PRI | Principles for Responsible Investment

MEIMA
Middle East Investment Management Association

Discussion Paper No. 1 of 2024
Abu Dhabi Global Market
ADGM Square
Al Maryah Island
PO Box 111999
Abu Dhabi, UAE

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RE: Discussion Paper No. 1 of 2024 Enhancing the Sustainable Finance Regulatory Framework for ADGM

Dear colleagues,

About MEIMA

The Middle East Investment Management Association (MEIMA), established in 2022, is a regional trade body with a mission to support, champion and advance the growth and development of the investment management industry in the Middle East. MEIMA's membership is made up of investment firms and service providers in the Middle East investment management industry. MEIMA's Sustainable Investing Working Group brings together subject matter experts to help drive forward the region's sustainable investing and ESG efforts.

About the PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

MEIMA and the PRI have collaborated in relation to the **Discussion Paper No. 1 of 2024 Enhancing the Sustainable Finance Regulatory Framework for ADGM**. It is our pleasure to provide this response to the Discussion Paper and MEIMA and the PRI welcome further discussions with ADGM regarding the topic.

Overview of Sustainable Investing and ESG in the Middle East

Over the last few years, the Middle East has been catching up with other developed economies on its sustainability and sustainable finance ambitions. Hosting COP28 in the UAE in 2023 reflected the opportunity and ambition of the region to not only accelerate its shift towards sustainability, but also to be a leader in sustainability action. We believe that while governmental initiatives and regulatory frameworks on sustainable finance help sustainable finance activities in the region, importantly, they also attract international investments and confidence in the region. These efforts, alongside increased transparency, will ultimately embed sustainability and key environmental, social and governance issues into the way the UAE market operates. Nevertheless, we believe the UAE private sector needs increased momentum in addressing sustainability and ESG risks and opportunities, and we commend ADGM's continued focus on these issues. We also believe that, given the trajectory of ADGM and its ecosystem's businesses to date, an ambitious, holistic, and practical framework will best benefit ADGM and the UAE's sustainable finance efforts.

Feedback on the Discussion Paper

Following the implementation of green and transition fund frameworks in 2023, we welcome the Discussion Paper expanding the focus on other factors of ESG. This is in line with the industry approach for a more holistic ESG scope, but also addresses the fact that environmental, social and governance factors often go hand in hand.

Further, we would recommend that ADGM produces more detailed and practical guidance tailored to various asset classes and types of financial institutions.

Please find below our detailed feedback in relation to each question posed in the Discussion Paper.

Part I – ESG-labelling and greenwashing

Question 1: Do you agree with the definition of "greenwashing" in the proposed Guidance?

We agree with the use of globally accepted and defined terms, including the one by IOSCO and put forward in the Guidance. A global framework is needed to prevent fragmentation, provide greater comparability and transparency, as well as reduce the complexity of sustainability disclosure requirements. Adopting **IOSCO's recommendations in Supervisory Practices to Address Greenwashing** across jurisdictions would help promote regulatory coherence for investors and ensure that regulators have the necessary framework for cooperation.

With respect to the explanatory notes (2.3) in the Guidance further describing greenwashing, it should also be noted that greenwashing may not be limited to a specific product but can also be at a corporate level, for example disseminated through corporate sustainability practices. We recommend ADGM considers guidance that ensures greenwashing also does not occur from corporate-level claims.

Question 2: Do you agree with the broad regulatory expectations laid out to prevent greenwashing?

Yes. Nevertheless, we note that thematic and impact investing may not always fit within the traditional ESG integration approaches and as such, it is not clear from the Guidance how thematic funds may be categorised as ESG Investment Vehicles, if such a vehicle is required to cover all three ESG elements - environmental, social and governance. We recommend ADGM further elaborates and provides detailed definitions on ESG investment strategies, particularly for thematic and impact investing funds and how their investment strategies may meet the ESG Investment Vehicle requirements. The PRI has collaborated with the CFA Institute and the Global Sustainable Investment Alliance (GSIA) to refine and harmonise terminology used in sustainable investment practices. The Legal Framework for

Impact, authored by the PRI, UNEP FI and the Generation Foundation, also defined investment practices that take actions on sustainability outcomes.

