



30 October 2024

# Climate and the Financial Sector

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

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## General

### **14 October 2024 [EU] – ESAs’ Chairpersons discuss sustainability considerations during a European Parliament ECON Committee hearing**

The European Parliament’s Committee on Economic and Monetary Affairs (ECON) held a meeting on 14 October 2024.

Verena Ross, Chairperson for the Joint Committee of the ESAs (JC), pointed to supporting the green transition to a more sustainable economy as being at the heart of the JC’s activities in the past year [full speech available [here](#)]. Key highlights in this area included developing Regulatory Technical Standards under the SFDR, as well as a Joint Opinion proposing improvement to this framework, in light of the lessons learnt to date.

EBA Chairperson José Manuel Campa also spoke of sustainability as part of the regulatory landscape for banks [full speech available [here](#)]. He noted that the EBA was pushing for progress mainly on two fronts, the first of which is the EBA guidance on ESG risk management, set to help institutions integrate ESG risks into their frameworks, set minimum standards, methodologies and clarify content of the transition plans. The second front concerns the dissemination and collection of comparable ESG-related risk disclosures across all banks, which remains a priority.

Additionally, EIOPA Chairperson Petra Hielkema noted that the EIOPA had made significant progress on integrating sustainability into the financial sector regulatory framework, in particular as regards the implementation of the revised Solvency II Directive [full speech available [here](#)]. She added that going forward, “*we must continue integrating sustainability into the prudential and conduct frameworks, monitoring greenwashing, and helping the sector and consumers mitigate climate risks.*”

## Banking

### **18 October 2024 [Italy] – The Bank of Italy publishes a study on the relationship between banks’ ESG scores and their funding costs**

On 18 October 2024, the Bank of Italy released a paper presenting an empirical investigation concerning the relationship between banks’ ESG scores and their funding costs [available [here](#)]. The study focuses on bonds issued by euro-area banks between 2015 and 2022.

The investigation is divided into two key sections:

- “*ESG’s effect on banks’ funding costs measured by the spread at issue*”: this section shows a negative correlation between ESG performance and spread, since ESG factors taken into account by investors are linked to lower bond yields. As a

consequence, banks with higher ESG ratings benefit from a positive impact on their cost of funding; and

- “*Panel event study model*”: this section shows that investors react strongly to changes in ESG rating, proving that the spread to maturity increases after ESG rating downgrades and decreases after ESG rating upgrades. Notably, the effects of downgrades and upgrades are not symmetrical: in the medium term, the impact of the latter is more significant.

Therefore, according to the investigation, bank managers should be aware of the impact of their ESG risks on the cost of funding. Integrating ESG factors into the business model can help attract less expensive funding from fixed income markets. Finally, the paper encourages banks to implement new ESG disclosures and enhance ESG-related risk management processes to effectively manage climate change risks and finance the transition to a sustainable economy.

## **24 October 2024 [EU] – UNEP FI publishes new Principles for Responsible Banking member guidance**

The United National Environment Programme – Finance Initiative (UNEP FI) published new Principles for Responsible Banking Guidance, entitled “Sector Action Guidance for Nature: Getting Started in the Agricultural, Forestry and Mining Sectors” [available [here](#)].

This Guidance aims to translate the recommendations from the PRB Nature Target Setting Guidance [published in November 2023, and available [here](#)] into practical, sector-specific actions. Focusing on the extraction and production stages across high-impact sectors such as mining, agriculture and forestry, the Guidance establishes priority actions banks can take to reduce risk exposure, deepen client relationships and accelerate a nature-positive future in relation to six key commodities – bauxite, copper, cattle, wood, soy and palm oil.

## **Asset Management**

### **14 October 2024 [EU] – ESMA publishes an updated version of its implementation timeline on sustainable finance**

ESMA published the first updated version of its implementation timeline on sustainable finance since August 2023 [timeline available [here](#)]. The timeline now runs from 21 November 2024 – starting from which all newly created funds must comply with the Guidelines on funds’ names – to 2029, i.e., when listed SMEs and small and non-complex financial institutions will be mandated to report under ESRS (along with certain third country undertakings).

