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Climate and the Financial Sector

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

EU Updates

General

19 December 2022 [EU]: European Commission publishes two draft notices under EU Taxonomy legislation

The European Commission (EC) has published two sets of draft frequently asked questions in relation to certain implementing rules issued under the Taxonomy Regulation. The first FAQs address questions on the technical screening criteria which are used either to demonstrate the alignment of economic activities with the Taxonomy or to identify the potential for improvement of activities that are Taxonomy-eligible but not yet aligned. The second FAQs are intended to provide further guidance to non-financial undertakings on their disclosure requirements, especially with respect to the reporting of Taxonomy KPIs which becomes mandatory as of 1 January 2023. Some of the FAQs are also relevant to financial undertakings. For the latter, which will be subject to this reporting requirement from 1 January 2024, the EC has indicated that another set of FAQs may be adopted in due course. ([link](#) / [link](#))

20 December 2022 [France]: Afep and Medef publish a revised version of the corporate governance code for listed companies on CSR

The new version of the code places corporate and social responsibility (CSR) strategy at the core of the board of directors' missions, particularly with regard to climate change. It is recommended that the board (i) determines, on the proposal of executive management, CSR multi-year strategic orientations and examine each year the results obtained and the opportunity to adapt the action plan or the objectives and (ii) presents the climate strategy together with the main actions undertaken to implement such strategy to the general meeting of shareholders at least every three years or in the event of a significant change. Also, it is recommended to include in the compensation of executive directors at least one criterion related to the company's climate objectives. These recommendations are applicable to general meetings held for fiscal years beginning on or after 1 January 2023 but Afep and Medef recommend to boards to apply them immediately. ([link](#) / [link](#))

Banking

19 December 2022 [EU]: ECB issues report on banks' internal climate scenarios

The ECB published a report laying out good practices for climate stress testing (a requirement laid out under item 11 of the ECB's 2020 Guidance on climate risk management). The report states that (i) institutions which are more advanced in their data sourcing approaches and estimation methodologies for climate data are also more advanced with respect to quantifying the impact of climate-related risk on their exposures; (ii) each bank's approach to climate stress testing should depend on its specific circumstances and business model needs; (iii) climate and environmental risks will remain key priorities of the ECB and other EU authorities in the new year; and (iv) banks are expected to be able to properly manage their climate and environmental risks by the end of 2024. ([link](#))

19 December 2022 [EU]: Implementing rules on banks' ESG risk disclosures are published in the EU's Official Journal

The ITS – which have been issued under Article 449a of the Capital Requirements Regulation (CRR) – are set to enter into force on 8 January 2023. The rules lay out the instructions and format that large listed EU banks will be required to observe when disclosing prudential information on the ESG risks to which they are exposed (including as to physical and transition climate-related risk drivers). The disclosure requirement kicks in this year, with a first reference period of 28 June to 31 December 2022. Going forward, disclosures shall be made annually (for 2023), and biannually thereafter. Through the October 2021 “Banking Package” (currently under scrutiny by the EU Parliament and Council), the Commission proposed to extend this requirement in the future to all EU banks, and to augment its frequency. ([link](#))



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