In addition, the Guidance could benefit from further elaboration on:

- how interoperability will be sought to align global regulatory regimes and avoid market fragmentation
- harmonising terminology to best ensure consistency and clarity
- further details on what constitutes a credible standard of stewardship
- the monitoring and review approach.

Question 3: While we are taking an iterative approach to addressing greenwashing by providing the proposed Guidance for consideration, should we consider developing binding requirements to counter greenwashing in the future similar to some other jurisdictions in order to make expectations in this area more enforceable?

Financial markets are increasingly interconnected, with asset owners and managers working across multiple jurisdictions. Having to conform to multiple different standards creates higher costs and operational complexities for firms, which in turn leaves fewer resources for working with companies to steer them towards net zero. Currently, regulators are pursuing different approaches. The PRI has conducted a review of trends in ESG reporting requirements for investors, which found that many jurisdictions are looking at tackling greenwashing but adopting different approaches in doing so. These approaches can be categorised as 'medium-regulation jurisdictions' and 'high-regulation jurisdictions.' In practice, product-level disclosure requirements tend to vary across jurisdictions on different types of "sustainable products," meaning investors cannot effectively compare these.

IOSCO's mapping of regulatory authorities' approaches to greenwashing across the globe is a useful starting point for distinguishing between the different types of legal and regulatory frameworks at play.

While we agree with ADGM's iterative approach for introducing ESG fund rules, greenwashing can also occur in relation to any corporate-level activities and may not be product-specific. ADGM should ensure that the Guidance covers entity-level practices, policies, procedures, and disclosures relating to material sustainability-related risks and opportunities (across all ADGM entities), and product-level disclosure of sustainability-related products. This aligns with most jurisdictions' supervisory tools and mechanisms to address greenwashing.

We suggest ADGM consider the below aspects to further strengthen the Guidance on greenwashing:

- Ensure coherence with global regulatory approaches to greenwashing where feasible, drawing on the International Organization of Securities Commissions (IOSCO) recent guidance, Supervisory Practices to Address Greenwashing. Global regulatory alignment on overcoming greenwashing will benefit Abu Dhabi and global investors looking to operate in Abu Dhabi.

- Ensure consistency and transparency in the terminology used to describe funds and their impact. We recommend that the ADGM complement the guidance with additional guidance aimed at harmonising terminology for the financial ecosystem, drawing on the joint work by the PRI, the Global Sustainable Investment Alliance (GSIA), and the CFA Institute on Definitions for Responsible Investment Approaches.

- Strengthen guidance on stewardship practices, setting a minimum baseline of stewardship considerations. Overstating the influence of company engagement can happen intentionally and unintentionally, leaving stewardship claims susceptible to greenwashing.

- Internal capacity building on sustainable finance concepts through education initiatives can proactively help protect against greenwashing and sustainability-related risks. The FCA should promote investor education to help understandings of disclosed sustainability information, through signposting education, training, and information.

- Set out a clear monitoring approach detailing how potential greenwashing claims and the use of labels will be monitored, and how breaches will be handled.

More broadly, it is crucial that wider sustainable finance policies and standards, such as corporate disclosures, taxonomies, and ESG ratings, continue to develop in a coordinated manner. This will tackle greenwashing more comprehensively, which is key to ensuring investors have the information and tools needed to substantiate sustainability claims, rather than just guidance.

PRI's past positions on anti-greenwashing:
- PRI response to the UK Financial Conduct Authority's (FCA) guidance on the anti-greenwashing rule (2024)
- PRI response to the Financial Conduct Authority's consultation on Sustainability Disclosure Requirements (SDR) and investment labels (2023)
- PRI response to European Supervisory Authorities Call for Evidence on Better Understanding Greenwashing (2023)

Question 4: Do you agree with the proposed regulatory expectations around appropriate use of the "ESG" label, particularly in relation to the risk of conflation of the three individual components of "E", "S", and "G"?

