



Sustainability Regulations – Are We There Yet?

If you are a parent, you will be only too familiar with the childish refrain, ‘are we there yet?’ – often repeated on any journey, regardless of length. The same may be heard as regards sustainability regulation, which has been at the forefront of regulators’ agendas for the last six years or so.

This article looks to answer that question, ‘Are we there yet?’

Well, the answer to that specific question is still ‘no’, and to be able to expand on why, we need to root our journey back in 2024 and project forwards to 2025 and beyond.

A brief recap – 2024

Not deviating from recent years, 2024 was a busy year for environmental, social and governance (ESG) and sustainability regulations, voluntary reporting standards, and stakeholder policies.

In addition to numerous significant pending regulations, 2025 and beyond will see in scope companies preparing for initial disclosures under existing regulations, such as (where applicable) the California climate statutes and the European Union’s Corporate Sustainability Reporting Directive (CSRD).

So, looking ahead, what should firms keep an eye on for 2025/2026?

ESG rating regulations

European Union

On 7 November 2022, the International Organization of Securities Commissions (IOSCO) called upon all voluntary standard setting bodies and industry associations operating in financial markets to promote good practices among their members to counter the risk of greenwashing related to asset managers and [ESG rating and data providers](#).

Further to the IOSCO report, on 27 November 2024, the European Union (EU) adopted a [new regulation](#) on the transparency and integrity of ESG rating activities (new ESG rating activities regulation).

The new rules aim to strengthen the reliability and comparability of ESG ratings by improving the transparency and integrity of the operations that ESG ratings providers carry out and by preventing potential conflicts of interest.

ESG rating providers established in the EU will need to be authorised and supervised by the European Securities and Markets Authority (ESMA), and they will have to comply with transparency requirements. Particularly with regards to their methodology and sources of information.

ESG rating providers established outside the EU that wish to operate in the EU, will need to obtain an endorsement of their ESG ratings by an EU authorised ESG rating provider, a recognition based on a quantitative criterion or be included in the EU registry of ESG rating providers, based on an equivalence decision.

A subject of debate

The regulation applies to ESG rating providers which operate in the EU and, more specifically:

- ESG rating providers established in the EU:
 - When they issue and publish their ESG ratings on their website or through other means; or
 - When they issue and distribute their ESG ratings by subscription or other contractual relationships to regulated financial undertakings in the Union, to undertakings that fall within the scope of the [Accounting Directive 2013/34/EU](#), to undertakings that fall within the scope of the [Transparency Directive 2004/109/EC](#), or to Union institutions, bodies, offices and agencies or Member State public authorities.
- ESG rating providers established outside the EU:
 - When they issue and publish their ESG ratings on their website or through other means; and
 - When they issue and distribute their ESG ratings by subscription or other contractual relationships to regulated financial undertakings in the EU, to undertakings that fall within the scope of the Accounting Directive, to undertakings that fall within the scope of the Transparency Directive, or to EU institutions, bodies, offices and agencies or Member State public authorities.

The regulation leaves certain undertakings and activities out of the Regulation's scope, including, but not limited to:

- ESG ratings issued by regulated financial undertakings in the EU and incorporated into products or services already regulated under EU law (e.g. [SFDR](#), [UCITS](#), [AIFMD](#)) and disclosed to third parties.
- Private ESG ratings not intended for public disclosure or distribution.
- ESG ratings issued by regulated financial undertakings in the EU for internal purposes or in-house/intragroup financial services or products.
- Mandatory disclosures pursuant to Articles 6, 8, 9, 10, 11 and 13 of the SFDR.
- Disclosures pursuant to Articles 5, 6 and 8 of the [EU Taxonomy Regulation](#).
- Article 2(2)(e) exclusion related to ESG data. Given the [IOSCO recommendations](#) related to regulation of both ESG data and ratings – there was industry debate as to whether regulation of ESG data is needed due to ongoing adoption of [CSRD](#) and International Sustainability Standards Board (ISSB) ([Standards](#)) for example.

Whilst some voluntary codes of conduct today catch both ratings and data providers/products (like the [UK Voluntary CoC](#)), the EU took the position of excluding ESG data reviewing that position by mid-2029 (Art 52(2)(c)).

But that's not the end of the story for asset managers because...

Specific terms provided for in the ESG Rating Regulation

- An ESG rating: “an opinion or a score, or a combination of both, regarding a rated item's profile or characteristics with regard to environmental, social and human rights, or governance factors, or regarding a rated item's exposure to risks or impact on environmental, social and human rights, or governance factors, that is based on both an established methodology and a defined ranking system of rating categories, irrespective of whether such ESG rating is labelled as ‘ESG rating’, ‘ESG opinion’ or ‘ESG score’”.
- An ESG rating provider: “a legal person whose activities include the issuance, and the publication or distribution, of ESG ratings on a professional basis”.
- A regulated financial undertaking in the Union, which includes, among others: AIFMs, UCITS management companies, credit institutions, insurance, and reinsurance undertakings.

