ESG considerations into operations adds weightage to responsible management by a business and thereby can lead to attracting, retaining and motivating employees, which in turn can lead to greater employee productivity and consequently result in the efficient streamlining and profitability of business operations.

Impact on costs: Identifying and implementing ESG strategies can assist businesses in cost savings. For example, in the context of the discussion above on 'Employee retention', greater employee productivity resulting in efficient streamlining of business operations could lead to cost savings as a result. Another example is the identification of the biggest energy consumption unit or operation of a business which can enable the business to introduce methodologies for reducing the consumption of energy use and thereby save costs.

ESG rating agencies: With ESG considerations continuing to grow as a part of responsible investing, so too is the influence and importance of ESG rating agencies which undertake ESG assessments and which investors are increasingly relying on in taking business decisions. ESG rating agencies differ in the methodology and approach of ESG assessments, but tend to share common grounds in terms of assessing a company's level of disclosure, performance and preparedness to manage material ESG risks.

Regulatory compliance requirements-staying ahead: With the efflux of time, voluntary and mandatory disclosure or reporting requirements on ESG issues have been or will be introduced in various jurisdictions. Where ESG disclosure or reporting requirements are yet to be introduced, identifying relevant ESG issues will be helpful to businesses which are impacted by same to stay ahead of such emerging voluntary and mandatory ESG disclosure and reporting requirements and thereby mitigate compliance risks and costs related to disclosure and reporting requirements.

National and International Growth Opportunities: By factoring ESG factors in to business operations at an early stage, UAE businesses will not only have the ability to enhance capacity for growth by attracting investors within the UAE, but also for such businesses to enhance the growth potential internationally by attracting investors in markets they choose to expand in.

Developments in the UAE and the way forward: With the public sector and private sector focus on ESG related considerations of business operations in the UAE, resources are available in the UAE along with several international sector-specific standards and international reporting standards related to ESG considerations. The next sections discuss the shift towards 'ESG disclosures and reporting in the UAE', followed by a brief overview of several 'Internationally sector-specific standards' and several 'International reporting standards' related to ESG considerations.

ESG disclosures and reporting in the UAE: There process towards ESG disclosures and reporting in the UAE has commenced and the following are some of the initiatives that have been taken:

Guiding Principles on Sustainable Finance: In January 2020, the UAE's first Guiding Principles on Sustainable Finance (the **"Guiding Principles"**) were signed at the Abu Dhabi Sustainable Finance Forum during Abu Dhabi Sustainability Week. The Guiding Principles are stated to represent the shared values of several regulatory authorities in the UAE ("Authorities").

The Guiding Principles are stated to be voluntary and represent the first stage of the Authorities joint work as part of the effort to ensure that the transition is effected in a gradual and consultative manner. In terms of the Guiding Principles, the Authorities undertake to implement appropriate measures to encourage UAE financial firms and other entities under the purview of the Authorities to develop strategies to incorporate ESG considerations in their business activities and decision-making frameworks in the context of exploring new investment opportunities. Three Guiding Principles and related matters were expounded: (i) **Principle 1:** the integration of ESG factors in to Governance, Strategy and Risk Management; (ii) **Principle 2:** Minimum Eligibility Requirements covering at a minimum the following components in financial instruments and products sought to be categorized as 'sustainable': (a) the process for project evaluation and selection from a sustainability/ESG standpoint; (b) the use of proceeds and benefit to ESG goals; (c) management of proceeds (where applicable) towards tracking the continuous 'sustainability' of the product; (d) recording, disclosing and reporting; and (iii) **Principle 3:** Promotion of Appropriate ESG-Related Reporting and Disclosures, which amongst other things, covers matters relating to the measurement, monitoring and adoption by organizations of ESG related practices and disclosure of ESG specific risks, processes, initiatives and performance.

UAE Securities & Commodities Authority (SCA): The SCA in 2019 launched its Master Plan for Sustainable Capital Markets as part of the SCA's role in regulating national financial markets, introducing initiatives aimed at stimulating markets and supporting the national sustainability agenda and the SDGs. The key areas covered by the SCA Sustainable Capital Markets Master Plan are: (a) providing new methods for funding of sustainable projects including those that support the environment, society and economy - and reallocate available capital to more sustainable projects; (b) promoting corporate governance practices and encouraging corporates and their management to shift towards more effective sustainable practices; (c) providing information (including on investment opportunities) to investors to invest in sustainable projects and allow investors to make better decisions in this regard; (d) the creation of awareness with all market stakeholders on the importance of sustainability and their respective role in supporting it through their actions. The SCA master plan is centered around seven key pillars, which are: (i) classification and standard setting; (ii) legal and regulatory framework; (iii) market platform and investment instruments; (iv) corporate governance; (v) transparency and disclosure; (vi) awareness and education; and (vii) awards and incentives.