Yes, however, as noted above, it is not clear from the guidance how thematic and impact investment funds may meet this requirement. Such funds typically have a focus on specific E, S, or G factors, e.g. social funds. It is imperative that these funds also receive an ESG designation. Overall, we recommend more descriptive guidance.

We recommend the ADGM clarify general principles in establishing or monitoring the sustainability labels or product categories. The following considerations may form the basis for the development of such principles.

- All funds, including those 'not promoted as sustainable', may take ESG factors into consideration as part of their basic fiduciary duties and financial risk management.

- Clarify the intended audience of the product categories. It should be clear whether retail or institutional investors are the intended primary audience of the product categories. Whilst the categories could apply to both retail and institutional clients, it is particularly important that the product categories are simple and easy to understand, as retail clients are less likely to grasp the nuance of the corresponding disclosures.

- Avoid hierarchies between the product categories. Hierarchies based on current levels of sustainability performance could unintentionally discourage investments in sectors that urgently need funding to transition away from harmful levels of performance. Moreover, clarity is needed around how different product categories contribute to the overarching objective of mobilizing capital towards sustainable activities. The FCA's Sustainability Disclosure Requirements and investment labels regime have been designed in a way that does not propose a hierarchical framework. Each type of product is designed to deliver a different profile of assets, as well as different risk appetites and values to meet different consumer preferences: this approach is welcomed as it supports investor choice.

- Link product categories to the sustainability preferences of end investors or policyholders. It will be important to link any new product categorisation system with the existing rules for integrating client sustainability preferences. Moreover, the categorisation system should be designed to enhance the advisory process and improve retail investor understanding of the sustainability-related strategies and objectives of financial products.

- Work to enhance global interoperability of sustainable product categories. Regulatory authorities should continue to engage in global forums to work towards greater interoperability with sustainability-related product categories from other markets. To simplify global distribution and reduce costs for financial market participants, authorities should work with international organisations, such as IOSCO, IAIS and IOPS to ensure a baseline of disclosures and principles for the cross-border compatibility of sustainability-related product categories.

Question 5: Should the FSRA establish expectations around minimum investment thresholds for investment vehicles that use sustainability-related terms in their names, for example, a fund that uses "ESG" or "sustainable" in its name should invest at least 75% of its assets in ESG-aligned investments?

It is not clear from the Guidance whether "ESG Investment Vehicles" would be the same as funds that use "ESG" or "sustainable" in their names, or whether the naming convention would be a further "upgrade" for an ESG Investment Vehicle. If the latter, then we do support the idea that any fund using the words "ESG" or "sustainable" or equivalent should have a minimum proportion of assets applying the strategy and/or to be aligned with the appropriate taxonomy.

Fundamentally, we recommend the ADGM assess if this rule will create a disproportionate burden on responsible investors as opposed to investors who do not take sustainability factors into investment decisions or take action on sustainability outcomes.

The PRI recommends that as a precondition to establishing the fund name rule, all funds, including those 'not promoted as sustainable', should take material ESG factors into consideration as part of their basic fiduciary duties and financial risk management. This is aligned with latest research on investor duties in the context of financial risks stemming from sustainability issues including climate change.[1]

Question 6: Are the four main ESG investment strategies identified in the Guidance appropriate? If not, what might be more appropriate categorisations?

We support ADGM's proposals for the categories and note that these are widely accepted within the industry. However, we also note that PRI sees there are two main approaches regarding responsible investment: ESG incorporation and stewardship, as shown below. Investors taking actions on sustainability outcomes usually need to combine both ESG incorporation and stewardship in their investment strategies.[2]

[1] PRI and UNEP-FI, Fiduciary duty in the 21st century final report; PRI, UNEP-FI and the Generation Foundation, A Legal Framework for Impact; Financial Markets Law Committee, Pension Fund Trustees and Fiduciary Duties – Decision-making in the context of Sustainability and the subject of Climate Change.

[2] https://www.unpri.org/introductory-guides-to-responsible-investment/what-is-responsible-investment/4780.article

- **ESG incorporation**

ESG incorporation means assessing, reviewing, and considering ESG issues in existing investment practices, by combining any of these approaches: integration, screening, and thematic investing. Note that unlike the ADGM Guidance, ESG incorporation requires a combination of approaches, and as noted previously, screening (particularly negative screening), would not be considered ESG incorporation.

