



27 June 2023

Climate and the Financial Sector

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

General

26 June 2023 [Global] – **ISSB issues first sustainability-related disclosure standards**

The International Sustainability Standards Board (ISSB) has issued its first two sustainability standards, covering general disclosure requirements (IFRS S1) and climate-related disclosure requirements (IFRS S2). IFRS S1 sets out general requirements for the disclosure of sustainability-related financial information to enable companies to communicate with investors about the sustainability-related risks and opportunities they face in the short, medium and long term. IFRS S2 supplements IFRS S1 with sector-specific disclosure requirements. Both standards are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted when both standards are applied together. [\[link\]](#)

22 June 2023 [EU] – **ICMA updates climate transition finance handbook and sustainability principles and publishes additional related documents**

The International Capital Market Association (ICMA) published revised versions of its (i) Climate Transition Finance Handbook, which integrates market and official sector progress on climate transition guidance and disclosure, and (ii) Sustainability-Linked

Bond Principles, notably with adapted language for sovereign issuers and new metrics for sovereigns and social issues in the KPI Registry. The ICMA also published other guidance, including additional Q&As on securitization of green, social and sustainability bonds; revised language for the Social Bond Principles and specific guidance on impact reporting for Social Bonds; updates to the core recommendations for impact reporting for Green Bonds and impact reporting metrics for energy efficiency and renewable energy; a revised mapping to the Sustainable Development Goals; and updated issuer information templates and external review forms. [[link](#)]

21 June 2023 [EU] – General Court dismisses an appeal against the inclusion of nuclear and natural gas within the EU Taxonomy

The General Court dismisses the action brought by a Member of the European Parliament for annulment of Delegated Regulation 2022/1214 laying down the conditions under which nuclear and natural gas energy activities may be included in the list of economic activities covered by the Taxonomy Regulation (Case T-628/22). The applicant argued that the European Commission had exceeded its powers to adopt delegated acts and that the Delegated Regulation infringed the legislative competence of the Parliament and thus his own rights as a Member of the Parliament. However, the General Court considers that the applicant does not have standing to bring the action because his rights connected with the exercise of the Parliament's legislative competence are intended to be exercised only in the context of the Parliament's internal procedures and cannot therefore be regarded as directly affected by the adoption of Delegated Regulation 2022/1214. [[link](#)]

12-16 June 2023 [EU] – ESAs publish 2022 annual reports highlighting sustainable finance work

The European Supervisory Authorities (ESAs) have published their annual report. The annual reports highlight, among other things, the sustainable finance work undertaken by the ESAs in their respective areas in 2022, including the following:

- European Banking Authority (EBA): ESG-related stress testing and disclosures, first assessment on prudential treatment, risk management and supervision, identification of the concept of greenwashing and publication of a renewed roadmap setting out the EBA's work plan in the area of sustainable finance. [[link](#)]
- European Securities and Markets Authority (ESMA): publication of the ESMA Sustainable Finance Roadmap 2022-2024, the ESG Supervisory Briefing, the MiFID II Suitability Guidelines and a call for evidence on greenwashing; consultation on guidelines for ESG or sustainability-related terms used in funds' names; responses to EU and international consultations on corporate reporting sustainability standards (ISSB, ESRS); and interaction with relevant EU and international bodies. [[link](#)]
- European Insurance and Occupational Pension Authority (EIOPA): publication of a series of papers, reports and guidance on the integration of sustainability risks into the risk management of (re)insurers and occupational pension funds; conduct of a first IORP climate stress; monitoring activities on greenwashing and initiation of work on the call for advice on greenwashing; work with other ESAs on the Sustainable Finance Disclosure Regulation (SFDR). [[link](#)]

15 June 2023 [Global] – WBA calls on ISSB to prioritize the development of a thematic social disclosure standard

In response to a proposition by the International Sustainability Standards Board (ISSB) to include in its agenda the development of separate standards on human capital and/or human rights, the World Benchmarking Alliance (WBA) encourages the ISSB to instead start with a general thematic standard on social disclosures that would provide the basis for disclosures relevant to all companies on aspects of governance, strategy, risk management, and metrics and targets specific to social issues. This would establish a clear architecture for social issues and provide the contextual information necessary for investors to interpret disclosures on more specific topics relevant to human capital and/or human rights as well as social capital. [[link](#)]

