Sustainability at a Crossroads

A 2025 Retrospective with a 2026 Outlook

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01.

Executive Summary

The 2025 annual retrospective of ESG policy developments highlights a global shift toward standardizing disclosures while simultaneously introducing "simplification" measures to manage the reporting burden on companies, financial institutions, and other market participants in the sustainable finance ecosystem.

Throughout the year, sustainability regulations – like the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD) – shifted towards 'downsizing' measures to reduce the reporting burden on corporates. Conversely, central banks intensified requirements and highlighted the critical need for ESG data for the risk management of financial institutions. Financial institutions are facing increased pressure from regulators such as the European Banking Authority (EBA),[1] the Basel Committee on Banking Supervision (BCBS),[2] the European Central Bank (ECB)[3] and the Bank of England (BoE)[4] to provide granular, evidenced disclosures on transition risks and supply chain decarbonization.

In 2025, there emerged a dual landscape where banking regulators are requiring more ESG information from banks, while some broader corporate ESG requirements are facing rollbacks, particularly in the EU. In terms of sustainable finance, this has created a widening data gap between portfolio level and counterparty level data.

1.https://www.eba.europa.eu/sites/default/files/2025-02/6a3ca030-8911-42d8-8817-b99f6ea109b4/Report%20on%20data%20availability%20and%20feasibility%20of%20common%20methodology%20for%20ESG%20exposures.pdf
2. https://www.bis.org/press/p250613.htm
3. ECB Opinion on the Omnibus, https://www.ecb.europa.eu/pub/pdf/legal/ecb.leg_con_2025_10.en.pdf?330cb335ad9426cd4a64dbe4021597f1
4. BoE Ramps Climate Risk Management Expectations for Banks and Insurers https://www.bankofengland.co.uk/prudential-regulation/publication/2025/december/enhancing-banks-and-insurers-approaches-to-managing-climate-related-risks-ss

02.

The "Omnibus Saga"

The year was defined by a strategic move to ease compliance burdens while maintaining core sustainability disclosure standards through the European Commission's Omnibus I Package.

Throughout 2025, the Omnibus triggered significant debate over whether the EU's sustainability ambitions conflict with competitiveness and growth objectives. Key regulations, including the CSRD, came under scrutiny, with strong calls for simplification and reduced red tape.

5. https://www.efrag.org/sites/default/files/media/document/2025-12/Simplified%20ESRS%20Factsheets%20%284%29.pdf

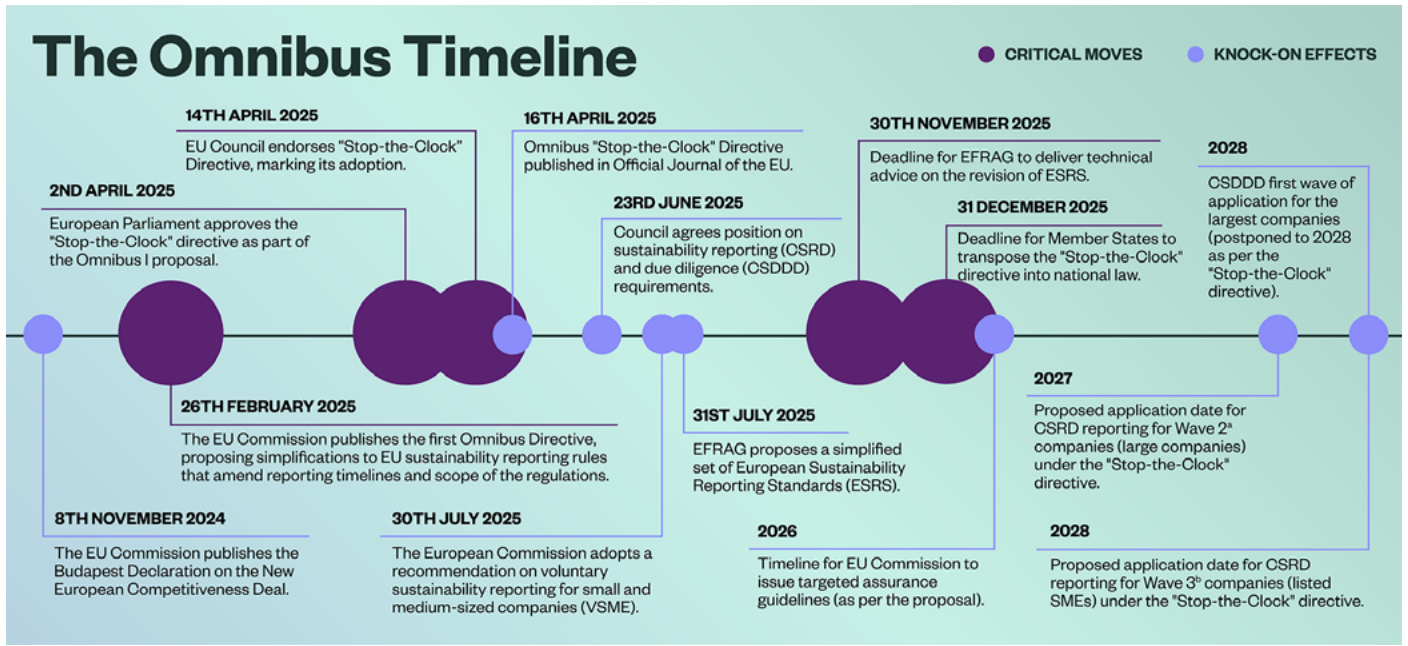


Figure 1: EU's Omnibus Simplification Agenda: Timeline

Threshold and Scope Reduction

In November, the European Parliament finalized a compromise that substantially narrowed the scope of both the CSRD and CSDDD. CSRD reporting was limited to large companies with more than 1,450 employees or €450 million in revenue, leading to an estimated 92% reduction in covered entities. The CSDDD was restricted to firms with 5,000 employees and €1.5 billion in revenue, shifting to a risk-based approach focused on direct business partners.

Streamlined ESRS Framework

EFRAG cut non-material ESRS mandatory datapoints by ~61%[5] and removed all voluntary disclosures. Key enhancements include a stronger emphasis on 'fair presentation' tied to materiality, removal of the preference for direct value-chain data, and shorter standards with clearer guidance. This lighter framework introduced greater flexibility in narrative disclosures and improved interoperability with ISSB standards.

Implementation Delays

Lawmakers approved "stop the clock" measures, delaying key elements of CSRD and CSDDD implementation by two years. Adoption of ESRS for non-EU (third-country) companies was deprioritized and is unlikely before October 2027.

EU Taxonomy Refinements

In January 2026, the Taxonomy Simplification Measures came into effect. Key changes from the latest EU Taxonomy Delegated Act include:

- 10% threshold for non-material activities
- Optional Opex reporting
- Temporary relief from detailed GAR disclosures
- Major KPI reductions — projected 64% for non-financials, 89% for financials
- Simplified DNSH criteria, especially for pollution and chemicals

Continuous refinements to the EU Taxonomy and its Delegated Acts occur in parallel with the Omnibus package to ensure technical screening criteria remain relevant.

CBAM

The simplification measures for the Carbon Border Adjustment Mechanism (CBAM) were officially adopted in October 2025. The amended regulation introduces an exemption for SMEs importing less than 50 tonnes of goods covered by CBAM, bringing approximately 182,000 importers out of scope while still capturing around 99% of total emissions subject to the regulation. In addition, the simplification package reduces compliance burdens for SMEs by streamlining requirements related to authorized declarant status, emissions calculation methodologies, and financial liability obligations.