- **Stewardship**

Stewardship means using influence and investor rights to maximise overall long-term value – including of common economic, social, and environmental assets – that client and beneficiary returns and interests depend on. Engagement is one of the ways investors can fulfil their stewardship obligations. It involves interactions and dialogue between an investor, or their service provider, and a current or potential investee or other stakeholder to improve practice on an ESG factor, make progress on sustainability outcomes, or improve public disclosure. In private markets, engagement also refers to investors' direct control over and dialogue with management teams or boards. Stewardship activities can be directed at existing and potential investees (e.g., companies, issuers, assets) and other stakeholders, such as policy makers and standard setters.

- **Taking action on sustainability outcomes**

Investors can act to improve the sustainability outcomes associated with their investments through their investment decisions and stewardship of investees, policy makers and other stakeholders. This involves making their investments consistent with global sustainability goals and thresholds, aiming to increase positive outcomes for people and the planet and decrease negative ones.

Global sustainability goals and thresholds help establish the limits that society should try to operate in to prevent harm to people and the environment. They are set out in internationally recognised frameworks, such as:

- The UN Sustainable Development Goals
- The Paris Agreement
- The Convention on Biological Diversity
- The OECD Guidelines for Multinational Enterprises
- The International Bill of Human Rights
- The ILO Declaration on Fundamental Principles and Rights at Work
- The UN Guiding Principles on Business and Human Rights

Question 7: Do you agree that ESG Investment Vehicles that aim to achieve ESG impact should measure and disclose their performance against relevant ESG metrics on a regular basis?

Yes, this requirement is aligned with investor duties to their clients, including the duty of care and loyalty. ESG investment Vehicles with an explicit mandate/objective to achieve ESG impact should measure and disclose their performance against relevant ESG metrics on a regular basis so that their

clients or beneficiaries would have the needed information to hold investment managers accountable for their sustainability commitments regarding ESG impacts.

Question 8: Do you agree that details of an ESG Investment Vehicle's stewardship activity to influence investees to align with positive ESG outcomes should be provided? Are there details other than proxy voting strategies or records that can be provided to facilitate transparency in relation to stewardship practices?

Yes, where an ESG Investment Vehicle claims to engage in stewardship as part of its ESG activities, details on this approach should be provided.

In addition to the ongoing wider work on building a regulatory framework for effective stewardship, there is scope within both the anti-greenwashing rule and the labelling regime for more guidance on what constitutes a credible stewardship strategy at product-level to bring alignment with sustainability goals over a certain time frame. The lack of clear standards and transparency on stewardship best practice may make the regime particularly vulnerable to greenwashing. For example, claims about engagement with investee companies could be misleading without stewardship prescription.

The recent greenwashing guidance published by the Australian Securities and Investments Commission (ASIC) is a leading example of regulatory guidance on possible ways that funds could misrepresent the fund's investment and objectives, which may, in turn, mislead investors into purchasing funds that appear to be focused on ESG factors or sustainability. ASIC provides additional regulatory guidance on stewardship investment approaches:

> *"If you have adopted a stewardship investment approach to achieve your sustainability-related targets, you should:*
>
> *explain to investors the rationale for engaging with particular companies to influence changes in their corporate behaviour*
>
> *provide regular updates on your progress with those companies, including stewardship activities and outcomes, such as voting and engagement activities.*[3]*"*

Setting a minimum baseline for how sustainability-related considerations are taken into account, and incorporated into investment decisions and stewardship activities could remedy greenwashing and stewardship concerns in the Guidance.

In addition to proxy voting strategies or records, institutional investors can be expected to disclose the following information to facilitate transparency:

Entity level disclosure: a stewardship policy, an engagement policy, and a proxy policy (they can be consolidated into a stewardship policy[4])

Product level disclosure: sustainability objectives, strategy to achieve such objectives and theory of change, the role of stewardship/engagement/proxy voting in the strategy, stewardship activities taken to achieve the objectives, including escalation strategies, key milestones or KPIs for assessing progress, progress, and outcomes, in cases where milestones are not met, what next steps will be taken.