13 June 2023 [EU] – European Commission releases a sustainable finance package

The European Commission (EC) has published a package of measures to strengthen the EU sustainable finance framework. The sustainable finance package covers the EU Taxonomy and a proposal for a Regulation on ESG rating providers. [[link](#) - [link](#)]

- **Taxonomy Regulation:** The EC has adopted (i) a new set of EU Taxonomy criteria for economic activities making a substantial contribution to one or more of the remaining environmental objectives (sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems) and (ii) amendments to the Taxonomy Climate Delegated Act, extending the scope of economic activities contributing to climate change mitigation and adaptation to activities not previously included (notably in the manufacturing and transport sectors). [[link](#) - [link](#)]
- **Regulation of ESG rating providers:** The EC published a “Proposal for a Regulation on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities”. Under the proposal, EU-based ESG rating providers would need to be authorized by ESMA and, once authorized, would be subject to ongoing supervision by ESMA. The proposed regulation would also impose requirements on EU ESG rating providers regarding their internal organization, disclosure of methodologies, and mechanisms to address conflicts of interest. [[link](#)]

12 June 2023 [EU] – European Commission publishes FAQs on Taxonomy Regulation and SFDR

The European Commission (EC) has published a notice on the interpretation and implementation of certain legal provisions of the Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation (SFDR). It includes FAQs and addresses (i) the role of minimum safeguards in the EU Taxonomy Regulation, (ii) how minimum safeguards are defined under Article 18 of the Taxonomy Regulation, (iii) the main expectations for undertakings under Article 18 of the Taxonomy Regulation, and (iv) whether Taxonomy-aligned investments qualify as “sustainable investments”

under the SFDR. Regarding the latter, the EC notes in particular that investments in Taxonomy-aligned “environmentally sustainable” economic activities may automatically qualify as “sustainable investments” under the product-related disclosure requirements of the SFDR. [[link](#)]

Asset management

16 June 2023 [EU] – ESMA launches call for evidence on sustainability in suitability and product governance

The European Securities and Markets Authority (ESMA) has published a call for evidence on the integration of sustainability preferences into suitability assessment and product governance arrangements under MiFID II. The aim of the call for evidence is not to propose specific changes to the guidelines, but rather to help ESMA to (i) better understand how MiFID II requirements are implemented and applied by firms across the Union and the challenges they face in applying them, (ii) better understand investors' experiences and reactions to the integration of sustainability factors into investment advice and portfolio management services, and (iii) collect information, views and data on main trends on aspects related to the provision of sustainable investment products and services to clients. [[link](#)]

12 June 2023 [FR] – AMF publishes summary on internal processes to ensure compliance with non-financial contractual commitments by certain asset managers

The AMF analyzed the results of audits of five asset management companies (AMCs) and the responses to a questionnaire from 176 generalist portfolio AMCs that have at least one non-financial contractual commitment for at least one of their funds. In particular, the summary states that the five AMCs inspected have devoted significant and increasing human and technical resources to defining, reviewing, managing, and monitoring non-financial contractual commitments. In addition, it notes that the AMCs' ESG rating systems continue to rely on external ESG data providers, but only one of them checks the quality of the non-financial data before it is incorporated into the ESG rating algorithm. The summary further highlights the inadequacy of permanent controls to justify overrides of ESG scores produced by the rating algorithm. With regard to the creation and verification of the investment universe for ESG/SRI funds, the AMF observes that the AMCs inspected use a team that is independent of the management activity (less common among the 176 AMCs) and that only two of them carry out ex-post checks to ensure that the investment universe is consistent with the fund's ESG policy (similar results to those from the questionnaire). Finally, given the reinforcement of regulatory requirements and the risk of misleading investors if non-financial commitments are not met, the AMF stresses the need to continuously strengthen the control process of such commitments. [[link](#)]



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