“So, despite appearing at first glance to fall outside the scope of the obligations applicable to ESG rating providers, where a regulated financial undertaking in the EU discloses an ESG rating that fits the above description to third parties as part of its marketing communications, it will still have to comply with some disclosure obligations and include specific information on its website.”

Amanda Hale, Head of Regulatory Services, Global Trustee & Fiduciary, Citi.

For full details refer to point 1 of Annex III in the new ESG rating activities regulation.

The marketing communications in question, whether a website page, article, presentation slide deck or other, will also need to include a link to those website disclosures.

To avoid any duplication of disclosures, those issuers which publish the required information pursuant to this new Article 13(3) of the SFDR are not required to do the exercise again for the purpose of the same obligation under the new ESG rating activities regulation.

The new ESG rating activities regulation was published in the EU Official Journal on 12 December 2024, entering into force 20 days following that. It will apply from 2 July 2026.

By 2 October 2025, ESMA is required to submit draft Regulatory Technical Standards (RTS) to the European Commission for review, which are expected to provide clearer indications on how the information prescribed by point 1 of Annex III will need to be disclosed.

UK

In line with the EU's ESG rating activities regulation, and [IOSCO's recommendations](#), new UK rules are expected to increase transparency and the coherence of ratings.

On 14 November 2024, the UK government published [draft legislation to regulate ESG ratings providers](#), (draft SI) which requires rating providers to obtain authorisation from the UK Financial Conduct Authority (FCA) and comply with a new regulatory regime.

The new UK regime is intended to capture:

1. Both general ESG ratings products such as aggregate ESG ratings on corporate entities and funds and specific ones such as biodiversity or controversy scores.
2. A rating that is likely to be used to influence portfolio construction and asset allocation (but not in circumstances where the ESG rating provider could not reasonably have expected the rating to influence a decision to make a specified investment).
3. A pre-initial public offering rating – since these ratings can be reasonably expected to be likely to influence an investors decision to make a specified investment.

The draft SI currently includes certain exclusions including:

- **Intra-Group exclusion:** There is an exclusion for ESG ratings produced for the sole use of the firm and/or other entities within the same group. But this exclusion only applies if the ESG ratings provider reasonably expects that the rating will not be made available to a third party outside the group. This will require controls around the use and distribution of such ratings.
- **Bespoke/private ratings exclusion:** This exclusion applies if an entity solicits an ESG rating of itself from an external ESG ratings provider and that rating is provided only to the soliciting party and/or a member of its group. As is the case for the intra-group exclusion, this exclusion will only apply if the ESG rating provider reasonably expects that the rating will not be made available to a third party outside the group of the soliciting firm.

- **Ancillary non-commercial provision exclusion:** This exclusion is intended to apply to ESG ratings produced as an integral part of journalistic, academic, or UK-registered charitable activity. However, the exclusion will not apply if the rating is provided on a business relationship basis separate to the person's activities as a journalist, an academic, or a charity.
- **Public authorities' exclusion:** This exclusion applies to public authorities, central banks, and international organisations.
- **The regulated products and services exclusion:** This exclusion is intended to exclude firms from the requirement to be authorised to provide ESG ratings where they create an ESG rating as part of the development and delivery of another regulated activity for which they are authorised provided that the ESG ratings are not provided as a standalone product or service. This exclusion is intended to apply to any product or service that is regulated by the FCA (e.g., funds, benchmarks, and credit ratings). However, it is important to note that even if a firm is not required to apply for a new permission, they may still need to comply with new FCA conduct of business rules relating to the provision of ESG ratings.

Further exclusions may be included prior to the draft SI being finalised including for ESG ratings that are provided as part of proxy advisory services, as opposed to a standalone product or service.

The UK government accepted technical comments on the draft SI until 14 January 2025. These comments will be considered in the final draft SI to be laid before both houses of parliament.

Once the legislation is finalised the FCA will publish its draft rules for consultation. Firms who incorporate ESG ratings into their products or services are encouraged to review and engage with the consultation which the FCA expects to publish during 2025.



European Green Bonds Regulation

On 14 February 2025, ESMA published its [final report](#) on technical standards on the European Green Bonds Regulation. ESMA has now submitted the draft regulatory and technical implementing standards to the European Commission for adoption, which will be subject to non-objection by the European Parliament and Council.

Sustainability reporting – continuing global adoption

Sustainability reporting remains a focus for 2025/2026, with key headlines including:

Mandatory sustainability disclosures

These are becoming the global norm with broad convergence around two major frameworks – the ISSB’s standards (IFRS S1 and S2) and the EU’s CSRD and accompanying European Sustainability Reporting Standards ([ESRS](#)).

A [publication from the International Financial Reporting Standards \(IFRS\) Foundation](#) on 12 November 2024 reported that 30 jurisdictions representing more than 40% of global market capitalisation have already decided to use or are taking steps to introduce ISSB standards into their regulatory frameworks, with many countries seeking full alignment.

The City of London’s International Regulatory Strategy Group published a [Roadmap for the Adoption of ISSB Standards](#) on 13 March 2025.