Dubai Sustainable Finance Working Group: As mentioned earlier, the Dubai Sustainable Finance Working Group (**"Working Group"**) was launched in 2019, jointly by the Dubai International Financial Centre and the Dubai Financial Market. The focus of the Working Group being on combining Dubai's finance sector's initiatives to create a sustainable financial hub in the region, particularly in the areas of ESG integration, cultivating sustainable companies and green financial instruments, and encouraging responsible investing. In February 2021, the Working Group published two comprehensive guides as part of Dubai's efforts to accelerate the expansion of ESG and sustainable finance in the UAE and the wider region. The two guides: *"Sustainable Investing Guide"* and *"Sustainable Issuance Guide"* provide investors with information about best practices and commercial opportunities offered by the ESG sector.

Dubai Financial Market (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. The guide encourages listed companies to disclose a set of 32 ESG metrics and indicators.

Abu Dhabi Securities Exchange (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. The guidance was published to support voluntary disclosure of ESG information. The voluntary guidance provides ADX listed companies with 31 ESG indicators.

Dubai Financial Services Authority (DFSA) Green Bond Practice Guidelines: In its Markets Brief (Issue No.18 – August 2018), the 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 practice guidelines for issuers seeking to fund environmental and social related projects and assets. Issuers are urged to consider following an internationally accepted set of best practice standards designed for green bond issuers and in this regard, the Market Brief refers by way of example to the internationally accepted and widely used 'International Capital Markets Association (ICMA)'s Green Bond Principles (GBP)' (see discussion below on the GBP). The Markets Brief in stating that best practice guidelines may vary globally, but should cover the following areas: (i) Use of proceeds; (ii) Process for project evaluation and selection; (iii) Management of proceeds; and (iv) Reporting. Each of these requirements is elaborated on the Markets Brief. It further provides for 'External Review', entailing an issuer appointing an external review provider(s) to confirm the alignment of their bond with the best practice standards adopted.

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International sector-specific standards relating to ESG considerations

United Nations Environment Programme Finance Initiative (UNEP FI): established in 1992, it is a partnership between the United Nations Environment Programme and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with multiple members, such as banks, insurers, and investors, as well as with supporting institutions. The framework UNEP FI has established or co-created include: (i) Principles for Responsible Investment (discussed below); (ii) Principles for Sustainable insurance (discussed below); and (iii) Principles for Responsible Banking (discussed below).

Principles for Responsible Investment (PRI): were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The PRI were developed for investors. The process was convened by the United Nations Secretary-General in 2005 and the PRI were launched in 2006. The six PRI are a voluntary set of investment principles that offer possible actions for incorporating ESG issues into investment decision-making and ownership practices.

Principles for Sustainable Insurance (PSI): were launched in 2012 by UNEP FI. Sustainable insurance is described as a strategic approach where all activities in the insurance value chain, including interactions with stakeholders, are done in a responsible and forward looking way by identifying, assessing, managing and monitoring risks and opportunities associated with ESG issues and towards that end, there are four PSI which are a voluntary set of sustainable insurance principles that offer possible actions for incorporating ESG issues into the insurance industry.

Principles for Responsible Banking (PRB): launched in 2019, the PRB provide the framework for a sustainable banking system and are aimed to embed sustainability at the strategic, portfolio and transactional levels, and across all business areas. There are six voluntary PRB that offer possible actions for incorporating ESG issues into banking related practices.

The Equator Principles (EP): is a risk management framework launched in 2003 and adopted by financial institutions to determine, assess and manage environmental and social risk in projects. There are ten EPs which apply globally to all industry sectors. It also applies to five financial products: (i) project finance advisory services; (ii) project finance; (iii) project-related corporate loans; (iv) bridge loans; and (v) project- related acquisition finance.