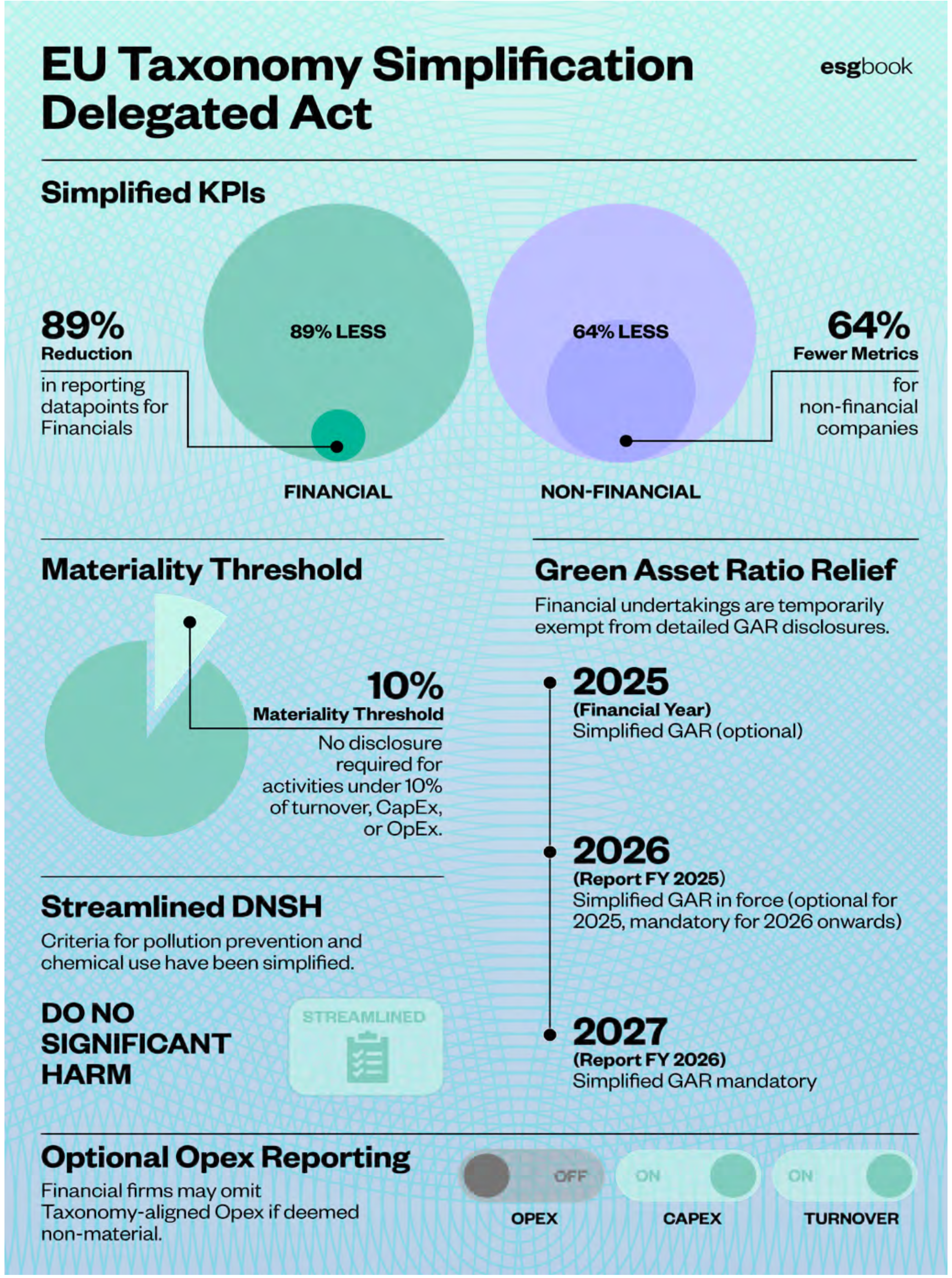


Figure 1: EU's Omnibus Simplification Agenda: Timeline

03.

The Rise of Banking Regulation & the Climate Risk Imperative

Throughout 2025, regulatory developments across the EU and other jurisdictions significantly scaled-up banks' ESG data and reporting obligations. In the EU, expanded Pillar 3 reporting, environmental scenario analysis requirements, ESG stress testing guidelines, and CRD VI prudential transition plans collectively demand comprehensive, high-quality ESG data to support risk management, capital allocation, and governance. Similar expectations have been reinforced by the Bank of England, Basel Committee, and Canada's OSFI, while the U.S. has taken a divergent approach by withdrawing its climate risk guidance.

EBA Pillar 3 Update

In May 2025, the European Banking Authority (EBA) consulted on amendments to the Pillar 3[6] framework to better align with updates to the EU Taxonomy framework and ensure proportionality of burden for all banks in scope. The scope of the EU Pillar 3 ESG reporting framework has expanded to include approximately 2,000 banks across the EU, effective December 2026, creating an imperative for early preparation. Reporting requirements now encompass all six EU Taxonomy environmental objectives, with templates designed to be proportionate to the size of each institution. The final versions of these templates are expected to be published by Q1 2026. As a result, a growing number of banks will fall within the mandatory Pillar 3 ESG reporting requirements. Institutions must begin compiling data aligned with the applicable templates, identifying reporting gaps, and engaging with non-reporting entities. There is a critical need for reliable, audit-ready Pillar 3 ESG data at scale to ensure compliance with EBA standards.

Environmental Scenario Analysis

EBA's final guidelines on Environmental Scenario Analysis[7] were released in November 2025. The rules require EU banks to integrate climate-related risks into stress tests and strategic planning by 1 January 2027. The guidelines set clear expectations for assessing both short- and long-term resilience to environmental risks, including transition and physical climate risks, through forward-looking scenario analysis. Banks must embed these analyses into risk management, capital planning, and governance processes, ensuring methodologies, data, and documentation meet supervisory standards. Banks using internal ratings based approaches must incorporate environmental risk drivers into credit risk stress tests, and institutions more generally are expected to refine methodologies, data, governance and documentation to meet the new expectations. The objective is to harmonize practices across the EU banking sector and make environmental scenario analysis a core component of strategic and risk management frameworks.

Basel Committee Framework

The BCBS introduced a voluntary climate risk disclosure framework[11] in July to allow jurisdictions to integrate these requirements locally. In August, it proposed a methodology to integrate physical climate risks—such as extreme weather—into credit risk models by treating them as triggers for sudden drops in asset values.

Canada's OSFI's Guideline

Canada's OSFI's Guideline B-15[12] requires federally regulated financial institutions (FRFIs) to develop and implement a climate transition plan as part of their climate risk management strategy. The transition planning involves incorporating climate-related risks into governance, strategy, risk management, and disclosures.

Capital Requirements Directive

Capital Requirements Directive (CRD VI)[9] came into effect on 11 January 2026. Under these rules, EU banks must publish their prudential transition plans. These plans must outline how banks intend to manage the financial and operational risks associated with the transition to a low-carbon economy, while maintaining compliance with prudential requirements. Importantly, the rules stipulate that these prudential transition plans must be fully aligned with the banks' existing voluntary climate strategies, commitments, and disclosures, ensuring consistency across all governance, risk management, and reporting frameworks. The expectation is that banks will demonstrate credible, actionable pathways to achieve their transition objectives, including measurable targets, risk mitigation strategies, and integration into capital planning, stress testing, and internal governance processes, thereby providing transparency to supervisors, investors, and other stakeholders.

BoE Supervisory Statement

The Bank of England's latest SS4/25 issued[10] in December 2025 replaces the 2019 guidance and sharply raises expectations for banks and insurers. Boards and executives are explicitly accountable for embedding climate risk into strategy, risk appetite, and decision-making. Scenario analysis must now drive capital planning, stress testing, and product design, while data gaps are no longer acceptable – conservative assumptions must be applied, raising the cost of risky exposures. Under PS25/25, climate risk sits within core prudential frameworks, including ICAAP and ORSA, moving it out of the "sustainability" silo. Banks and insurers are treated as an interconnected system: insurers must factor climate into long-term underwriting, and banks must assess impacts on credit and collateral.

US Regulatory Withdrawal

Conversely, U.S. federal banking regulators (Fed, FDIC, and OCC) withdrew their 2023 climate risk management principles[13] for large banks in November, citing a return to traditional risk frameworks.

ESG stress testing

The ESAs published Joint Guidelines on ESG stress testing[8] in January 2026 which will apply to national insurance and banking supervisors on a 'comply or explain' basis. These Guidelines create baseline standards for integrating ESG risks into stress testing models across the EU's financial sector. In addition to risk management, these Guidelines outline clear organizational and governance requirements to conduct ESG stress testing across the financial sector in the EU.

6. https://www.eba.europa.eu/publications-and-media/press-releases/eba-launches-consultation-amended-disclosure-requirements-esg-risks-equity-exposures-and-aggregate
7. https://www.eba.europa.eu/sites/default/files/2025-11/170da4c8-9b56-4fb0-ad60-94d433b7e866/Guidelines on environmental scenario analysis.pdf
8. https://www.eba.europa.eu/sites/default/files/2026-01/60ba0389-2d7a-46b7-96e8-9072c481d8ce/EIOPA-BoS-25-602 - ESAs Final Report - Joint Guidelines on ESG Stress Testing.pdf
9. https://eur-lex.europa.eu/legal-content/EN/NIM/?uri=CELEX:32024L1619
10. https://www.bankofengland.co.uk/prudential-regulation/publication/2025/december/enhancing-banks-and-insurers-approaches-to-managing-climate-related-risks-ss
11. https://www.bis.org/bcbs/publ/d597.htm
12. https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/climate-risk-management

EU Simplification Creates Material Blind Spots for Banks and Financial Institutions

These banking-related regulatory developments impose a heightened burden on global banks to collect, analyze, and report ESG-related information.

In contrast, the EU's Omnibus initiative, while intended to simplify corporate sustainability reporting, has created a significant misalignment between the data banks need and what is publicly available from counterparties. With a 92% reduction in companies reporting structured CSRD data, a 61% reduction in mandatory ESRS datapoints, and a two-year delay on key metrics, **banks now face material gaps in the ESG information required to support risk assessment, scenario analysis, stress testing, and transition planning.**

This data shortfall introduces strategic vulnerabilities: reliance on incomplete disclosures risks mispricing climate and other ESG exposures, weakens the robustness of internal analyses, and increases the potential for supervisory scrutiny.