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[3] Australian Securities and Investments Commission (ASIC) How to avoid greenwashing when offering or promoting sustainability related products, 2022.

[4] For further information, see https://www.unpri.org/policy/a-legal-framework-for-impact/4519.article

Question 9: Do you agree with our view that the use of a third-party ESG taxonomy to assist with selection of assets aligned with ESG ambitions adds value and reduces the risk of misunderstanding?

We agree with the idea of aligning to an ESG taxonomy, while noting the challenge this may present today due to the limited availability of taxonomies particularly outside of environmental taxonomies. We recommend that, where possible, assets should be aligned with a taxonomy *or* with an internationally accepted standard or a framework, such as those listed in Question 6.

The PRI recommends in the sustainable finance policy toolkit that establishing a taxonomy for sustainability activities is one of the key policy reform priorities governments need to focus on in order to establish a sustainable financial system. The PRI also published an implementation guide supporting such policy reform.

We also welcome the development of a Common Ground Taxonomy (CGT) by the International Platform on Sustainable Finance (IPSF). Taxonomies are a key tool for redirecting financial flows towards economic activities that meet robust sustainability standards and are aligned with high-level policy commitments, but also note that the risk of divergence between taxonomies is a major concern for investors. In July, United Nations Environment Programme Finance Initiative (UNEP FI), Climate Bonds Initiative and the Principles for Responsible Investment (PRI) have announced a collaboration to support global interoperability and implementation of sustainable finance taxonomies and other frameworks. We hope that this work will contribute to the region's efforts to develop such tools for investors, in alignment with global standards.

Question 10: Do you agree with the key areas of disclosure in relation to the use of an ESG taxonomy that we have highlighted within the Guidance?

Yes, MEIMA agrees with this, however, this should not be limited to taxonomies only, and other internationally accepted standards or framework should also be available. Where a manager has the ability to deviate from a taxonomy/standard/framework, it should also be clearly stated.

Question 11: Given that there are costs associated with third party attestations, do you agree that the benefits of attestation regarding the alignment of assets in a portfolio with a recognised taxonomy for ESG Investment Vehicles and/or investors thereof outweigh the costs associated with securing such attestations? Should third-party attestation be expected of all ESG Investment Vehicles or should certain ESG Investment Vehicles, for example, Qualified Investor Funds be exempt from such expectations?

Yes, we agree with the need for independent assessments to avoid greenwashing. However, we also recognise the cost burden this can place on asset managers and therefore should consider necessity and proportionality in the process of future policy development. Relevant factors to be considered may include products offered to professional clients and retail investors. We further note that such a requirement could be scalable, if different types of ESG Investment Vehicle categories are envisioned. A phased approach can be adopted to gradually move from encouraging third-party attestations to mandatory implementation combined with the rolling out of more detailed guidance and capacity building.

Question 12: While there are numerous taxonomies focussed on environmental aspects, are there taxonomies focussed on "S" or "G" aspects, or ESG as a combination, that ADGM should consider?

As noted earlier, at this stage we do not believe there are sufficient taxonomies which could be used to align an ESG Investment Vehicle to. However, we would like to point to the example of the EU taxonomy which contains social provisions such as minimum social safeguards and the key principle

of do no significant harm to other sustainability objectives. For more information on taxonomies, please refer to PRI's taxonomy toolkit.

Further, MEIMA recommends extending the alignment requirement to other standards and frameworks. As such, proposing Guidance instead of a Regulatory Framework for ESG Investment Vehicles is appropriate at this time, and for the Guidance not to solely require aligning to a taxonomy.

Question 13: Do you agree with the key disclosure aspects pertaining to the use of an ESG index highlighted in the Guidance? Are there other disclosure aspects to consider here?

Yes. With respect to Guidance 7.3 (a), we note that the benchmark or index should be disclosed in the prospectus of the fund. Further, with respect to Guidance 7.3 (b), we recommend that the disclosures also state the limitations of such benchmarks and the methods used in compiling them.