Recommendations of the Task Force on Climate-related Financial Disclosures: recognizing that the risks organizations today face relate to climate change (including the financial implications of climate change), in order to help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities, the Financial Stability Board in 2015 established an industry-led task force: the Task Force on Climate-related Financial Disclosures (the “Task Force”). The Task Force was asked to develop voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks. In terms of the 2017 Recommendations of the Task Force on Climate-related Financial Disclosures, the Task Force developed what it termed as four widely adoptable recommendations on climate-related financial disclosures applicable to organizations across sectors and jurisdictions. The four widely adoptable recommendations referred to in the 2017 Recommendations of the Task Force on Climate-related Financial Disclosures are tied to: (a) Governance; (b) Strategy; (c) Risk; and (d) Metrics and Targets.

Green Bond Principles (GBP): The GBP issued by the International Capital Markets Association are 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 emphasize the required transparency, accuracy and integrity of information that will be disclosed and reported by issuers to stakeholders. The GBP (updated from time to time), cover four core components: (i) the Use of Proceeds; (ii) the Process for Project Evaluation and Selection; (iii) the Management of Proceeds; and (iv) Reporting. The GBP also recommends an External Review in connection with the issuance of a Green Bond.

The Green Loans Principles: the GLP issued by the Loans Syndication and Trading Association (together with the Loan Markets Association and the Asia Pacific Loan Markets Association) and have been developed with a view to promoting the development and integrity of a green loan product. Green loans are described as any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible ‘Green Projects’. 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 : (i) the Use of Proceeds; (ii) the Process for Project Evaluation and Selection; (iii) the Management of Proceeds; and (iv) Reporting. The GLP also recommends that, when appropriate, an External Review in connection with the formulation of the green process should be carried out by the borrower.

Climate Bonds Initiative: the Climate Bonds Initiative is an investor-focused not-for-profit organization, promoting large-scale investments with the aim of delivering a global low carbon and climate resilient economy. A key component of the Initiative is the Climate Bonds Standard and Certification Scheme ("Certification Scheme"), which was launched in 2010. The

Certification Scheme allows investors, governments and other stakeholders to prioritize 'low carbon and climate resilient' investments with confidence that the funds are being used to deliver a low carbon and climate resilient economy. The Climate Bonds Standard sets out the requirements to be met for Issuers seeking Climate Bond Certification. The requirements are separated into Pre-Issuance Requirements, which need to be met for Issuers seeking certification ahead of issuance; and Post-Issuance Requirements, which need to be met by Issuers seeking continued certification following the issuance of the bond. Pre-Issuance Requirements cover the following matters: Use of Proceeds; Process for Evaluation and Selection of Projects and Assets; Management of Proceeds; and Reporting Prior to Issuance. Post-Issuance Requirements sets out the requirements, amongst other matters, that apply to all Certified Climate Bonds after the issuance of the bond and cover: the Use of Proceeds; the Process for Evaluation and Selection of Projects and Assets; Management of Proceeds; and Reporting.

Conclusion on standards: Which standards related to ESG considerations a business organization wishes to adopt will depend on factors peculiar to the organization, such as the type of industry the organization operates in; the products and services offered by the organization; and any regulatory related matters to be taken into consideration. The supervisory body of several of the standards organization have their own requirements which need to be met in order for a business to adopt the relevant standards. The above are some of the sector specific standards. In addition to the above, there are also other sector specific standards and initiatives, such as the Sharia Standards of The Accounting and Auditing Organization for Islamic Financial Institutions, and the European Commission Action Plan on Sustainable Finance and associated regulatory proposals.

International reporting standards relating to ESG considerations

The Global Reporting Initiative (GRI): The GRI was founded in 1997 by non-profit organizations. The GRI in 2016 issued the GRI Sustainability Reporting Standards (**"GRI Standards"** - as updated from time to time), which are designed to be used by organizations to report about their impacts on the economy, the environment, and/or society. The GRI Standards are developed to assist an organization prepare a sustainability report, which is based on specified 'Reporting Principles' and focuses on material topics. Any report prepared in accordance with the GRI Standards is required to include a GRI content index.

CDP (formerly the Carbon Disclosure Project): is a not-for-profit charity founded in 2000 and runs a global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Companies are asked to disclose through CDP by their customers and investors. By completing CDP's questionnaires on climate change, forests and water security, companies will identify ways to help them manage their own environmental risks and opportunities as well as providing vital information back to their customers and investors, and to the market through research, insights and financial products and services.