Banks are Already Pricing Climate Risk into Lending Decisions

The challenge is further substantiated by recent empirical research indicating that banks are already pricing climate transition risk into their lending decisions. ECB analysis shows that banks with higher exposure to carbon-intensive sectors pay a premium in interbank and repo markets.[14] A one-standard-deviation increase in financed emissions is associated with a 7–12% higher repo rate, with the penalty widening during periods of financial stress. Additionally, a recent study by the Frankfurt School of Finance and Management analyzes 86,000 bank loans across 77 countries over a 26-year period and finds that borrowers located in climate-vulnerable regions face a significant financing penalty.[15] On average, these firms pay a 39 basis point higher loan spread, with the premium doubling for companies that are already financially distressed or carry longer-maturity debt, underscoring how climate risk materially affects the cost of capital. This means that in practice, transition risk is already affecting bank liquidity and margins – not future regulation.

> **Banks can no longer depend solely on publicly available data and must proactively engage with counterparties, supplement disclosures, and develop alternative data sources to maintain alignment with regulatory expectations and ensure informed capital allocation decisions.**

While the Omnibus initiative reduces reporting burdens for corporates, it effectively shifts the responsibility for bridging ESG data gaps to financial institutions, making comprehensive data strategies a critical component of operational and strategic resilience.

13. https://www.fdic.gov/news/press-releases/2025/agencies-announce-withdrawal-principles-climate-related-financial-risk
14. https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp3168~96a956a7fe.en.pdf
15. https://www.sciencedirect.com/science/article/pii/S0095069625001640?via%3Dihub

04.

SFDR Overhaul: A shift from disclosure to formal fund labelling

From an investor perspective, one of the major developments of 2025 is the EU Commission's proposal[16] to substantially amend the Sustainable Finance Disclosure Regulation (SFDR) regime. The legislative proposal to review SFDR introduced three new product categories 'Sustainable', 'Transition' and 'ESG Collection', essentially evolving from a disclosure-focused regime into a formal fund labelling system akin to the ESMA standards. The distinct product categories – ESG Basics, Transition, Sustainable, including an add-on Impact label – reflect a more prescriptive approach to categorizing investment strategies compared to the pre-existing Articles 6, 8 and 9 fund categories.

16. https://finance.ec.europa.eu/document/download/3465b82d-6472-4627-a053-b41591373bde_en

Additionally, the European Commission has now assumed responsibility for updating Principal Adverse Impact (PAI) requirements and reporting templates, signaling a shift toward more centralized and standardized oversight. For asset managers, these changes require a careful re-evaluation of existing investment approaches to ensure alignment with the new labels, systematic mapping of current strategies against the updated categories, and close monitoring of forthcoming Regulatory Technical Standards (RTS) revisions to maintain compliance and capitalize on the evolving EU ESG investment landscape. Failure to proactively adapt could result in misaligned product positioning, regulatory non-compliance, or reputational risk, while early engagement with the revised framework presents an opportunity to clearly differentiate strategies in an increasingly regulated ESG landscape.

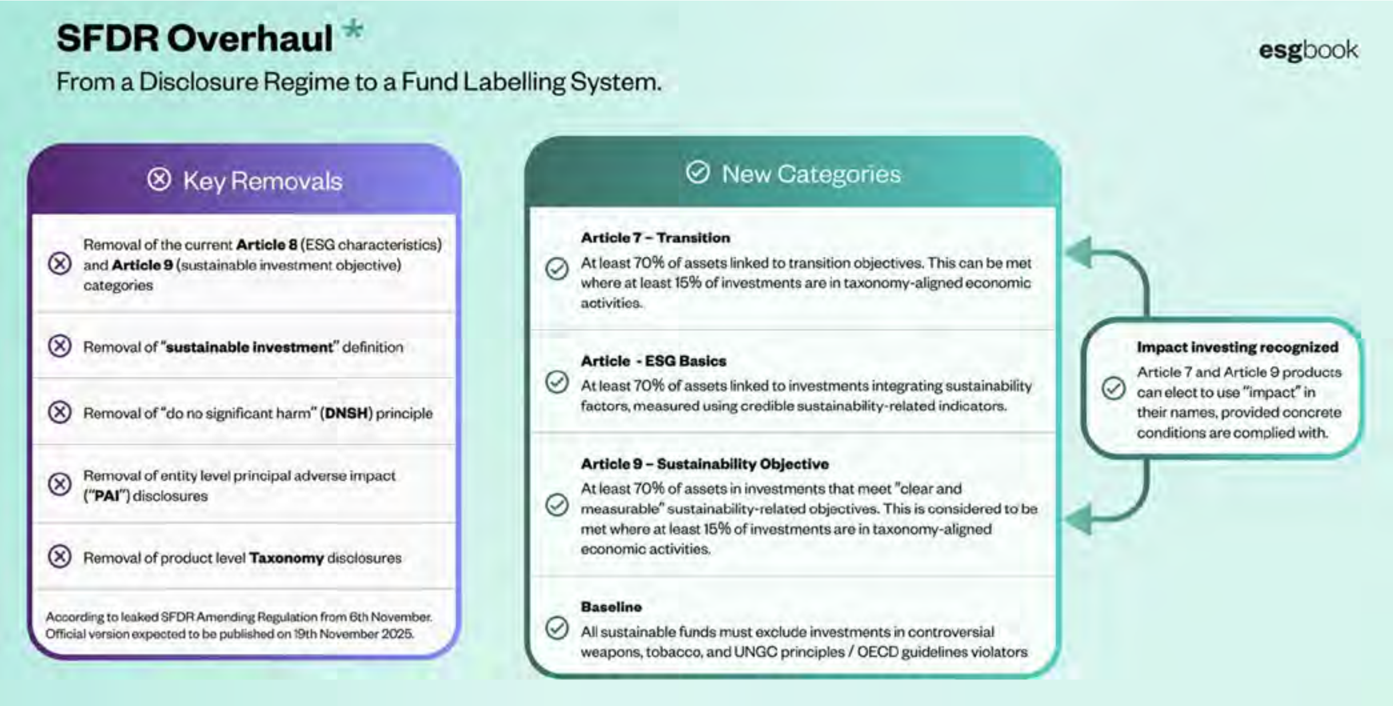


Figure 3: The EU Commission's SFDR Overhaul Proposal

In January 2026, ESMA released a second thematic note reinforcing the core principles of clear, accurate, substantiated, and up-to-date sustainability claims made by market participants.[17] The note sets clear supervisory expectations for how ESG strategies should be communicated to investors, including a defined articulation of ESG exclusions, ESG integration, and other core elements of sustainable investment approaches. ESMA additionally outlines best-practice standards intended to reduce ambiguity and prevent misleading or overstated claims.

Against this backdrop, as the ESMA Guidelines increasingly function as the de facto product-labelling regime across the EU, the latest SFDR developments were seen as comparatively less disruptive. While revisions to the SFDR framework have yet to be formally adopted by the European Commission, and some preliminary fund re-labelling may occur, full implementation is expected to take at least two years. In the interim, investor and supervisory expectations are increasingly anchored to ESMA's guidance, which is effectively serving as the baseline for sustainable product classification in the EU.

17. https://www.esma.europa.eu/sites/default/files/2026-01/ESMA36-429234738_-165_Thematic_notes_on_sustainability-related_claims-_ESG_strategies.pdf

05.

The ISSB Global Baseline: Country-level Adoption and Application of ISSB Standards

In 2025, the adoption of IFRS Sustainability Disclosure Standards (ISSB Standards) continued to accelerate, with approximately 37 jurisdictions either committing to or actively taking steps toward implementation. Collectively, these jurisdictions represent around 60% of global GDP and 40% of global market capitalization, underscoring the growing momentum behind a standardized global ESG reporting framework.

As of January 2026, 17 jurisdictions have finalized their regulatory approach, issuing official jurisdictional profiles: 14 are targeting full adoption of the ISSB Standards, while 2 are focusing exclusively on climate-related disclosures (IFRS S2), and 1 is partially integrating the standards into local law.

An additional 16 jurisdictions are actively progressing toward adoption through proposed or draft standards, with 12 of these drafts demonstrating full alignment or functional equivalence with the ISSB global baseline. Other major markets, such as the European Union, China, and India, are pursuing interoperable approaches, aligning local reporting requirements with ISSB frameworks while maintaining jurisdiction-specific nuances.

Several recent updates highlight both the momentum and the complexity of ISSB adoption:

United Kingdom

The UK Sustainability Reporting Standards (UK SRS) consultation closed in September 2025. The final standards, incorporating jurisdiction-specific transitional provisions, are expected in February 2026.

China

IFRS S2-aligned corporate climate disclosure standards with a double materiality focus were introduced in January 2026, applying voluntarily.

Qatar

On 17 December 2025, Qatar implemented mandatory sustainability reporting for banks and insurance companies, aligning disclosures with IFRS S1 and S2.

Philippines

Draft standards continue to advance toward finalization, emphasizing alignment with ISSB requirements while addressing local considerations.