The report sets out several key recommendations for the effective adoption of ISSB Standards by jurisdictions worldwide, aiming to prevent major jurisdictional divergence and ensure a coherent global implementation strategy to support the successful adoption of ISSB Standards. The recommendations include the need for clear alignment of local standards with ISSB requirements to minimise fragmentation, the implementation of a clear regulatory timetable and the introduction of appropriate liability protections to encourage transparent and decision-useful disclosures.

The international ESG reporting landscape is currently a patchwork of upcoming mandatory and voluntary disclosures, with jurisdictions taking different approaches to the phase-in (often grace periods for Scope 3 emissions disclosures) and scope of obligations.

On 13 November 2024, the European Commission (EC) adopted a [set of FAQs](#) to further support companies with the implementation of the CSRD. Other publications include ESMA [Final Report on the Guidelines on Enforcement of Sustainability Information](#) and [public statement on the first application of the ESRS](#), which highlight key areas of focus for companies when preparing sustainability reports – in particular, the need for robust governance arrangements and internal controls.

The European Financial Reporting Advisory Group (EFRAG) also published non-binding implementation guidance on [materiality assessments](#), [value chains](#) and [data points](#), as well as [ISSB interoperability guidance](#) and early drafts of its [climate transition plan guidance](#). Rolling updates to EFRAG’s Q&As on the ESRS continue to be published, including a [mapping of sustainability matters against ESRS disclosures](#). On 10 September 2024, [EFRAG endorsed the United Nations’ Sustainable Development Performance Indicators](#) as a robust tool for measuring ESG factors in accordance with the CSRD.

Internationally, other key developments include:

Australia: [Australia’s Treasury Laws Amendment \(Financial Market Infrastructure and Other Measures\) Act 2024](#) which introduced climate-related disclosures aligned with the ISSB for certain large companies. Effective from 18 September 2024, the requirements started to apply to the largest companies from 1 January 2025, with the first sustainability reports due in 2026.

Mexico: New [Mexican sustainability standards](#), which apply to certain private companies, including subsidiaries of foreign multinationals, from financial years starting on or after 1 January 2025.

Canada: The Canadian Sustainability Standards Board published the [Canadian Sustainability Disclosure Standards](#) (CSDS) on 18 December 2024. While largely aligned with the ISSB standards, the CSDS extend certain transition reliefs giving companies extra time to prepare disclosures, such as those on Scope 3 GHG emissions.

China: On 17 December 2024, China also released a trial version of the “[Sustainability Disclosure Standards for Enterprises – Basic Standards](#),” with accompanying Q&As suggesting that these standards will be finalised by 2027, and that China intends to expand sustainability reporting from listed companies to private companies.

Singapore: Additionally, companies in Singapore are still waiting on anticipated amendments that will introduce sustainability reporting for private companies, with drafts now expected in Q1 2025.

Annual [climate-related disclosures](#) will first have to include Scope 1 and 2 GHG emissions. Listed issuers will have to disclose their Scope 3 GHG emissions from FY2026 and conduct external limited assurance on Scope 1 and 2 GHG emissions from FY2027, while large private companies have until FY2029 to meet both requirements.

United Kingdom: The UK government has [reiterated its ambition to adopt UK Sustainability Reporting Standards](#) (UK SRS) based closely on the ISSB standards. The UK government aims to consult on the exposure drafts in Q1 2025. To date, only minor amendments to the ISSB standards have been proposed by the UK’s Technical Advisory Committee in its [recommendations to the UK government](#). Once endorsed and subject to consultation, the FCA is expected to introduce requirements for UK-listed companies to report sustainability-related information to their investors. The UK government also is considering mandatory sustainability reporting for “economically significant companies.” Depending on the outcomes of these processes, the UK SRS could be effective for accounting periods beginning on or after 1 January 2026. The FCA also recently completed a [consultation on proposals for new prospectus rules](#) that govern public offers and admissions to trading. As proposed, the new rules would require, where necessary, additional disclosures on climate-related risks and opportunities. The FCA plans to finalise the new rules by mid-2025, after which the rules will come into force following a transition period.

Switzerland: Recent proposals appear more ambitious. On 6 December 2024, the Swiss government launched a [consultation on amendments to the Climate Disclosure Ordinance](#) (open until 21 March 2025). Under the proposal, certain companies would be required to disclose 2050-aligned, net-zero transition plans. The proposal also permits companies to satisfy their climate-reporting obligations where they are already reporting in compliance with an internationally recognized standard, such as the ISSB standards or the ESRS.

Japan: By way of implementing the ISSB Standards, the Sustainability Standards Board of Japan [announced](#) on 5 March 2025 the issuance of its inaugural sustainability disclosure standards, comprising the following three Sustainability Disclosure Standards, which were approved for issuance at the 49th Board Meeting on February 19, 2025:

1. Universal Sustainability Disclosure Standard - Application of the Sustainability Disclosure Standards;
2. Theme-based Sustainability Disclosure Standard No. 1 General Disclosures; and
3. Theme-based Sustainability Disclosure Standard No. 2 Climate-related Disclosures.