The International Integrated Reporting Council (IIRC): The IIRC, formed in 2010, is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The IIRC has developed an International Framework which takes a principle-based approach, and the purpose of which is to establish specified 'Guiding Principles' and 'Content Elements' that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin the same.

The Sustainability Accounting Standards Board (SASB): The SASB, founded in 2011, is an independent non-profit organization that sets standards to guide the disclosure of financially material sustainability information by companies to their investors. SASB Standards identify the subset of ESG issues most relevant to financial performance in each of 77 industries. The SASB Standards provide a complete set of globally applicable industry-specific Standards which identify the minimal set of financially material sustainability topics and their associated metrics for the typical company in an industry. The SASB has identified 26 sustainability-related business issues, or general issue categories, which encompass a range of disclosure topics and their associated accounting metrics that vary by industry.

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The United Nations Global Compact: is a strategic policy initiative founded in 2000 for businesses that are committed to aligning their operations and strategies with ten universally accepted principles (the "Ten Principles") in the areas of human rights, labor, environment and anti-corruption. It comprises of organizations in multiple countries and multiple local networks worldwide. In connection with the UAE, the UN Global Compact Network UAE was launched in 2015 and looks to, amongst other things, mobilize the private sector to adopt the Ten Principles and the Sustainable Development Goals. Business participants are expected to publicly report on their progress in an annual 'Communication on Progress'.

Conclusion on reporting standards: As with the choice of sector-specific standards, which of the reporting standards a business organisation wishes to adopt will depend on factors peculiar to the organization, such as the type of industry the organization operates in, the products and services offered by the organization, and any regulatory related matters to be considered. The supervisory body of several of the reporting standards organizations have their own requirements which need to be met in order for a business to adopt the relevant reporting standards. The above are some of the reporting standards and in addition to the above, there are also other sector specific reporting standards such as: the Climate Disclosure Standards Board; the Sharia Standards of The Accounting and Auditing Organization for Islamic Financial Institutions; and the AAOIFI Sharia Standards on screening parameters for socially responsible and sustainable investments and The AAOIFI Accounting Standards, as applicable to sustainable investments.

The Role of the Governing Body in ESG Integration: The governing body of a business, such as the Board of Directors (**"Board"**) in the case of a company, plays a pivotal role in the implementation of ESG considerations into the investment decision-making process or operating practices of a business. Keeping with the example of a company, the Board of a company has the responsibility to act in good faith with due care and diligence in the best interests of the company and its shareholders. The Board sets a clear vision and key strategies for the company and monitor management to ensure quality risk controls and risk management practices are being implemented. In essence, the Board is best placed to drive forward a company's addressing of ESG considerations, including for the following reasons: (i) the Board has the capacity to ensure a coherent approach to ESG considerations within the company by locating a "home" and accountability for the implementation of ESG matters; (ii) the Board has the capacity to make a global commitment to addressing the ESG considerations of the company by establishing policies and guidelines to be followed by the company to implement ESG matters; and (iii) directors can guide management in communication of the company's ESG stance, internally and externally. In the context of the UAE, Principle 1 of the Guiding Principles (see discussion above) contemplates the integration of ESG considerations into the risk framework, governance, business conduct, investment process, corporate strategic oversight and product development through the board of directors and senior management of the company and be consistent with director and officer fiduciary duties.

Conclusion: Integration of ESG considerations in to the investment decision-making process and business operations are likely to continue increasing in the UAE in the context of several of the factors discussed in this paper. The consequences of the COVID-19 pandemic may also accelerate the need and requirement for ESG considerations to be factored into the investment decision-making process and business operations across the board as a "new norm", as investors and consumers would increasingly prefer to deal with resilient businesses underpinned by strong ESG fundamentals which enable the business to effectively deal with crisis situations. As discussed earlier, external resources are available for investors and businesses to assist with addressing ESG considerations and integration. In order to effectively and efficiently implement ESG integration, oversight and ownership of the ESG integration process within the business is important and therefore involvement of the appropriate governing body and members of senior management of the business are crucial to ensure the completion and on-going compliance and monitoring of the process. Indeed, we are seeing governing body and senior management of businesses in the financial and non-financial services sectors review the structure of their processes and practices in the context of ESG considerations and the consequential impact of ESG factors on the compliance and risk management frameworks of such businesses.

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