Jurisdictional breakdown

The following table summarizes the status of key jurisdictions implanting ISSB, as of early 2026:

Status	Jurisdictions
Finalized / Mandated	Australia, Brazil, Hong Kong, Malaysia, Nigeria, Türkiye, Chile, Pakistan, Singapore, Sri Lanka, Jordan, Kenya, Ghana, Zambia, Tanzania.
Transitioning / In Consultation	UK (UK SDS), Canada (CSDS), Japan (SSBJ), South Korea, Philippines, Thailand, Indonesia.
Interoperable / Aligned	European Union (ESRS), China (Ministry of Finance draft standards), India (BRSR alignment).

The expanding global footprint of ISSB Standards carries material implications for multinational corporations and financial institutions. As jurisdictions adopt either full, partial, or functionally equivalent ISSB Standards, organizations operating across multiple markets will face pressure to harmonize ESG disclosures. Aligning reporting frameworks internally will be critical to meet differing regulatory expectations while maintaining comparability for investors. Meeting ISSB-aligned reporting demands will require robust internal systems, consistent data governance, and advanced analytics capabilities. Early adoption, strategic alignment, and investment in reporting infrastructure will be essential to capitalize on emerging opportunities and mitigate compliance risks.

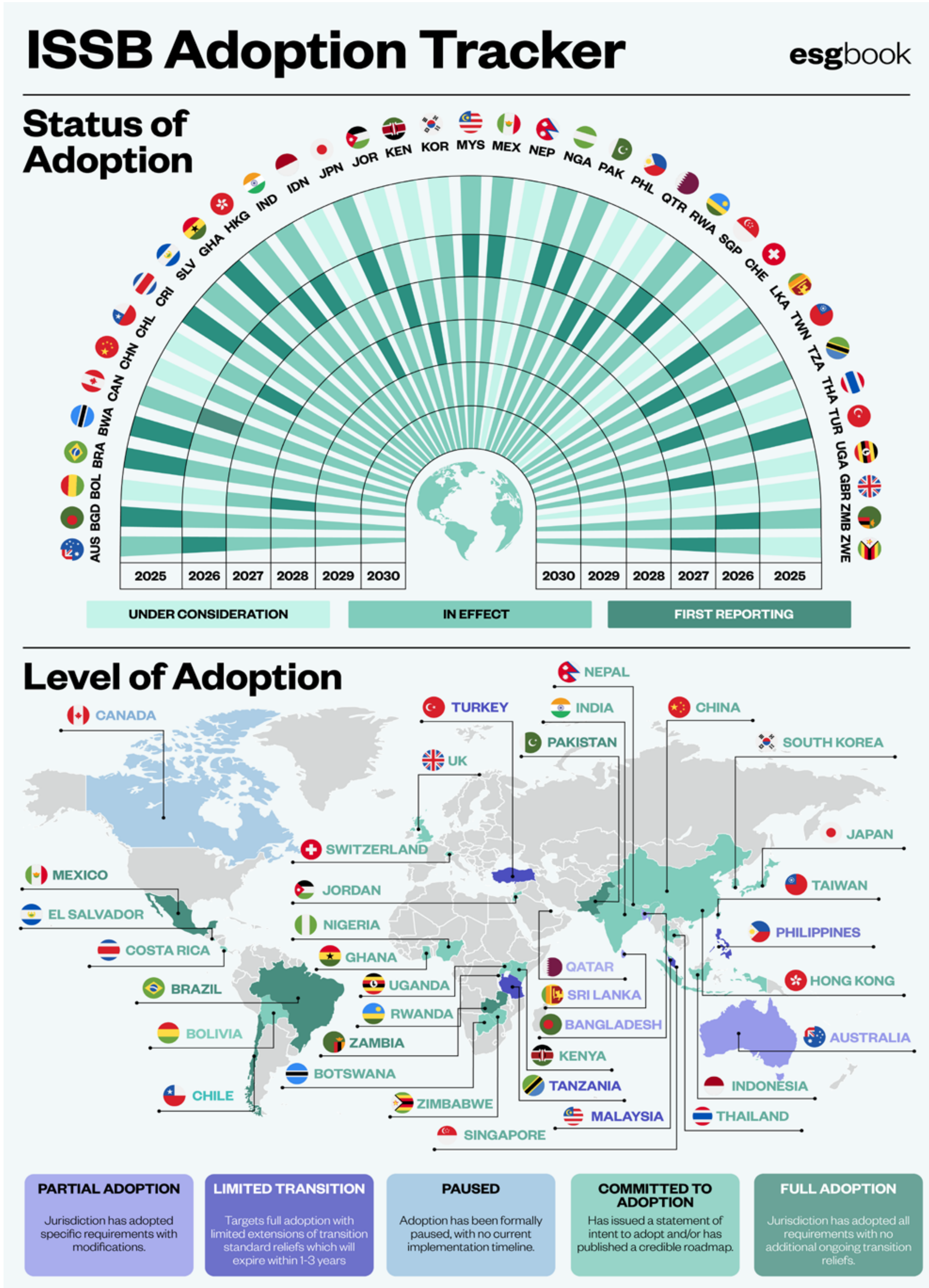


Figure 4: ESG Book's ISSB Adoption Tracker

06.

Advanced Standards for Financed Emissions, Scope 3, and Transition Finance

Advanced tools were introduced in 2025 to help financial institutions manage complex emissions and nature-related risks embedded in their lending and investment activities.

PCAF Standard Update

In December 2025, the Partnership for Carbon Accounting Financials (PCAF) launched an updated GHG Accounting standard.[18] This update enhanced frameworks for Financed Emissions (Part A) and Insurance-Avoided Emissions (Part C), while adding supplemental guidance for forward-looking metrics across instruments like derivatives and bonds.

TNFD & Transition Planning

The Taskforce on Nature-related Financial Disclosures (TNFD) expanded its reach through a partnership with the ISSB.[22] In late 2025, it released a discussion paper and guidance on integrating nature into transition planning, illustrating how organizations can align with the Kunming–Montreal Global Biodiversity Framework (GBF) within their financial portfolios.

Green Checker tool

European Investment Bank (EIB) expanded its Green Checker tool,[20] helping banks assess the eligibility of projects against the EU Taxonomy and other climate standards.

Transition Finance

ICMA published Climate Transition Bond Guidelines in November 2025[19] to support debt instruments in hard-to-abate sectors. Simultaneously.

SBTi Financial Institutions Standard

The SBTi released its definitive Financial Institutions Net-Zero Standard,[21] providing a science-based framework for banks and insurers to align financial flows with net-zero pathways by 2050 through engagement and investment levers. The SBTi additionally postponed the revision of its Corporate Net Zero Standard to conduct further consultations on Scope 2 and 3 emissions, aiming to ensure companies can align commitments without duplicating efforts.

ISSB Proposed Amendments and Methodological Flexibility

In December 2025, the ISSB finalized targeted reliefs for IFRS S2, specifically for Scope 3 Category 15 (investments) related to derivatives and complex financial contracts. The amendments also suggested flexibility in using the Global Industry Classification System (GICS) and allowed for the use of non-GHG Protocol measurement methods in certain jurisdictional contexts.[23]

18. https://carbonaccountingfinancials.com/en/newsitem/pcaf-launches-updated-ghg-accounting-standard-2025
19. https://www.icmagroup.org/assets/documents/Sustainable-finance/2025-updates/Climate-Transition-Bond-Guidelines-CTBG-November-2025.pdf
20. https://www.eib.org/en/press/all/2025-445-eib-group-extends-pioneering-online-tool-to-accelerate-access-to-green-finance-globally
21. https://files.sciencebasedtargets.org/production/files/Financial-Institutions-Net-Zero-Standard.pdf
22. https://tnfd.global/issb-decision-on-nature-related-standard-setting-drawing-on-tnfd-framework/
23. https://www.ifrs.org/news-and-events/news/2025/12/issb-issues-targeted-amendments-ifrs-s2/

As of 2026, over 50 jurisdictions and countries globally have either implemented or are in the process of developing official sustainable finance taxonomies (including green, transition, and social frameworks).

07.

Expanding Global and Regional Sustainable Finance Taxonomies

Alongside the Omnibus-driven EU Taxonomy updates we discussed above, 2025 has seen accelerated development of regional sustainable finance taxonomies, reflecting the global drive toward harmonized environmental investment standards.

24. https://nbg.gov.ge/en/page/sustainable-finance-taxonomy
https://www.ifrs.org/content/dam/ifrs/around-the-world/roadmap-development-tool/jurisdictional-roadmapdevelopmenttool-2025.pdf

Southeast Asia

Thailand launched Phase 2 of its Taxonomy, extending coverage to manufacturing, agriculture, waste management, and construction. **Brunei** released Phase 1 for consultation, focusing on climate mitigation and national development goals.

Asia

The National Bank of **Georgia** launched a Sustainable Finance Taxonomy, which defines a credible, internationally aligned framework for identifying green and social economic activities. The initiative includes a Green Loan Dashboard that discloses taxonomy-aligned green loan data, transforming regulatory bank reporting into an accessible public resource.[24]

Africa

The Central Bank of **Kenya** finalized its Green Finance Taxonomy, while the Bank of **Uganda** launched a National Green Finance Taxonomy to standardize disclosures and reduce greenwashing across sectors such as agriculture, energy, and transport.