The timeline covers developments relating to SFDR, the Taxonomy Regulation and the CSRD, as well as the European Green Bonds Regulation. Key dates under the updated timeline include the beginning of KPIs disclosures under the Taxonomy Regulation, i.e., 1 January 2025 for non-financial undertakings, and 1 January 2026 for financial undertakings.

## **24 October 2024 [EU] – ESMA publishes its enforcement priorities for 2024 corporate reporting**

ESMA published its annual Public Statement setting out the European common enforcement priorities (ECEP) for the 2024 annual financial reports of issuers listed on EEA regulated markets [available [here](#)]. The topics at hand are divided between:

- Priorities related to IFRS financial statements: those include (i) liquidity considerations, relating specifically to supplier finance arrangements, covenants and statement of cash flows, and (ii) accounting policies, judgments and significant estimates, which ESMA considers should be both entity-specific and consistent with other information within the financial statements.
- Priorities related to sustainability statements: those include (i) materiality considerations in reporting under ESRS, (ii) the scope and structure of the sustainability statement and (iii) disclosures relating to Article 8 of the Taxonomy Regulation, for which ESMA makes several reminders regarding format and substance.
- Priority related to European Single Electronic Format (ESEF) reporting: there is only one priority here, aimed at targeting certain areas of common ESEF filing errors found in the statement of financial position.

Finally, section 4 offers general guidance on topics, including connectivity between financial and sustainability statements, that remain important for issuers. While they are not enforcement priorities for 2024, issuers should address these areas as they reflect prior recommendations, sector-specific relevance, and forthcoming reporting requirements.

## **Litigation**

### **15 October 2024 [Germany] – First climate protection contracts signed with the German Federal Ministry for Economic Affairs and Climate Action**

The first commitments between the Ministry of Economic Affairs and interested companies were made following a newly introduced auction procedure. The contracts are intended to support industrial companies in switching to low-emission technologies. They run for 15 years and have a maximum value of about EUR 2.8 billion. Various companies from energy-intensive sectors have applied, from medium-sized companies to large corporations. [See further [here](#) (German only).]

### **23 October 2024 [Germany] – Further constitutional complaint against the German state announced by environmental NGO**

BUND (Friends of the Earth Germany) has announced that it will file a constitutional complaint seeking to oblige the federal government to implement a comprehensive legal biodiversity concept. According to the NGO, this is to be the '*world's first lawsuit for better nature conservation legislation*' before a supreme court. Legal basis will presumably be Art. 2 (1) sentence 1 of the German Basic Law. It is argued that

exceeding the limits of the planet endangers the physical foundations of human freedom and, in particular, threatens the rights to life and health. [See further [here](#) (German only).]



**Amélie Champsaur**  
Partner, Paris  
[achampsaur@cgsh.com](mailto:achampsaur@cgsh.com)



**Camille Kernevès**  
Associate, Paris  
[ckerneves@cgsh.com](mailto:ckerneves@cgsh.com)



**Eléonore Azais**  
Associate, Paris  
[eazais@cgsh.com](mailto:eazais@cgsh.com)



**Alberta Giannotti**  
Associate, Rome  
[agiannotti@cgsh.com](mailto:agiannotti@cgsh.com)



**Sebastian Kummeler**  
Associate, Frankfurt  
[skummeler@cgsh.com](mailto:skummeler@cgsh.com)



**Marco Gustavo Minati**  
Associate, Frankfurt  
[mminati@cgsh.com](mailto:mminati@cgsh.com)



**Marc Christopher Baldauf**  
Associate, Cologne  
[mbaldauf@cgsh.com](mailto:mbaldauf@cgsh.com)



**Andreas Wildner**  
Associate, London  
[awildner@cgsh.com](mailto:awildner@cgsh.com)



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