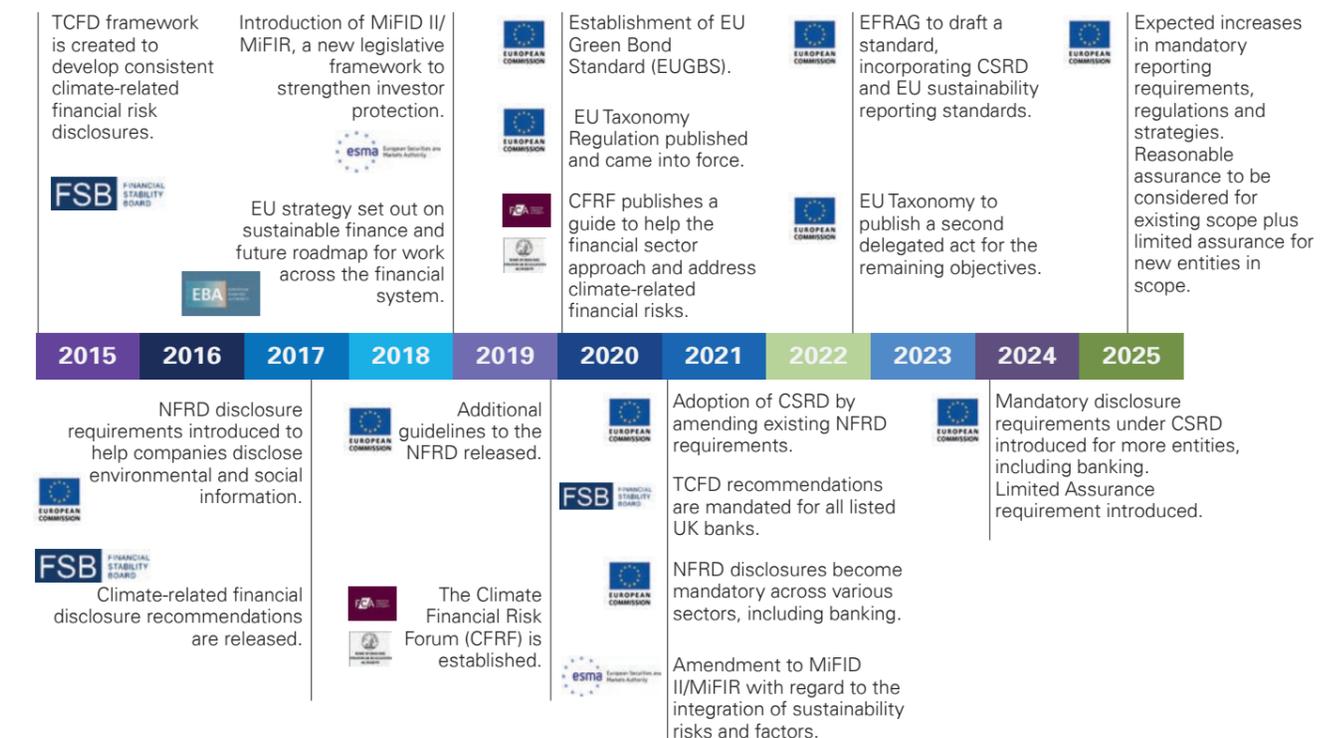


The journey of global regulators over recent years

Outlined below are the significant instances of implementation of and changes to regulations or guidelines around ESG risk management, disclosures, and to a lesser extent, assurance. Banks in the UAE are starting to voluntarily make disclosures in line with the Task Force on Climate-Related Financial Disclosures (TCFD), and are including some key performance indicators of the

Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD) in their sustainability reporting. The timeline below, based on developments in European legislature, is a good indicator of the direction of travel in the sector.



Acronyms

CFRF	Climate Financial Risk Forum	FSB	Financial Stability Board
CSRD	Corporate Sustainability Reporting Directive	TCFD	Task Force on Climate-related Financial Disclosures
EBA	European Banking Authority	MiFID	Markets in Financial Instruments Directive
EFrag	European Financial Reporting Advisory Group	MiFIR	Markets in Financial Instruments Regulation
ESMA	European Securities and Markets Authority	NFRD	Non-Financial Reporting Directive
EUGBS	Establishment of EU Green Bond Standard	PRA	Prudential Regulation Authority

The reporting environment

European Commission (EC)



Reporting

- The EC introduced NFRD to help companies disclose environmental and social information. These guidelines were introduced in 2017 and were not mandatory. Companies could use either international, European or national guidelines as per their requirements.
- Climate-related information was added to the existing NFRD in 2019.
- In 2021, the EC adopted the CSRD, amending the existing NFRD to extend the scope of organizations, audit (assurance) requirements, and mandating EU sustainability reporting standards, allowing companies to digitally tag reported information to ensure consistency.
- The EC have assigned EFRAG to draft standards that contain CSRD along with EU sustainability reporting standards by 2022.

EU Taxonomy

- The Taxonomy regulation came into effect in 2020 as a classification system, establishing a list of environmentally sustainable economic activities. The EU taxonomy would provide companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable.
- An amended and comprehensive act will be published in 2022.

EU Green Bond Standard

- The EC announced in 2020 that the European green deal investment plan would establish an EU Green Bond Standard (EUGBS) due to the lack of direct financial and capital flow to green investments.

Financial Stability Board



- In 2015, the FSB created the TCFD, to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.
- The TCFD released climate-related financial disclosure recommendations in 2017, designed to help companies provide better information to support informed capital allocation.
- In 2021, UK banks mandated TCFD recommendations for listed UK banks to accelerate compliance with the overall reporting standards of TCFD.

Financial Conduct Authority (FCA)



- The FCA and the Prudential Regulation Authority (PRA) established the Climate Financial Risk Forum (CFRF) in 2019, to build capacity and share best practice across financial regulators and the industry, to advance the financial sector's responses to the financial risks of climate change.
- In 2020, the CFRF published a guide to address climate-related financial risks. The guide provides practical tools, experience, knowledge and case studies, which firms can use as they develop their strategies, processes and approaches. The key areas are risk management, scenario analysis, disclosures, and innovation.

European Securities and Markets Authority (ESMA)



- ESMA introduced a new legislative framework, named MiFID II/MiFIR in 2018. This framework aimed to strengthen investor protection and improve the functioning of financial markets, making them more efficient, resilient and transparent.
- In 2021, ESMA made amendments to MiFID II with regard to the integration of sustainability risks and factors. The new rules integrate sustainability considerations into the investment, advisory and disclosure processes in a consistent manner across sectors.

European Banking Authority (EBA)



- In 2018, the EBA introduced three mandates in the area of sustainable finance:
- EBA will assess the potential inclusion of ESG risks in the supervisory review and evaluation process performed by competent authorities.
 - Large institutions with publicly listed issuances will disclose information on ESG risks, physical risks and transition risks as defined in the report referred to in Article 98 of the CRD.
 - EBA will assess whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives would be justified.