Americas

In the Americas, **Brazil** established a Sustainable Taxonomy to align financial standards with climate action objectives.

Key Trends for 2026:

1. Mandatory Reporting

Countries like **Brazil** and the **EU** have moved from voluntary "best practice" to mandatory disclosure for large financial institutions and listed companies.

2. Interoperability

Many of these (like the ASEAN and Singapore taxonomies) are now being mapped against the **Common Ground Taxonomy (CGT)** to ensure they work across borders.

3. Expanded Focus

Unlike the early taxonomies that were strictly "Green," newer versions (Canada, Brazil, Mexico) now include Transition (decarbonizing heavy industry) and Social (inequality reduction) criteria.

Technical Guidance & Global Alignment

Emerging taxonomies increasingly integrate the "Do No Significant Harm" (DNSH) principle for sector-specific investments. Alignment with ISSB standards (IFRS S1 and S2) is a growing priority to reduce reporting duplication for multinational companies, supported by the IFRS Foundation's Roadmap Tool[25] for jurisdictions adopting sustainability disclosure standards.

The rapid expansion of regional taxonomies underscores the need for multinational companies and financial institutions to adopt flexible reporting frameworks capable of meeting multiple, evolving criteria. Alignment with technical guidance, DNSH principles, and ISSB standards will be critical to manage compliance risks, support sustainable investment decisions, and strengthen credibility with global investors.

The Rise of Global Sustainable Taxonomies

08.

US State-Level Climate Laws Gain Momentum

Across the pond, at the state level, climate-related reporting requirements in the United States are picking up pace, with California continuing to set the benchmark. Senate Bills 253 and 261 establish key obligations for corporate emissions and climate-related financial risk disclosures, respectively.

SB 253 applies to companies with total annual revenues exceeding $1 billion globally that conduct business in California. SB 261 applies to companies with total annual revenues exceeding $500 million globally and that conduct business in California, covering over 4,000 entities.[26]

SB 253 mandates the first reports by August 2026, while SB 261 has been temporarily suspended following a recent Ninth Circuit preliminary injunction. The California Air Resources Board (CARB) confirmed in its Enforcement Advisory that it will not enforce SB 261 reporting by the January 1, 2026 deadline and will provide updated guidance following the appeal.

CARB has also established a public docket for SB 261, which went live on schedule, allowing companies to voluntarily post reports. The docket will remain open until July 1, 2026, providing a transitional mechanism for entities preparing for eventual mandatory reporting. Companies can also use the **CARB reporting framework**, which is already available on the ESG Book platform:

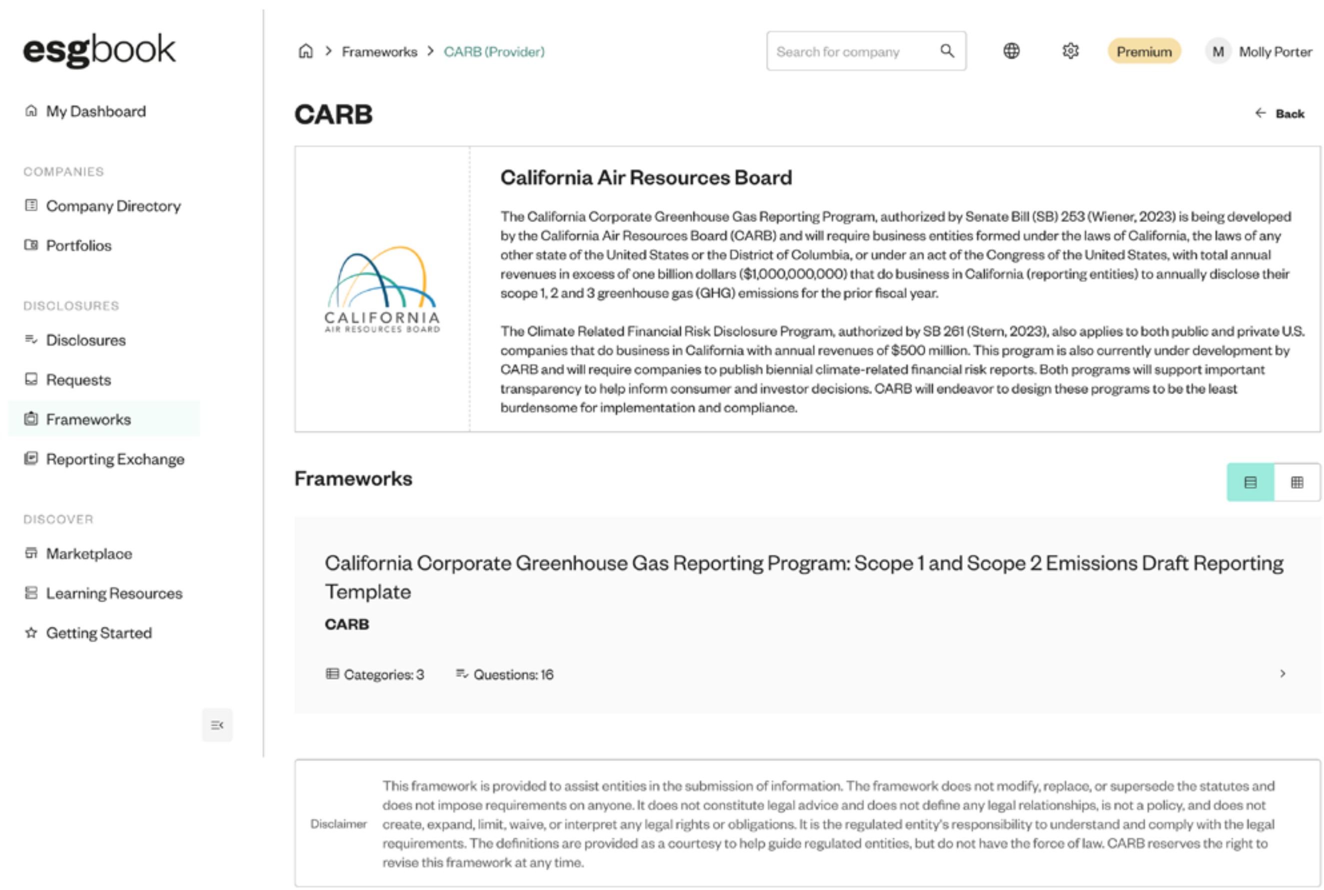
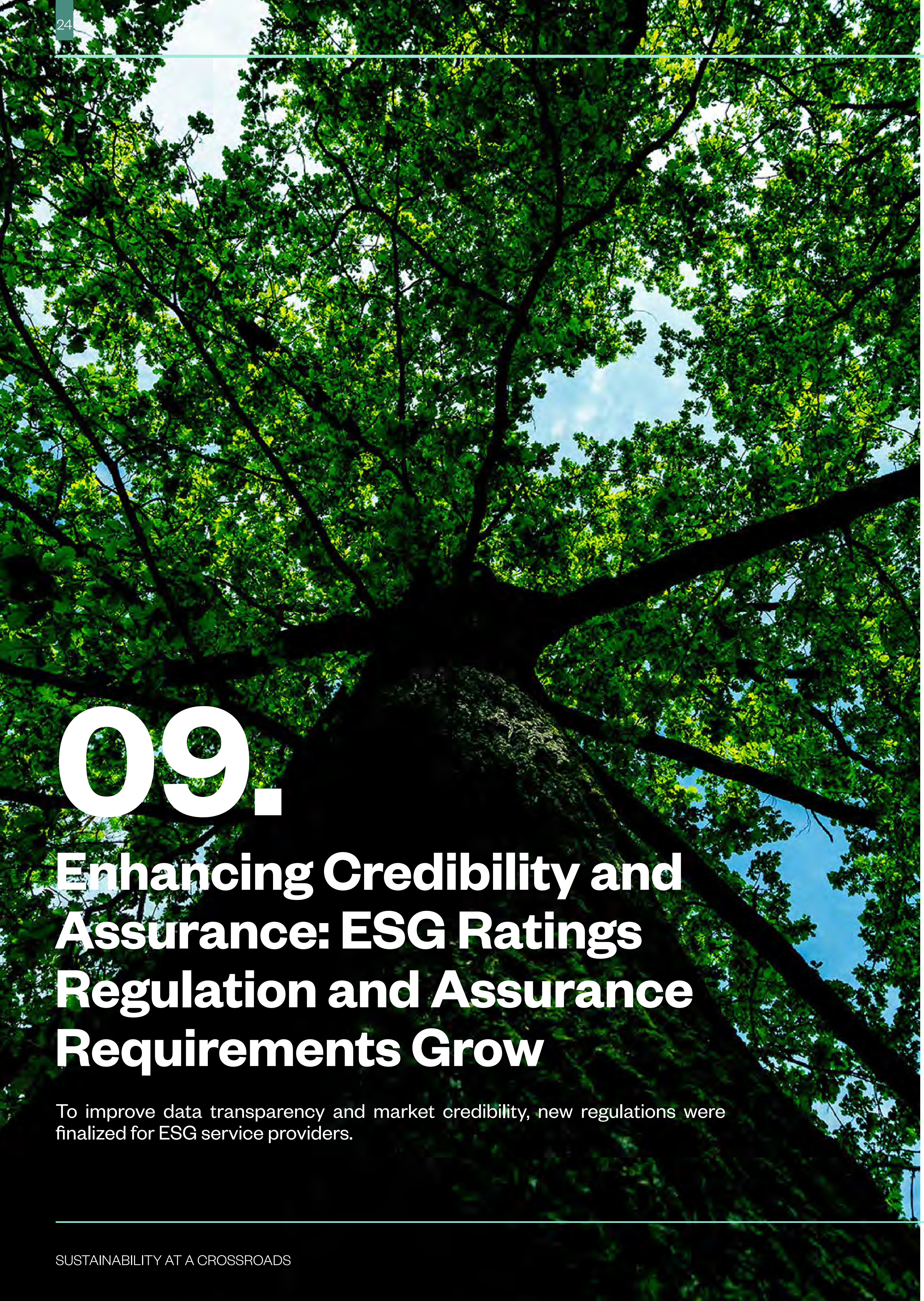


Figure 5: CARB Reporting Framework Available on ESG Book (CA B253)

Beyond California, other states—including New York, Washington, Illinois, and Minnesota—are introducing climate disclosure requirements, signaling a broader trend toward state-level ESG and climate accountability.

