

## **ECB fines Crédit Agricole over climate risk failures: What happened, why it matters, and what comes next?**

### **In brief**

- Last week, the European Central Bank (ECB) [fined Crédit Agricole €7.55 million](#) for failing to complete a mandatory climate risk materiality assessment, signalling a decisive shift from guidance to enforcement.
- The decision reflects increasing recognition, not just in Europe, that systemic risk governance as a prudential matter – i.e., interconnected impacts of climate change and other environmental risks (e.g., [biodiversity loss](#)) threaten asset valuations, business viability, and economic stability.
- Claims that such risks aren't financially material are likely a symptom of chronic undervaluation, research suggests.
- Institutions should take steps to ensure clear documentation of materiality methodologies, integration of climate risks into internal capital adequacy assessment processes (ICAAP), risk appetite and internal controls, and timely compliance with supervisory remediation plans.

### **Why has the ECB fined Crédit Agricole?**

The ECB has issued a €7.55 million periodic penalty against Crédit Agricole for failing to meet a supervisory deadline to assess the materiality of its climate related and environmental risks.

According to the ECB, the French bank missed the required deadline by 75 days in 2024, having been instructed to identify and evaluate all material climate and environmental exposures by 31 May 2024, and to provide for the accrual of periodic penalty payments in the event of a failure to comply with this requirement.

This enforcement action is part of a multi-year supervisory escalation process dating back to the ECB's 2020 climate risk management expectations, which explained how banks are expected to prudently manage and transparently disclose such risks.

Followed by a climate stress test in 2022, which found significant gaps in banks' capabilities, all significant institutions received feedback letters with bank-specific staggered timelines for adequately managing their climate-related and environmental risks. Institutions that failed to meet subsequent deadlines were made subject to binding requirements and potential penalties, with Crédit Agricole now becoming the second Eurozone bank (after Spain's ABANCA) to face a climate risk related fine.

### **Is there broader significance to the fine?**

At its core, this case is about whether banks are identifying and integrating climate and environmental risks sufficiently into risk management, with robust evidence to support their conclusions. After years of issuing guidance and soft expectations, the ECB is now applying financial penalties where actions fall short.

While the fine won't hurt Crédit Agricole's balance sheet, it nonetheless signals a decisive shift (at least in Europe). Climate risk supervision is moving from guidance to enforcement, with climate and environmental risk governance being treated as a prudential matter, on a par with traditional credit, market, and operational risks. Supervisory focus includes Board oversight, risk identification methodologies, integration into credit and capital frameworks, and documented evidence of implementation.

### **Why might Crédit Agricole's response reveal cause for concern?**

A spokesperson for Crédit Agricole has described the "purely administrative penalty" as incomprehensible, arguing that the fine relates only to the bank's response time to an unusually granular request. More concerning, however, is the further assertion that climate risks are "immaterial at the group level", raising broader questions about whether banks are underestimating their own climate risk vulnerability.

Firstly, such a claim sits uncomfortably with analysis by Green Central Bank, which not only reports that 90% of Eurozone banks consider themselves materially exposed to climate and environmental risks, but also that Crédit Agricole provided US\$55.8 billion to fossil fuel companies between 2021 and 2024 (a non-trivial transition risk exposure).

Secondly, research such as the recent [Recalibrating Climate Risk report](#) is increasingly exposing why models used by governments, banks and investors chronically underestimate the compound and cascading effects of climate change and other environmental risks.

In essence, therefore, if a major bank concludes that climate risk is immaterial, this could well be less a reflection of actual risk and more an indication of insufficient modelling depth, poor data infrastructure, or organisational blind spots.

### **How might events in Europe influence practice in the UK?**

Similar to the course of events in Europe, developments in the UK have emphasised that climate change is a financial risk that must be embedded in mainstream governance, risk management and strategic decision-making – not treated as a standalone compliance exercise:

- April 2019: the Prudential Regulation Authority (PRA) set supervisory expectations for PRA-regulated banks' management of climate-related financial risks. This strategic approach, set out in Supervisory Statement 3/19 (SS3/19), included expectations on governance, risk management, scenario analysis and disclosure.
- 2020: the PRA followed up with a "Dear CEO letter" to firms, acknowledging that climate change represents a material financial risk to regulated firms and the financial system. The letter set out more detailed guidance on how firms should embed their approaches to managing climate-related financial risks by the end of 2021, providing observations on good practice and setting out next steps for implementation.
- March 2023: the Bank of England published a report, setting out the Bank's latest thinking on the extent to which climate-related risks might be captured by the regulatory capital frameworks, and highlighting the complexities around calibrating capital to mitigate climate risks.

- April 2025: the PRA published Consultation Paper CP10/25 to consult on proposals to enhance banks' management of climate-related risks.
- December 2025: the PRA subsequently published Policy Statement 25/25 (PS25/25) and the final Supervisory Statement 5/25 (SS5/25). Replacing SS3/19 in its entirety with immediate effect, the final policy reiterated that climate risk is a financial risk, which should sit within existing governance and risk management frameworks, not as a separate or specialist topic.

Following publication of the final policy, firms are expected to conduct an internal review of their current status in relation to meeting its expectations, and to develop plans for addressing any gaps. Firms should have their Board-approved gap assessments and remediation plans in place by approximately June 2026, and can expect assertive supervision and potentially enforcement action if their climate risk management is materially deficient.

### **What does it all mean in practice?**

For financial institutions (and lawyers advising them), the ECB decision and current UK regulatory approach underscore that climate and environmental risk governance should be treated as a prudential matter, not merely a sustainability disclosure issue. Institutions should ensure:

- Formal allocation of Board-level responsibility;
- Clear documentation of materiality methodologies;
- Integration of climate risks into ICAAP, risk appetite and internal controls; and
- Timely compliance with supervisory remediation plans.

Companies should also be mindful of tightening prudential expectations. As banks are increasingly required to quantify physical and transition risks at portfolio level, they will demand more robust, decision-useful data from their clients. Thus, irrespective of political headwinds causing delay and dilution of sustainability due diligence and disclosure obligations in some regions, businesses cannot afford to deprioritise these activities.

### **How can Mishcon de Reya help?**

[Mishcon Purpose](#) – our interdisciplinary ESG and sustainability practice – combines expert lawyers and sustainability professionals. By balancing compliance with strategic foresight, we not only help clients to mitigate risk, but also to identify and seize opportunities to lead and benefit from sustainable transition. To discuss your biggest sustainability challenges and ways we can help, [get in touch](#).

Our [Financial Services team](#) advises banks, asset managers and other regulated firms on the full spectrum of conduct regulatory matters, including supervisory engagement, enforcement defence, and regulatory change management. To find out more, [get in touch](#).