



19 September 2023

Climate and the Financial Sector

This weekly newsletter highlights climate-related regulatory, litigation and enforcement developments relevant to the financial sector.

General

5 September 2023 [Global] – Public development banks issues a joint declaration on supporting a sustainable economy

In a joint statement, nine public development banks (including the French *Agence française de développement*) announced their commitment to support the sustainable use of marine resources. The public development banks involved commit to work on a “Blue Finance Roadmap”, and an update on progress update will be presented at the United Nations Ocean Conference (UNOC) to be held in France in 2025. According to the joint statement, this Blue Finance Roadmap will aim to reflect the vision and scope of the development banks’ positive ocean investments, identify financing gaps and realistic financing opportunities, facilitate knowledge sharing, and promote accountability. [\[link\]](#)

6 September 2023 [EU] – The ECB publishes the results of its second economy-wide climate stress test

The ECB has published an occasional paper presenting the results of its second economy-wide stress test. The results provide an analysis of the impact of transition risk on financial institutions and indicate that an immediate and decisive action would

benefit the European Union by limiting the financial risk faced by financial institutions. The ECB also shows that financial institutions are most exposed to credit risk if the transition to a net-zero economy is delayed. The stress test complements the ECB's Banking Supervision climate stress test, the results of which were published in July 2022. [\[link\]](#)

7 September 2023 [UK] – FCA publishes its response to ISSB consultation

In May 2023, the International Sustainability Standards Board (ISSB) published a consultation on its agenda priorities and invited responses from supervisors. The Financial Conduct Authority (FCA) publishes its response, indicating that the strategic direction of the ISSB's work for the next two years shall focus on IFRS S1 and IFRS S2. In addition, the FCA states that the work on ISSB standards will contribute to supporting the UK's net-zero emissions and environmental objectives. Finally, the FCA invites on the ISSB to work on a thematic disclosure standard focused on nature and biodiversity. [\[link\]](#)

8 September 2023 [UK] – The FCA releases a Portfolio Letter on wholesale banks portfolio analysis and strategy forum

The FCA has issued a letter to the chief executives of all wholesale banks operating in the UK highlighting, among other things, the importance of wholesale banks in the transition to a sustainable future. The FCA expects wholesale banks to demonstrate the alignment of their financing activities with their transition plans. In addition, they should ensure compliance with product- and public-facing ESG commitments. The FCA notes that there is a lack of clarity in ESG-related activities between the first and second lines of defense in terms of who is responsible for ensuring that the bank meets its public commitments. Finally, the FCA encourages early engagement with the Transition Plan Taskforce's (TPT) framework for disclosure and expects all CEOs to have discussed the letter with the management and to have agreed actions and/or next steps within two months. [\[link\]](#)

9-10 September 2023 [Global] – New Delhi G20 Leaders discuss ESG considerations

Following the G20 Summit in New Delhi on September 9-10, the Leaders of the G20 issued a statement highlighting the years of successive crises that have seriously undermined progress towards the 2030 Agenda and its Sustainable Development Goals (SDGs). Among other things, they commit to “*pursue low-GHG/low-carbon emissions, climate-resilient and environmentally sustainable development pathways*” and to “*scale up financing from all sources for accelerating progress on SDGs*”. With respect to the financial sector, the G20 Leaders (i) welcome the Sustainable Finance Working Group (SFWG) recommendations on the mechanisms to support resources mobilization for climate finance, (ii) welcome the annual progress report on the FSB's Roadmap for Addressing Financial Risks from Climate Change, (iii) endorse the revised G20-OECD Principles of Corporate Governance to strengthen policy and regulatory frameworks for corporate governance, and (iv) reiterate their commitment to promoting sustainable capital flows. [\[link - link\]](#)

13 September 2023 [EU] – The Commission publishes initiative to adjust SME size criteria

The Commission has published an initiative setting out a draft Delegated Directive to amend the existing thresholds under the Accounting Directive for determining the size of small and medium-sized enterprises (SMEs). These thresholds are unchanged since 2013. If the thresholds are increased, the scope of application of sustainability reporting requirements (as defined in the Accounting Directive as amended by the CSRD) would be reduced. Feedback is expected by 6 October 2023. [[link](#)]

13 September 2023 [UK] – Publication of the Greenhouse Gas Emissions Trading Scheme Auctioning (Amendment)

The Greenhouse Gas Emissions Trading Scheme Auctioning (Amendment) Regulations 2023 (SI 2023/994) (Amending Regulations) were published on 13 September 2023 and will generally come into force on the 21st day after their publication. They amend the Greenhouse Gas Emissions Trading Scheme Auctioning Regulations 2021 (SI 2021/484), which govern the auctioning of allowances used under the UK Emissions Trading Scheme. The Amending Regulations reduce the proportion of allowances auctioned and the number of allowances put into circulation from 2024 onwards in line with the proposed net zero consistent cap. To smooth the transition to such a net zero consistent cap, a number of allowances will be added to the auction share each year from 2024 to 2027. [[link](#) – [link](#)]

14 September 2023 [Global] – Initiative Climat International issues guidance to encourage measurement of greenhouse gas emissions