Organizations within the scope of these laws must invest in reporting readiness to meet the August 2026 SB 253 deadline and prepare frameworks for climate-related financial risk reporting under SB 261. Companies operating across multiple states will need to manage varying requirements and timelines, while staying attentive to ongoing regulatory developments and judicial outcomes. Early investment in data systems, internal controls, and risk assessment capabilities will be critical to ensure compliance and maintain investor confidence.

26. https://app.esgbook.com/frameworks/provider/3b045a79-f9ae-44b6-b29e-d9755f1947b1



09.

Enhancing Credibility and Assurance: ESG Ratings Regulation and Assurance Requirements Grow

To improve data transparency and market credibility, new regulations were finalized for ESG service providers.

ESG Ratings Regulation

Globally, the regulatory landscape for ESG ratings and data providers is converging around IOSCO-led principles (2021)[27], with most jurisdictions adopting voluntary codes of conduct focused on transparency, governance, conflict-of-interest management, and methodological clarity. ICMA's Code of Conduct[28] has emerged as the dominant global benchmark, directly informing frameworks in the UK[29], Hong Kong, Singapore, Japan, and Taiwan, while the UK and Singapore are using these voluntary regimes as a bridge toward more formal regulation.

The EU[30] and India[31] are the only two jurisdictions so far that have introduced mandatory regulation, with the EU tasking ESMA with overall authorization and supervision regime (including fines and phased requirements for smaller providers) and India aligning ESG ratings to the BRSR Core framework with defined registration fees. Overall, the direction of travel points to increasing regulatory scrutiny, higher compliance expectations, and rising operational complexity, particularly for providers operating across multiple jurisdictions, even where regimes remain formally voluntary.

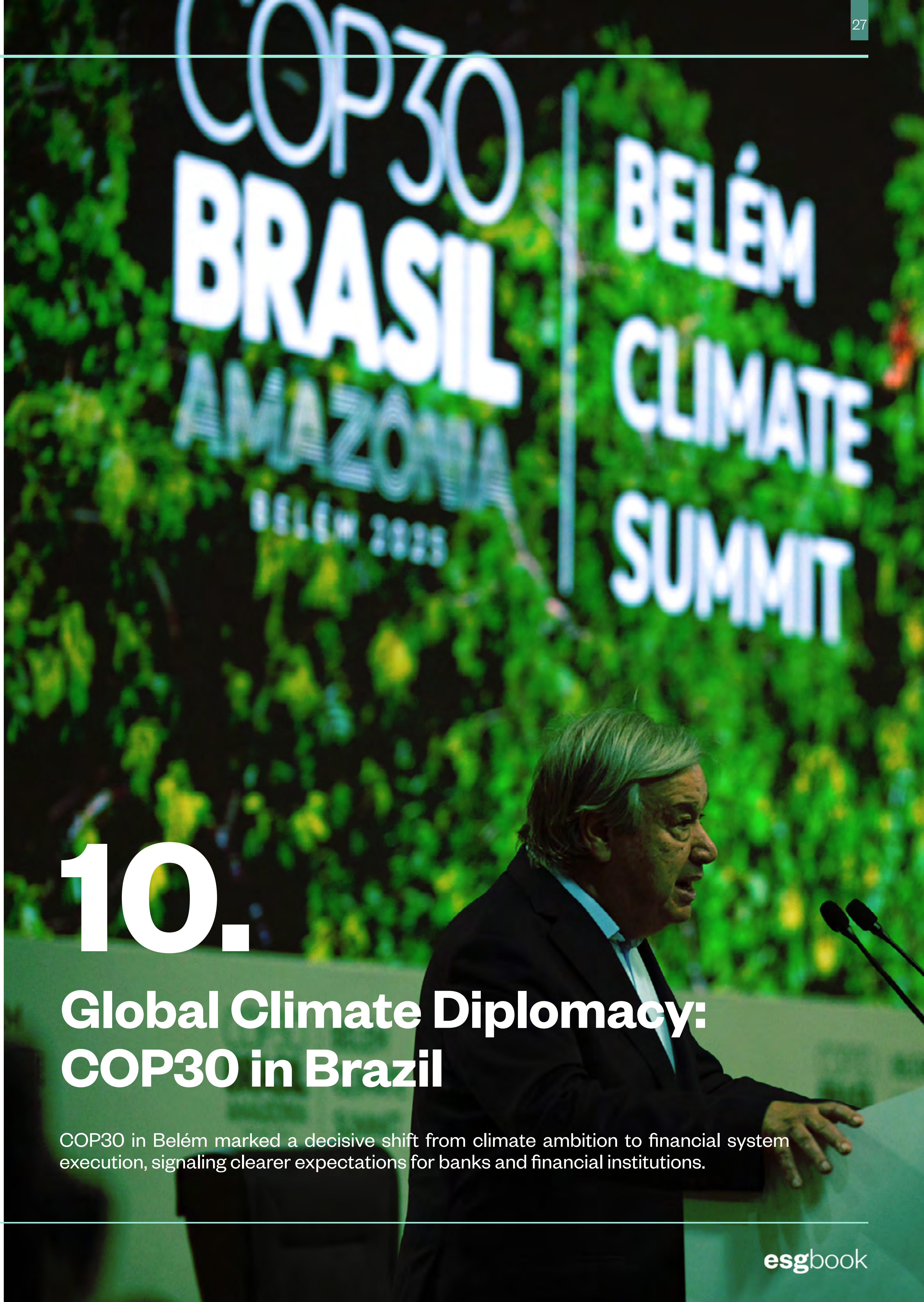
Increased regulation and demand for transparency are driving stricter requirements for ESG data providers, who in turn face significant challenges due to the current scarcity, inconsistency, and lack of standardization of underlying sustainability data.

27. https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf
28. https://www.icmagroup.org/sustainable-finance/icma-and-other-sustainable-finance-initiatives/code-of-conduct-for-esg-ratings-and-data-products-providers-2/
29. https://www.legislation.gov.uk/ukdsi/2025/9780348275995/contents
30.https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202403005
31. https://www.sebi.gov.in/legal/master-circulars/jul-2023/master-circular-for-esg-rating-providers-erps-_73856.html

Audit and Assurance

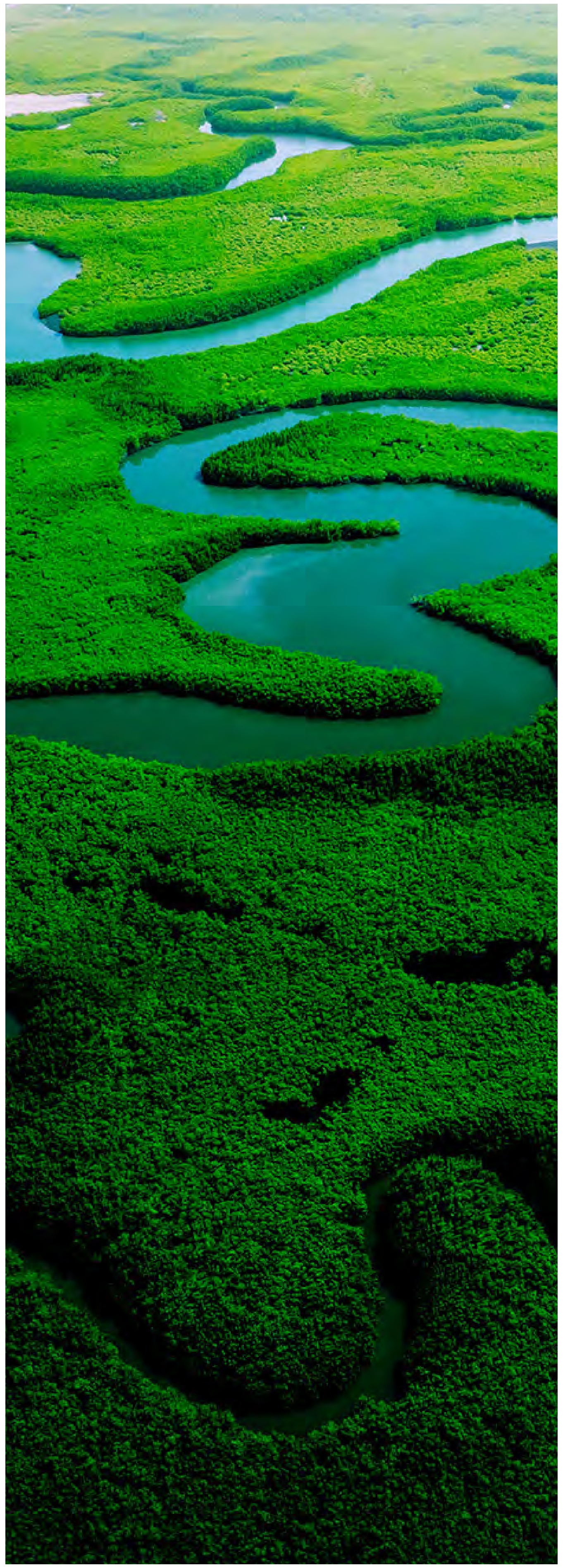
The IAASB finalized the ISSA 5000 standard, providing a global baseline for sustainability assurance engagements to enhance the reliability of reported data. Assurance requirements are also increasingly embedded across climate disclosure regimes in key regions such as the EU and the US as illustrated in the table below:

Jurisdiction / Regulation	Assurance Scope	Timeline & Standard
EU – CSRD / ESRS	Sustainability reporting under ESRS	• 2025: Limited assurance required • 2028: Transition to reasonable assurance (planned)
California – SB 253 (Climate Corporate Data Accountability Act)	GHG emissions (Scopes 1, 2, 3)	• 2026: Limited assurance – Scope 1 & 2 • 2030: Reasonable assurance – Scope 1 & 2 • 2030 (TBC): Limited assurance – Scope 3 (subject to CARB) • Independent, qualified assurance providers required
California – SB 261 (Climate-related Financial Risk Act)	Climate-related financial risk	• No assurance requirement
New York – S3456	GHG emissions	• 2027: Limited assurance – Scope 1 & 2 • 2028: Reasonable assurance – Scope 1 & 2 • Scope 3 assurance: TBD
United Kingdom	Sustainability reporting	• ISSA (UK) 5000 adopted • Aligned with global ISSA 5000 baseline
Australia & New Zealand	Sustainability and climate disclosures	• Local assurance standards (ASSA / ASAE) • Closely aligned with ISSA and ISAE
Hong Kong & Singapore	Sustainability and climate disclosures	• Largely voluntary or principles-based • Aligned with IFRS S1/S2 and international assurance standards
Japan, Malaysia, Thailand, India, Qatar	Sustainability and climate disclosures	• ISSA 5000, ISAE 3000/3410, and/or AA1000 permitted or referenced in regulatory or exchange-led frameworks
Emerging Markets (e.g., Pakistan, Philippines, Nepal, Nigeria, Bangladesh)	Sustainability reporting	• Largely voluntary or principles-based • Aligned with IFRS S1/S2 and international assurance standards



10. Global Climate Diplomacy: COP30 in Brazil

COP30 in Belém marked a decisive shift from climate ambition to financial system execution, signaling clearer expectations for banks and financial institutions.



Central Bank & Finance Minister Alliance

A major joint initiative was launched between the Network for Greening the Financial System (NGFS) (143 central banks) and the Coalition of Finance Ministers for Climate Action (CFMCA) (over 90 countries). The platform aims to deepen dialogue on how climate change affects the macroeconomy, including debt planning and financial stability.

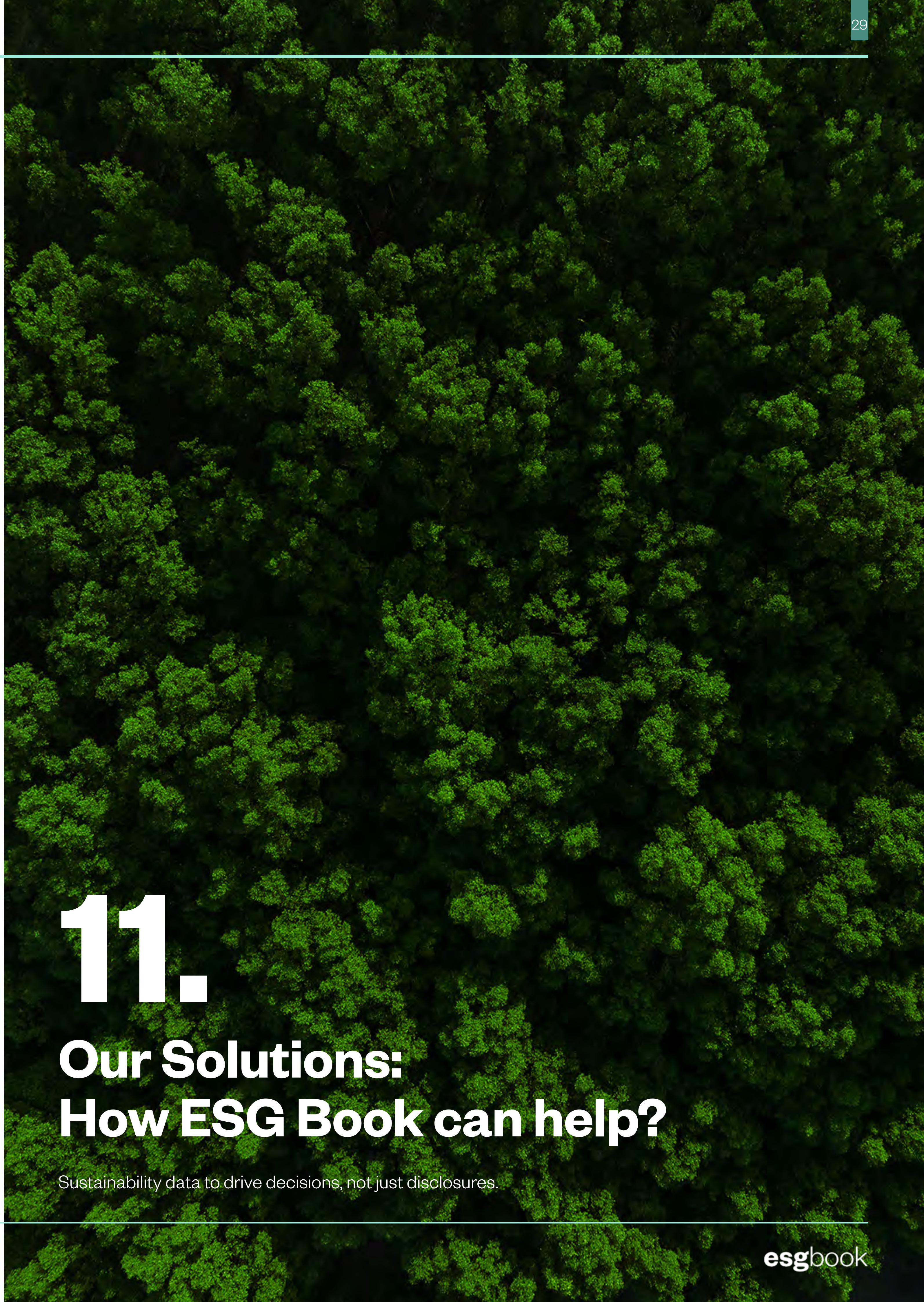
Coordinated Strategy

Despite the U.S. Federal Reserve's absence, the initiative will hold high-level macroeconomic dialogues throughout 2026 to support shared tools and financing strategies for an orderly transition.

Scaling Sustainable Finance

The European Investment Bank (EIB) used COP30 to launch an expanded Green Checker tool. This free, public resource helps banks and SMEs across regions identify projects eligible for green financing and assess their alignment with the EU Taxonomy and EIB climate standards.

Taken together, these developments point to a more coordinated and operational phase of climate finance. Banks and financial institutions should expect greater alignment of supervisory expectations, shared analytical tools, and increasing pressure to integrate climate risk and transition financing into core strategy, governance, and capital allocation decisions. For banks, this reinforces the direction of travel: climate risk is no longer a peripheral ESG issue, but a core prudential and balance-sheet consideration.