Increasing investor expectations that companies' financial and non-financial reporting reflect climate risks

Meeting a growing global demand for more detailed and globally comparable climate reporting, the IFRS published implementation guidance for companies: [Voluntarily applying ISSB Standards – A guide for preparers](#) (published on 25 September 2024) and [a guide to help companies identify material sustainability-related risks and opportunities](#) (published on 19 November 2024). Further responsive to investor concerns about insufficient or inconsistent climate data in company financial statements, on 31 July 2024, the International Accounting Standards Board, in collaboration with ISSB, [published draft illustrations of how companies should report](#) on the effects of climate-related and other uncertainties in their financial statements.

SFDR: review and enforcement anticipated in 2025

According to [ESMA's 2025 Annual Work Programme](#), in 2025, it will be focusing on the implementation of the EU's sustainable finance frameworks, combating greenwashing, and promoting transparency in sustainable investments.

In addition, the [European Supervisory Authorities' opinion](#) published in June 2024, and [ESMA's opinion](#) published in July 2024, recommended the European Commission amend the current Sustainable Finance Disclosure Regulation (SFDR) to reduce greenwashing risks.

Proposed changes included a requirement that all financial products disclose some minimum basic sustainability information, and that the EU taxonomy should become the sole reference point for the assessment of sustainability – meaning managers may be required to apply a more science-based, as opposed to principle-based, measurement for an investment to qualify as sustainable.

In the meantime, the [updated FAQs published in July 2024](#) on the practical application of the SFDR, [guidelines on ESG funds' names](#) and [related Q&As](#) published 13 December 2024, and [FAQs on the application of the EU taxonomy](#) published 29 November 2024, should provide some clarity to investors and companies in scope.

Whilst on 17 December 2024, the Platform on Sustainable Finance (the Platform) – an advisory body to the EC – published a [briefing note for the EC](#) outlining its proposal for a new categorisation system for sustainable finance products under the SFDR.

ESMA Guidelines on investment funds using ESG or sustainability-related terms in their names

ESMA published its final report containing guidelines for investment funds using ESG or sustainability-related terms in their names (the [Guidelines](#)) on 14 May 2024.

The purpose of the Guidelines is to ensure that investors are protected against unsubstantiated or exaggerated sustainability claims in fund names, and to provide asset managers with clear and measurable criteria to assess their ability to use ESG or sustainability-related terms in fund names.

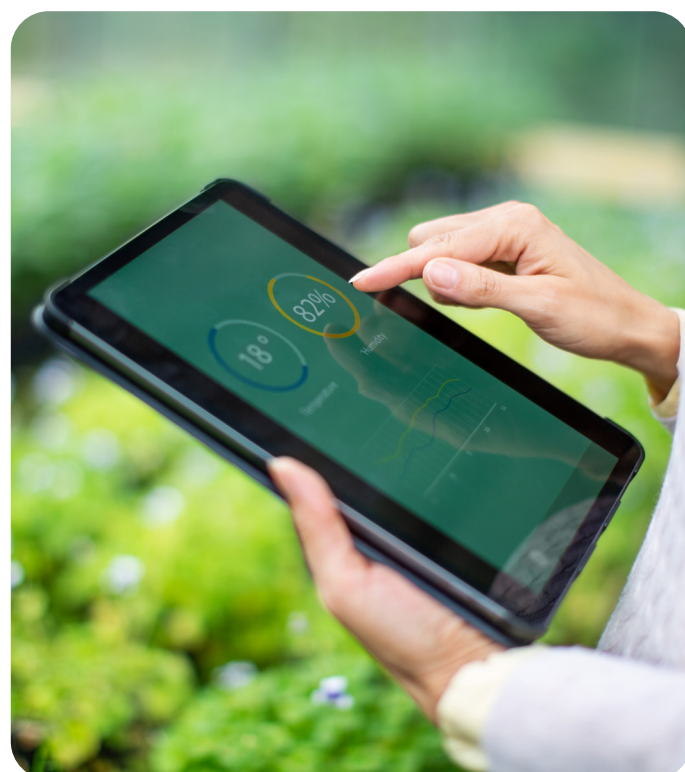
The Guidelines started applying on 21 November 2024, and new funds created on or after that date are expected to apply these Guidelines from launch. For funds existing before the Application Date, there is an additional six-month transition period, ending on 21 May 2025.

UK SDR

On 1 November 2024 the FCA updated its sustainability disclosure and labelling regime [webpage](#) to include a set of pre-contractual [disclosure examples](#) relating to the Sustainability Disclosure Requirements (SDR) and investment labels regime.

The SDR and investment labels regime entered into force on 2 December 2024 and firms have been able to use investment labels since 31 July 2024.

The FCA's latest publication includes illustrative examples and approaches across a selection of labels to showcase how applicants can meet the disclosure requirements to qualify for a label. The examples are non-exhaustive but are intended to aid applicants as they prepare their documentation.





Then on 14 January 2025 the Investment Association (IA) shared the final [response](#) to the FCA on corrections and clarificatory amendments to the SDR as part of the [December Quarterly Consultation Paper \(QCP\) CP 24/26](#).

