CLEARY GOTTLIEB

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Climate and the Financial Sector

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

General

- Taskforce on Nature-related Financial Disclosures supports use of cross-reference tables for corporate reporting
- Science Based Targets Network publishes outcomes from its corporate pilot, supporting the concept of science-based targets for nature
- UNEP FI and Finance for Biodiversity Foundation publish Finance for Nature Positive Discussion Paper

Banking

- Deputy Governor of the Banque de France speaks about regulator's missions as concerns sustainability matters
- PRA issues letter asking UK banks to enhance their climate risk capabilities

General

16 September 2024 [International] – **Taskforce on Nature-related Financial Disclosures supports use of cross-reference tables for corporate reporting**

The Taskforce on Nature-related Financial Disclosures (TNFD), a science-based initiative aimed at integrating nature into decision-making, published a signal for support for the use of cross-reference tables in corporate reporting to help simplify the presentation of TNFD-aligned recommended disclosures in existing corporate reporting.

The press release notes that in recent years, several international standard-setting bodies (the ISSB, GRI, EFRAG, and TNFD) have worked closely together to harmonise their concepts, definitions, and approaches, ensuring that organisations can report on their nature-related issues in a consistent and comparable manner. As such, much of the information that TNFD recommends be disclosed is included in reports produced under other standards – which the TNFD recognizes supports the use of cross-reference tables.

23 September 2024 [International] – **Science Based Targets Network publishes outcomes from its corporate pilot, supporting the concept of science-based targets for nature**

The Science Based Targets Network (SBTN), a standard-setting organization, published outcomes from its year-long corporate pilot program in a detailed report [available here]. The pilot involved companies assessing their impacts on nature, particularly freshwater and land, and setting science-based targets to mitigate nature loss. Participants reported significant benefits, noting that target setting increased corporate ambition, supported zero ecosystem conversion goals, and established a standardized framework for measuring progress.

The SBTN has updated its methods based on pilot feedback, improving feasibility, interoperability with frameworks, and providing clearer guidance. Over 150 additional companies are now preparing to set targets, with a new validation service to launch by late 2024. The next phase will introduce further freshwater and biodiversity integration and ocean targets by 2025. The SBTN noted that *"Now is the time for companies to act —responsibly, urgently, and with the ambition that matches the scale of the challenge."* [press release available here]

25 September 2024 [EU] – **UNEP FI and Finance for Biodiversity Foundation publish Finance for Nature Positive Discussion Paper**

The UNEP Finance Initiative and the Finance for Biodiversity Foundation have unveiled their latest collaboration, "Finance for Nature Positive: Building a Working Model", in a discussion paper published on 25 September 2024. The working model launched for the occasion [available here] is said to provide practical guidance on how finance may operationalise the Nature Positive concept, and highlight key market needs such as improved measurement, data practices, and reducing barriers to nature conservation and restoration finance.

The discussion paper emphasizes the role of the financial sector in supporting transformative actions and highlights the importance of sustainable taxonomies, measurable outcomes, and traceable financial flows, all of which are crucial to meaningful progress toward Global Biodiversity Framework goals and targets. [discussion paper available here, and executive summary here]

Banking

26 September 2024 [France] – **Deputy Governor of the Banque de France speaks about regulator's missions as concerns sustainability matters**

Denis Beau, deputy governor of the Banque de France, went back over the Banque de France's commitments and work regarding climate change and sustainability challenges in a speech before the Climate and Territory conference. He tackled those issues through the prisms of monetary policy, financial stability, and companies' needs. [full speech available here, in French only]

In particular, Denis Beau noted that climate change was already impacting prices and activities, citing floods in Pakistan which caused damages in an amount equivalent to 8% of the country's GDP. This was put into perspective with the negative impacts that such physical and transition risks may have on both offer and demand. The Banque de France aims to integrate the effects of climate risks into the creation of the monetary policy to ensure price stability, for example in form of its corporate bond purchase program with the ECB.

Denis Beau emphasized that both the Banque de France and the French ACPR were acting towards integrating sustainability matters in their financial stability mission. Finally, it was noted that the increase of risks linked to climate change is creating significant challenges for companies, underlying a Banque de France project aimed at creating a climate indicator to help entities through their transition.

27 September 2024 [UK] – **PRA issues letter asking UK banks to enhance their climate risk capabilities**

Following a thematic review of data received from major UK-headquartered banks' auditors, the UK Prudential Regulation Authority (PRA) issued a letter [here] setting out its feedback, including in respect of banks' capabilities relating to climate risk.

Amongst other things, the PRA expects banks: (i) to further expand the coverage of portfolios for which climate-related risk drivers are formally assessed, (ii) to further enhance data and processes to challenge the completeness of overlays and embed climate risks in loan-level credit risk assessments, and (iii) to consider a broader range of climate scenarios and indicators to allow for timely identification of borrowers and sectors more exposed to climate risk than the wider economy.



Amélie Champsaur
Partner, Paris
achampsaur@cgsh.com

Camille Kernevès
Associate, Paris
ckerneves@cgsh.com

Eléonore Azaïs
Associate, Paris

eazais@cgsh.com

Alberta Giannotti
Associate, Rome
agiannotti@cgsh.com

Sebastian Kummler
Associate, Frankfurt
skummler@cgsh.com

Marco Gustavo Minati
Associate, Frankfurt
mminati@cgsh.com

Marc Christopher Baldauf
Associate, Cologne
mbaldauf@cgsh.com

Andreas Wildner
Associate, London
awildner@cgsh.com