We also note that Guidance 7.3 does not specifically refer to only passively managed funds and as such, ADGM should consider whether actively managed funds which seek to align themselves with benchmarks but may also deviate from them would still be categorised as ESG Investment Vehicles in accordance with this Guidance.

Question 14: Do you agree with the assertion in the Guidance that, if assets are selected from within an ESG index, then there is limited or no utility of third-party attestations around the ESG credentials of investment assets?

Yes, however as noted in Question 13, we recommend that the asset managers disclose the limitations of benchmarks as well as explain the methods used in compiling them.

Part II - Climate-related risks and transition planning

Question 15: If the FSRA were to adopt the SFWG Principles as binding rules, what modifications should be considered to facilitate this? For example, would such rules need to be tailored for firms providing different financial services, e.g., for banks versus asset management firms?

We agree with the concept of the principles and support the idea that climate risk management be a risk management requirement of all financial services firms. Climate risks are financial risks and as such, investors must consider climate risk at the portfolio, sector, asset class, and individual security level, while also integrating climate issues into a broader risk assessment process.[5] However, we do not believe that today ADGM entities, with the exception of large international institutions, have in place climate risk management practices. Further, we do not believe that most ADGM entities are aware of the principles. This is partly due to the fact that they are not a regulatory requirement, and because there is no commercial incentive to comply with the principles. As such, a requirement to consider the principles as part of a firm's risk management and corporate governance framework would be recommended. Nevertheless, any regulations should take into account the scale and nature of various types of financial services firms. We recommend ADGM produces guidance that relates to both public and private markets investors, and to the extent possible, provides some specific examples on an asset class basis. We expect that the monitoring and reporting processes could be incorporated into the existing processes of asset managers.

Question 17: How should regulatory requirements pertaining to climate-related risk management address "proportionality" in their application? For example, should the requirements only apply to entities of similar size to those to which ADGM's ESG disclosure requirements apply?

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[5] https://www.unpri.org/climate-change/climate-risk-an-investor-resource-guide/9329.article

Proportionality should be looked at based on the type of firms (e.g. licenses and vehicles) as well as based on the scale of the business (e.g. AUM). We expect that Principle 4 requiring the incorporation of climate risks into risk management frameworks and Principle 7 requiring scenario analyses would entail firms, particularly if there is no internal, existing know-how on the topic, to invest substantially in building capacity to meet regulatory expectations. Financial authorities play an important role in supporting small and middle-sized firms in capacity building.

Question 18: Should ADGM develop or provide detailed guidance on transition planning? Should the guidance on transition planning encourage entities to publish transition plans that arise from their transition planning?

We support the idea of detailed guidance on transition planning, particularly for large institutions in the first instance, and gradually being extended to all regulated firms. Nevertheless, net zero commitments can be particularly prone to greenwashing risks or allegations, given the rapid rise of such pledges by financial institutions over the past few years and the inherent complexity of climate target-setting and portfolio alignment methodologies.

The alliances under the GFANZ[6] umbrella provide important spaces for investors to collaborate on meeting ambitious net zero commitments, and detailed frameworks[7] have been developed to guide common approaches to target-setting. Yet the requirements of the different initiatives can vary in terms of the scope of assets covered by the pledge, for example: partial or full value chain assessment, asset class coverage, the metrics used for target-setting (e.g. carbon intensity or absolute emissions, implied temperature rise, sectoral targets, engagement targets, etc.), approaches to phasing-out of fossil fuel financing, use of voluntary carbon credits, etc. Continued progress on convergence in net-zero target setting methodologies, accountability mechanisms within the alliances and timely implementation of the UN HLEG recommendations for non-state net zero pledges[8] will be important to reduce greenwashing risks related to net zero claims by financial institutions.

Question 19: Should separate guidance on transition planning be prepared for financial and non-financial services entities? Within the financial services sector, is tailored guidance on transition planning required for entities that provide different financial services e.g., for banks versus asset management firms?

Yes, separate guidance on transition planning should be developed for financial and non-financial services entities as they have very different transition pathways to achieve sustainability objectives based on the characteristics of the sector they operate in. For example, a cement company and an asset management company face very different challenges in transition and have substantially different levers, technology, and pathways/theories of change to achieve transition goals.