The response focuses on Chapter 2, which addresses corrections and clarificatory amendments to the SDR. In terms of further details to be shared, the FCA is still to decide whether to apply the SDR requirements to overseas funds and portfolio managers. In a recent development, the UK FCA announced a further [delay](#) to its publication of final rules on applying SDR to portfolio management, and have not specified any specific date for their publication.

In terms of fund management industry developments, the IA has published two recent updates explaining that it will start to [flag funds](#) adopting SDR labels in the IA Sectors from 2 April 2025 and also published results of a [survey](#) on investor and adviser awareness, understanding and expectations of SDR.

Also worth noting is the publication on 26 February 2025 of the FCA's [portfolio letter](#) in which it outlines that it will engage with firms to understand how they are implementing the labelling, naming and marketing rules.

The FCA continues to issue periodic updates on its SDR rules, the latest being on 11 March 2025, where it released a [statement](#) regarding its position on sustainability regulations and UK defence. The statement emphasises that the FCA's sustainability finance rules do not require financial institutions to treat defence companies differently because they are in the defence sector.

The FCA has also stated that its rules are separate to financial institutions' own policies relating to the type of businesses they wish to support and the associated risk.

Taxonomies

On 14 November 2024, the International Platform on Sustainable Finance [published a Multi-Jurisdiction Common Ground Taxonomy](#), setting out a comparison of sustainable taxonomies in the EU, China and Singapore to further interoperability efforts among domestic green taxonomies and enabling market participants to assess what could be considered "green" in each of the three jurisdictions.

Many major economies have introduced green taxonomies in recent years, including the EU, Japan, Russia, Singapore, China, and Canada.

Also on 14 November 2024, the [UK launched a consultation](#) on the development of its own green taxonomy (closing in February 2025), noting interoperability as a particularly important factor for any future requirements.

The UK Government has made a binding commitment to achieve net zero emissions by 2050. For the UK to reach this climate change goal, it is estimated that the UK will need to invest an additional £50 billion into the energy transition every year into the 2030s.

According to the [updated UK's Green Finance Strategy](#), the "global transition to a resilient, nature-positive, net zero economy will see trillions of pounds reallocated and invested into new technologies, services and infrastructure." The Strategy highlights that there are huge opportunities for the UK's financial and professional services industry in this transition. "From venture capital supporting climate and nature tech solutions, to banks funding major renewables projects," HM Treasury wants the UK financial services sector to drive every step of the global transition.

The aim of the UK Green Taxonomy is to help facilitate this mobilisation of private capital by contributing to the channelling of capital towards sustainable investments while also promoting market integrity and preventing greenwashing.

The UK Government was requesting feedback from market participants on the value of a UK Taxonomy in channelling capital flows and preventing greenwashing, as well as procedural aspects of a green taxonomy, namely the appropriate use cases for a UK Green Taxonomy, and the design and implementation of a UK Green Taxonomy. Asset management industry [feedback](#) suggests, amongst other things, that whilst investment managers can articulate a potential use case for the taxonomy, that industry as a whole does not regard it as likely to be distinctly valuable in achieving the current Government's aims. Sell side [industry groups](#) responded similarly that a UK Taxonomy would not add sufficient value in achieving the Government's objectives, although a minority dissented.

However, it is worth noting that other industry views may vary in this regard.

The EU Taxonomy has been established for some time now, but in February 2025, the Platform on Sustainable Finance published a [report](#) setting out its recommendations to simplify reporting. These consisted of four core proposals: 1) more than one-third reduction in corporate reporting burden; 2) a simplified green asset ratio that encourages green and transition lending; 3) a practical approach to ‘do no significant harm’ criteria; and 4) helping SMEs access sustainable finance.

In late 2024, Brazil published a [draft](#) of the country’s proposed sustainable taxonomy framework (the Taxonomy), which the country aims to make mandatory in some instances by 2026. Similar frameworks have been published by other jurisdictions, including Colombia, the EU, and Mexico. The aim of these frameworks is to establish clear guidelines on what is considered “sustainable,” simultaneously combating greenwashing and supporting sustainable capital formation.

Is simplification the order of the day for the EU in 2025?

The proposed “omnibus” package (CSRD, CSDDD and EU Taxonomy)

The EU’s focus for 2025 has been established by the drive from Ursula von der Leyen, President of the European Commission, to simplify and reduce the burden of the EU’s Sustainability Reporting and Due Diligence rules. President von der Leyen highlighted in advance that the EU Taxonomy, the CSRD, and Corporate Sustainability Due Diligence Directive (CSDDD) would all be simplified by the Commission’s Omnibus Initiative, but the overall objectives would not be compromised, as the EU is seeking to strike a balance between maintaining high ESG and sustainability standards and ensuring economic competitiveness.

Any shift toward simplification is partly driven by concerns over the economic impact of stringent regulations on businesses, particularly small- and medium-sized enterprises, and reflects the [Draghi report on the future of European competitiveness](#). EFAMA has also [said](#) that any omnibus package must include SFDR, which regulates how financial market participants, such as asset managers, and financial advisers must communicate sustainability information to investors. It should be noted however, that the subsequent publication of the Omnibus package have not included any proposed changes to the SFDR at this stage.