Initiative Climat International (ICI), a practitioner-led community of private markets investors supported by the Principles for Responsible Investment and committed to reducing the carbon emissions of private equity-backed companies and ensuring sustainable investment performance, has published a guide to facilitate more effective disclosure of greenhouse gas (GHG) emissions between companies and their fiscal sponsors, direct lenders and other debt holders. The guide summarizes the growing importance of and interest in GHG emissions information, how to collect and measure these emissions, and how this information can be used beyond reporting to stakeholders. It has received strong multi-stakeholder support from the European Leveraged Finance Association (ELFA), the Loan Syndications and Trading Association (LSTA), CDP, the Loan Market Association (LMA), the Asia Pacific Loan Market Association (APLMA) and others. [[link](#)]

14 September 2023 [Global] – UNPRI releases a guide on ESG incorporation in direct lending for private debt investors

Overall, significant progress in ESG integration, engagement and other practices has been identified in PRI's survey of private debt market participants. Specifically, the report provides an overview of the market, highlighting that investor demand and regulatory issues are the key drivers in the private debt market. It also focuses on the

integration of ESG factors into decision making and outlines proposals to improve access to data and efforts to use Sustainability Linked Loans. The survey finds that reporting has improved in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and that limited partner expectations for alignment with net-zero goals are increasing. However, it notes that there are barriers to setting targets and conducting scenario analysis for climate-related risks, and that collaboration between private lenders and private equity sponsors needs to be improved. In addition, the report provides a framework for improving ESG integration throughout the investment cycle. The report also provides a framework for improving ESG integration throughout the investment cycle. Finally, it provides recommendations for action, including the creation of standardized ESG clauses in loan documents, the formulation of methodologies for consistent KPIs and incentives, the development of a portfolio-wide response to climate change, and active support for standardizing data collection and borrower monitoring. [\[link\]](#)

14 September 2023 [Global] – EFRAG issues briefing summary on climate-related risks in the financial statements

The European Financial Reporting Advisory Group (EFRAG) has issued a briefing summary highlighting key findings from its outreach and engagement with stakeholders on the IASB's project on Climate-related Risks in the Financial Statements. The summary notes improvement in the reporting of climate risk in financial statements, but several areas of concern remain. Concerns include (i) the lack of connection between the information inside and outside the financial statements, and (ii) climate-related information that is sometimes too high-level and inadequate. All of the respondents who expressed concerns considered the lack of compliance with existing IFRS requirements to be the root cause of these concerns, while some respondents also noted that there is an expectation gap between users and preparers and their auditors as to what should be considered material information for reporting in the financial statements, leading to a possibly overstated view of the lack of compliance. [\[link\]](#)

15 September 2023 [Global] – EU ESG Ratings Regulation: AFME publishes its views

The Association for Financial Markets in Europe (AFME) (a professional association representing financial market participants) welcomes the EU Commission's initiative to develop a regulation on the transparency and integrity of ESG ratings. AFME supports the need for the ESG rating activities to be conducted in accordance with the IOSCO Recommendations on ESG Ratings and Data Product Providers, which the EU Commission aims to achieve. AFME's key recommendations are: **(i)** clarification of the scope of the proposed EU regulation; **(ii)** alignment of transparency and governance requirements for ESG rating providers with the IOSCO Recommendations; **(iii)** support for interaction between ESG rating providers and rated entities; and **(iv)** interoperability of the EU regime with similar existing requirements in third countries. [\[link\]](#)

Asset management

14 September 2023 [EU] – **EU Commission launches public consultations on the implementation of the SFDR**

The European Commission has launched:

- a public consultation aimed at people with only a general knowledge of the SFDR, and focusing on the current requirements of the SFDR and its interaction with other sustainable finance legislation [[link](#)]; and
- a “targeted consultation” aimed at gathering feedback from stakeholders who are more familiar with the SFDR and the EU’s sustainable finance framework, which goes beyond the public consultation by asking a series of more detailed questions on possible changes to disclosure requirements for financial market participants and the possible establishment of a labelling scheme for financial products. [[link](#) - [link](#)].

The consultations are open until 15 December 2023.

Key points include:

- **Potential changes to the disclosure requirements for financial market participants:**
 - Removal of entity-level disclosures under SFDR;
 - Interaction of product categories with current disclosure regime;
 - Additional uniform sustainability disclosure requirements for all funds, including products without any sustainability claims;
 - Additional SFDR disclosures and question as to whether the required disclosures should depend on the type of product/investment;
 - Changes to the current breakdown of SFDR information;
 - Independence of product level versus entity level disclosures;
 - Sustainability scale in product-level disclosures;
 - Improving the accessibility of SFDR disclosures in a digital context;
- **Potential establishment of a categorisation system for financial products:**
 - Product categorisation: Two approaches to product categorisation are presented:
 - Converting Articles 8 and 9 into formal product categories, and clarifying and adding criteria to underpin the existing concepts of environmental/social characteristics, sustainable investment and DNSH; or
 - Subdividing the categories in a different way: for example, perhaps focusing on the type of investment strategy of the product.
 - Product names: The Commission focuses on the potential for fund names and marketing communications to mislead clients and other stakeholders, and the manner in which such specific rules should be set forth in the SFDR.
- **Questions about the effectiveness of the existing SFDR regime** (how it works in practice, whether it allows the objectives to be achieved, costs of compliance);
- **Interaction with other sustainable finance legislation and potential inconsistencies or misalignments.**



Amélie Champsaur
Partner, Paris
achampsaur@cgsh.com



Andreas Wildner
Associate, London
awildner@cgsh.com



Pierre Mathé
Associate, Paris
pmathe@cgsh.com



Camille Kernevès
Associate, Paris
ckerneves@cgsh.com



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