Question 20: How should ADGM catalyse the development of transition plans by licensees? Should ADGM require all licensed entities to develop their own NZTPs in support of the national NZSI? In the absence of specific regulatory requirements, are ADGM-licensed entities likely to develop transition plans or NZTPs of their own accord?

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[6] In the financial sector, these pledges are structured at entity level within the Glasgow Financial Alliance for Net Zero (GFANZ), launched in 2021. As of November 2022, the alliances comprised over 550 financial institutions (banks, insurers, asset owners, and asset managers) from a diverse range of 50 countries. GFANZ 2022 Progress Report.

[7] GFANZ – Financial Institution Net Zero Transition Plans (2022). UN-Convened Net Zero Asset Owner Alliance – Target Setting Protocol (2022).

[8] In November 2022 the UN's High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities published a report with practical recommendations to improve the integrity, transparency and accountability of non-state net zero pledges by establishing clear standards and criteria.

Without a regulatory framework, it is unlikely firms will establish any transition plans. It is imperative that ADGM takes the lead in establishing an appropriate framework. Companies and financial actors should plan how they will achieve decarbonisation and other sustainability outcomes across their economic activities and value chains, as well as across their investment strategies and portfolio decisions. Transition plans should translate time-bound, science-based targets into actionable steps. For decarbonisation, science-based means aligned with the Paris Agreement, e.g. the 1.5°C scenarios of the International Energy Agency (IEA) or the Intergovernmental Panel on Climate Change (IPCC). Transition plans will help investors to better engage and assess a company's future resilience and sustainability performance, as well as track progress. Nevertheless, we recommend a phase-in period to allow firms sufficient time to prepare.

Question 21: To what extent and how should "proportionality" be addressed in any regulatory requirements to conduct transition planning or to develop transition plans?

Proportionality is important and the guidance should take this into consideration. In the eventual development to a regulatory framework, the requirements should first be on large institutions and gradually extend to all regulated entities.

Question 22: Should it be a requirement to make transition plans publicly available? If not, why not?

We support including reporting requirements on transition plans disclosure to IFRS S2 aligned disclosures. Investors need information on how companies are financing their transition plans and the amount allocated to predict future financial performance, financial position and cash flows. To avoid greenwashing and build trust, transition plans should be made public.

Question 23: Is there a way for ADGM to provide better recognition of companies within ADGM which are doing important work to enable the transition to net zero? For example, should ADGM maintain a register of "sustainability enablers" or similar?

We do support the idea of recognising companies that contribute to the transition, however, in the first instance, we believe ADGM entities need to be trained and educated on rules and guidance such as potential transition plan requirements and SFWG Principles.

Question 24: Do you have any broader feedback on our approach to SusFin within ADGM that is not covered by the questions set out above?

In collaboration with World Bank's Financial Stability and Integrity Team, PRI in its policy toolkit report proposed a high-level overview of five foundational sustainable investment policies that are key to developing a responsible investment regulatory framework:

Sustainable investment policy and regulation need to cover the following five areas:

- Corporate ESG disclosures, including alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)
- Stewardship (engagement and voting)
- Investors' duties to incorporate ESG-related considerations in their investment decision making, to provide sustainability-related disclosures and to report on their ESG incorporation policies and performance targets
- Taxonomies of sustainable economic activities, defining common and clear criteria to classify projects or investments as green or sustainable
- National/regional sustainable finance strategies, that encourage and enable the low-carbon transition and the delivery of the SDGs

We also recommend that ADGM collaborate with regional financial centres to encourage harmony within sustainable finance frameworks. We emphasise the importance of interoperability to align to global regulatory regimes and avoid market fragmentation.

We thank ADGM for the opportunity to collaborate on this Discussion Paper and look forward to continuing our dialogue with ADGM.

Yours faithfully,

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The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of ADGM further to enhance the regulatory framework for sustainable investment in the UAE.
Please send any questions or comments to policy@unpri.org.
More information on www.unpri.org

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