EFAMA is also [reported](#) as seeking confirmation that asset management companies are not required to include clients’ assets as part of their own CSRD reporting.

Details of the [omnibus package](#) were provided on 26 February 2025 when the EC adopted the first two omnibus proposals intended to simplify EU rules and boost competitiveness and unlock additional investment capacity.

In particular, the first omnibus package includes:

- A [proposal](#) for a Directive amending the CSRD and the CSDDD;
- A [proposal](#) for a Directive which postpones the application of all reporting requirements in the CSRD for companies that are due to report in 2026 and 2027 (wave 2 and 3 companies) and which postpones the transposition deadline and the first wave of application of the CSDDD by one year to 2028;

- A draft [Delegated Act](#) amending the Taxonomy Disclosures and the Taxonomy Climate and Environmental Delegated Acts subject to public consultation;
- A proposal for a Regulation amending the Carbon Border Adjustment Mechanism (CBAM) Regulation; and
- A proposal for a Regulation amending the InvestEU Regulation.

Next Steps

The legislative proposals will now be submitted to the European Parliament and the Council for their consideration and adoption.

The changes on the CSRD, CSDDD, and CBAM will enter into force once the co-legislators have reached an agreement on the proposals and after publication in the EU Official Journal (after which time, the changes will require transposition into Member State law).

The Commission has called on the Parliament and Council to treat this package with priority, in particular the proposed directive postponing certain disclosure requirements under the CSRD and the transposition deadline under CSDDD, ‘stop-the-clock’, as it is intended to address key concerns identified by stakeholders.

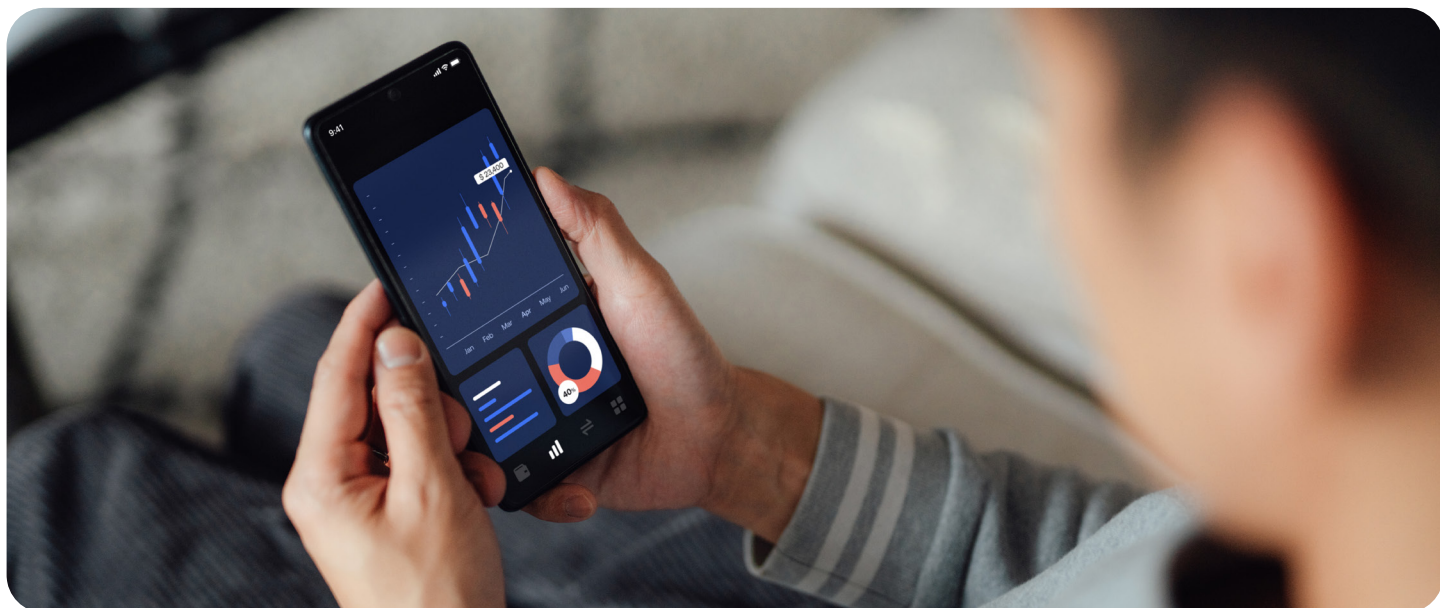
“Current information is that the European Parliament has responded positively, scheduling a Plenary vote to enter into the urgent procedure for the stop-the-clock proposal on April 1, during the next Plenary session in Strasbourg. This vote is not on the proposal itself but on whether to undertake it with an Urgent Procedure, which would mean that the proposal would get priority over other items.”

Ilan Jacobs, Managing Director,
Government Affairs, Citibank.

The draft Delegated Act amending the current Delegated Acts under the Taxonomy Regulation will be adopted after public feedback, which was due by 26 March 2025. It will apply at the end of the scrutiny period by the European Parliament and the Council.

Reporting

ESMA has announced that it will be supporting the European Commission’s objective to simplify and reduce the reporting burden in the financial sector. ESMA will look across its entire remit, focusing on various areas, including digitalising sustainability and financial disclosures.



ESG risks

Capital Requirements Regulation and Capital Requirements Directive

The European Banking Authority (EBA) guidelines published on 9 January 2025 set out requirements for institutions regarding the identification, measurement, management, and monitoring of ESG risks.

The Guidelines have been developed in line with the EBA's [roadmap on sustainable finance](#) and as part of the EBA's actions outlined in the [roadmap on the implementation of the EU banking package](#).

The ESG guidelines are based on Article 87a (5) of the Capital Requirements Directive ([CRD VI](#)), and at a high-level cover:

- Minimum standards and reference methodologies for the identification, measurement, management, and monitoring of ESG risks.
- Requirements regarding the internal processes and ESG risk management arrangements that institutions should have in place.
- The content of the short to medium, and long-term plans that institutions must prepare to monitor and address the financial risks stemming from ESG factors, including those arising from the adjustment process towards the EU's objective of achieving climate neutrality by 2050.

The guidelines will generally apply from 11 January 2026, with small and non-complex institutions receiving a further transition period running until 11 January 2027 at the latest.

The EBA also released [additional draft guidelines for consultation](#) on ESG scenario analyses on 16 January 2025.

Further on 16 January 2025 the Financial Stability Board (FSB) published [details](#) relating to its development of an analytical framework and toolkit to assess climate-related vulnerabilities with the aim of helping:

- The FSB and its members assess the build-up of climate-related vulnerabilities in the global financial system.

- A new toolkit of forward-looking metrics based on this framework to help identify the drivers of climate risks and related exposures in the financial system and real economy, and to quantify their financial impact.

The framework and toolkit will be refined as understanding of climate-related vulnerabilities evolves and as methodological and data issues are resolved.

Digital assets

Back in October 2023, ESMA published its [second consultation paper](#) on technical standards under the Regulation on Markets in Crypto-Assets (MiCA).

This second consultation package covers six draft RTS and two draft implementing technical standards (ITS). The most relevant for purposes of this article were Draft RTS on the content, methodologies and presentation of sustainability indicators and adverse impacts on climate.

MiCA introduces disclosure requirements related to principal adverse impacts on the climate and other environment-related adverse impacts of the consensus mechanism used to issue the crypto-asset, as part of the white papers for asset-referenced tokens (ARTs), e-money tokens (EMTs) and crypto-assets other than ARTs and EMTs. These requirements are applicable to persons drawing up white-papers for crypto-assets.

ESMA is mandated to specify the content, methodologies, and presentation of the information in respect of the sustainability indicators in relation to adverse impacts on the climate and other environment-related adverse impacts, taking into consideration the various types of consensus mechanisms used to validate transactions in crypto-assets (including their characteristics and the differences between them) and their incentive structures.

In the consultation paper, ESMA sets out proposals regarding coherence, complementarity, consistency and proportionality, data availability and reliability of the disclosures, including the use of third parties to review such sustainability disclosures.

In respect of indicators, methodologies, and presentation of the information, ESMA proposes a targeted set of mandatory disclosures with a limited number of quantitative metrics on the consumption of energy, scope 1 and scope 2 greenhouse gas emissions and the production of waste, together with a qualitative statement on the impact of use of equipment by distributed ledger technology (DLT) network nodes on natural resources.

The final report on the second package was published on 3 July 2024, with the RTS adopted by the Commission on 17 December 2024.

The RTS have at this point not yet been published in the EU Official Journal.

U.S. developments

President Trump began his second term on 20 January 2025 and began with the signing of several [executive orders](#) (EOs), which included the rescission of almost 80 Biden administration EOs. Some of these energy and environmental related orders included directing the U.S. to:

- Withdraw from the Paris Climate Agreement.
- Increase Domestic Energy Generation with an emphasis on oil and gas production and exports.
- Pause Leasing for Wind Projects via IRA and IIJA Funds Disbursement and Proposed Revocation of Electric Vehicle Goals.

EOs have the force of law and thus can have immediate legal and/or practical consequences. This potential for divergence in ESG regulatory regimes between federal and state governments, as well as differences between regimes in the United States, and in particular the EU, and the United Kingdom will be a key issue for companies to consider going forward.

In contrast to the direction of the Trump administration, described above, California is doubling down by pushing forward quickly with rules implementing two landmark [laws](#) that will have broad impacts on U.S.-incorporated companies that do business in the state.

The legislation made California the first U.S. jurisdiction to require climate disclosure from private as well as public companies.

Net zero and transition plans

Mandatory reporting requirements are increasingly requiring that companies reassess and critically evaluate their net zero commitments and climate-related targets.

With the introduction of legislation such as the CSRD and other emerging reporting frameworks, companies falling within the scope of these regulations will be obligated to disclose a substantial amount of data concerning their measurement processes and progress toward achieving net zero targets.

On 13 November 2024, the European Commission published 90 [frequently asked questions](#) with the aim of enhancing stakeholders' understanding and compliance with the sustainability reporting requirements under the CSRD and the SFDR.

Companies are increasingly expected to disclose detailed plans outlining how they intend to achieve net zero targets. The CSRD requires detailed disclosures on companies' transition plans, with potentially similar requirements under the FCA's new UK SDR framework, but CSRD requirements could change given the proposals in the Omnibus package.

The UK government had included a commitment in its [Manifesto](#) to mandate UK-regulated financial institutions (including banks, asset managers, pension funds, and insurers) and FTSE 100 companies to publish and implement credible transition plans that align with the 1.5°C goal of the Paris Agreement.



The commitment will be subject to consultation, and the Chancellor announced in her Mansion House Speech in November that the consultation would be conducted in the first half of 2025.

Additionally, at a global level, operating companies will need to balance regulations such as the CSDDD that are driving transition plan adoption (whilst also being aware of any developments in the future proposals for a European Omnibus package) and a focus on limiting global warming to 1.5°C, in line with the Paris Agreement.

On 14 January 2025 the FSB published a [report](#) considering the role that financial and non-financial firms' transition plans can play for financial stability assessments, particularly as a source of information for monitoring climate-related financial risks and vulnerabilities.

On 23 January 2025, the Platform on Sustainable Finance issued a [report](#), 'Building trust in transition: core elements for assessing corporate transition plans'.

This report provides initial analysis to support financial market participants' assessment of the core elements of transition plans, aligning with the European Commission's Recommendation on Transition Finance.

It identifies core elements for evaluating these plans, offering recommendations to the Commission for enhancing the effectiveness of its policy framework and supporting the market to provide and access transition finance.

Whilst in Europe, on 29 January 2025, the European Commission's [Competitiveness Compass](#) was published. It provides future work proposals for the period covering 2025 – 2029 and comes as a direct response to the reports published by Enrico Letta and Mario Draghi, warning about decreasing competitiveness of the EU vis-à-vis other large economies such as the United States and China.

Of the three relevant factors listed, one covers a joint roadmap for decarbonisation and competitiveness, with the aim of ensuring that future technologies and clean products are invented, manufactured in Europe, will staying on course to carbon neutrality.

AI and its connections with ESG

Artificial intelligence (AI) is playing an increasingly central role in ESG strategies, offering new opportunities for data collection, analysis, and reporting.

As ESG and sustainability reporting increasingly becomes mandatory in 2025 and beyond, a growing number of entities, including smaller companies with key roles in corporate supply chains, could be drawn to these AI tools to both accurately and reliably collect data in a structured and efficient way.

However, the use of AI may not be without challenges from an ESG perspective. For example, in addition to the significant amount of energy required to power and develop AI systems – ethical and social considerations, such as potential algorithmic bias, privacy issues, ensuring that outputs are vetted so they are not misleading or controversial – should be considered with many AI tools, including those that have been developed to assist with ESG goals. For more detailed considerations on AI and data governance please see our articles '[Doing the right Thing for Business and Society – Generative AI](#)' and '[The Flip Sides of Data – A Strategic Asset and a Potential Risk](#)'.

Nature

Nature continues to emerge as a key focus area within ESG, as companies recognise the importance of preserving natural ecosystems and their role in long-term sustainability. This trend is driven by both regulatory requirements and growing stakeholder awareness of biodiversity's critical role in supporting ecosystem services and mitigating climate change.

Governments agreed, on [27 February 2025](#), on the strategy to raise the funds needed to protect biodiversity and achieve the action targets of the Kunming-Montreal Global Biodiversity Framework (KMGBF), bringing the business of the UN Biodiversity Conference, COP16 that was suspended in Cali, Colombia in 2024, to a successful close.

In the private sector, companies are integrating natural capital considerations into their sustainability strategies, assessing their impacts on natural habitats, and developing plans to protect and restore biodiversity. This may involve collaborating with conservation organizations, investing in nature-based solutions, and engaging with local communities to promote sustainable land use practices.

These practices may become an even greater focus for certain companies throughout 2025. The emergence of mandatory ESG reporting frameworks such as the CSRD, as well as the increasing proliferation of voluntary reporting under mechanisms such as the Taskforce on Nature-related Financial Disclosures ([TNFD](#)), indicate that companies will continue to publish an increasing amount of public-facing information about their impacts on nature and biodiversity. To help increase knowledge in this particular area, the TNFD has [launched](#) two new capacity-building platforms, providing tools for market participants and for third party training providers.

Conclusion

So that's a very long way of explaining why we 'are not there yet,' but that's understandable given that there is still a lot of movement as regards regulatory development in this space.

As companies move through 2025, the ESG landscape is characterised by both challenges and opportunities. Companies must remain vigilant and adaptable, embracing integrated and strategic approaches to ESG and sustainability (including in relation to the terminology used) to ensure business resilience.

By staying informed and proactive, organisations can navigate the complexities of ESG, and sustainability matters and position themselves for long-term success in an ever-evolving global environment.

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