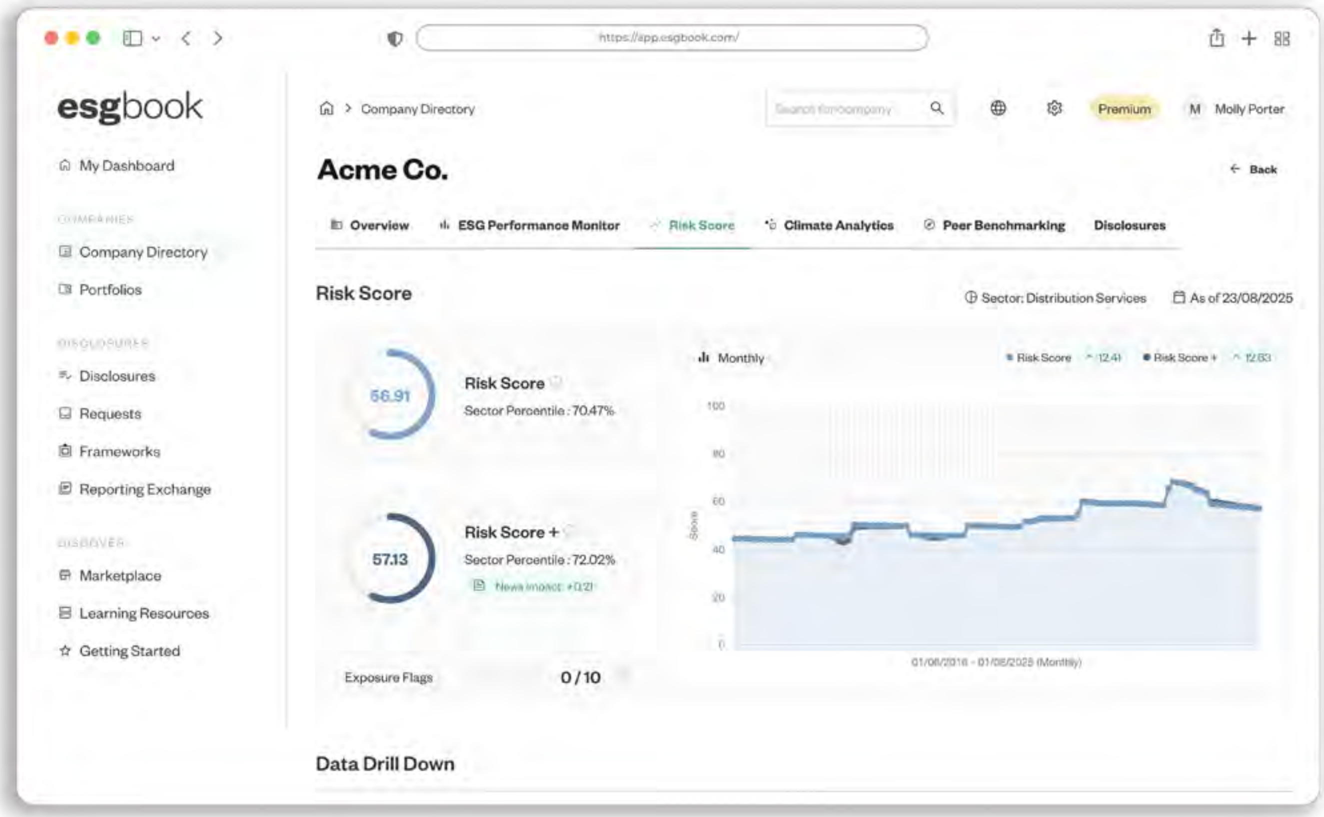


11.

Our Solutions: How ESG Book can help?

Sustainability data to drive decisions, not just disclosures.

ESG Book unifies the public and private sustainability data you need, in one platform, delivering higher accuracy, less effort, and full source documentation. Spend less time chasing data and more time using it.



Close Data Gaps

Scale coverage and completeness with the largest validated climate and sustainability dataset - covering 76,000 companies across 500+ metrics with 5+ years of history.

Build Trust in Data

Automate data validation with 100+ data checks, real-time input validation, linked source documentation, and 98%+ accuracy confirmed through sample testing.

Pricing that Scales

Embed sustainability and climate data across your business, across multiple teams and use cases, with transparent pricing that scales effortlessly with you.

ESG Book's product offerings enable banks, corporates, and other financial institutions to horizon-scan regulatory developments, establish auditable, data-driven baselines approaches to compliance across key sustainability regimes, and benchmark performance in response to increasingly prescriptive investor and supervisory sustainability and ESG requirements.

Learn more at esgbook.com

12.

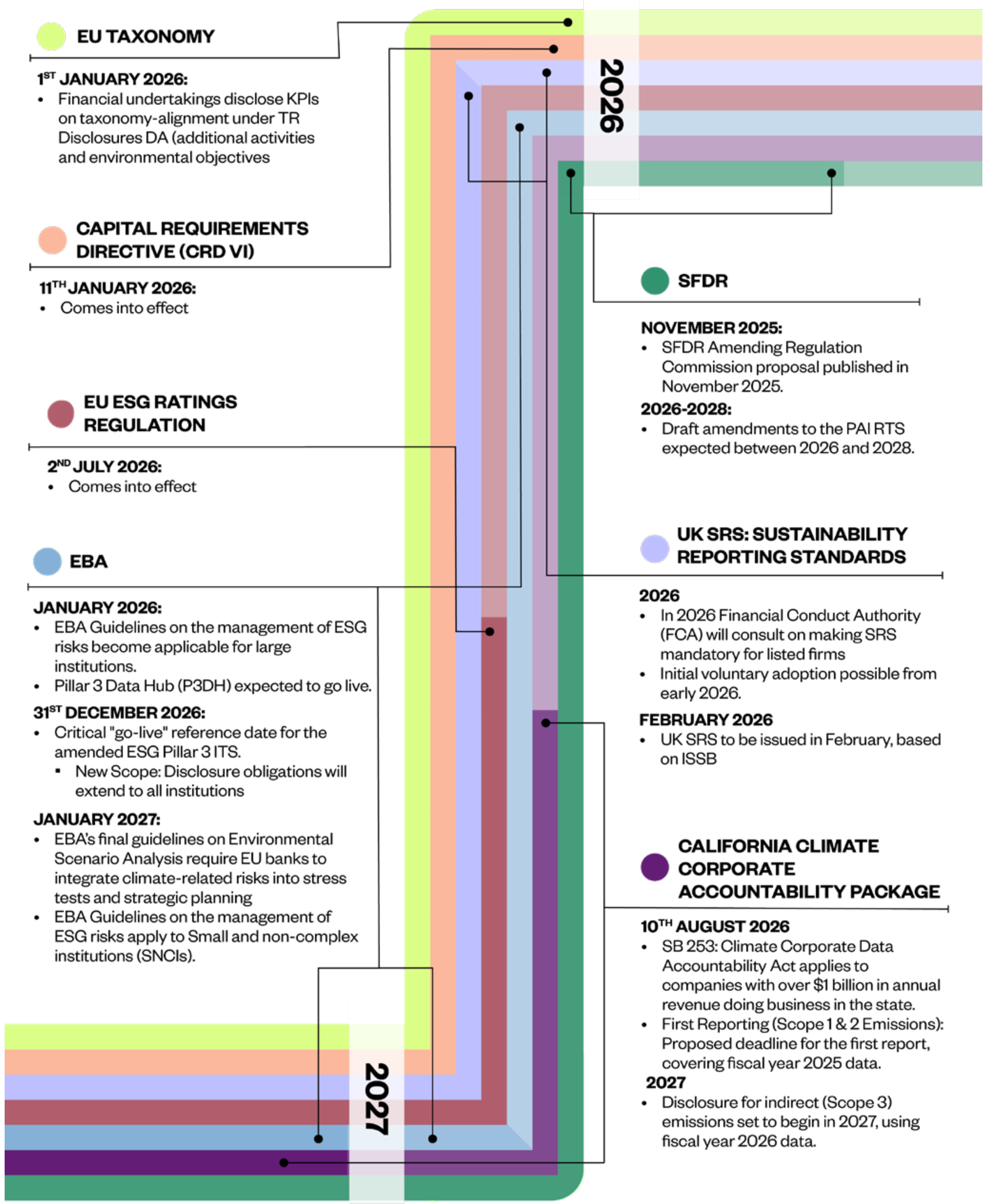
Conclusion

2025 marked a pivotal year in which ESG regulation for banks oscillated between regulatory relief, maintaining the status quo, and, progression. While prudential supervisors continued to reinforce the integration of climate and ESG risks into core risk management, governance, and stress-testing frameworks, the broader regulatory landscape – particularly in the EU – was increasingly shaped by political pushback. This tension resulted not in outright deregulation, but in delayed implementation, 'streamlining', and uneven supervisory expectations, leaving material data and methodological gaps for banks to navigate.

At the same time, the banking and financial services sector continued to expand green finance activities at pace, with record levels of green debt issuance and growing revenues tied to sustainable finance products. This environment of regulatory uncertainty has exacerbated a central challenge for banks: how to meet supervisory expectations in the absence of consistent, decision-useful counterparty data.

Ultimately, regardless of whether ESG regulation consolidates, stalls, or partially rolls back, the direction of travel for banks is clear. The ability to access, validate, and integrate high-quality climate and ESG data across debt and equity exposures is no longer a regulatory "nice to have," but a prerequisite for credible risk management, capital allocation, and long-term growth.

Key regulatory milestones and reporting deadlines in 2026



EU TAXONOMY

1ST JANUARY 2026:
- Financial undertakings disclose KPIs on taxonomy-alignment under TR Disclosures DA (additional activities and environmental objectives

CAPITAL REQUIREMENTS DIRECTIVE (CRD VI)

11TH JANUARY 2026:
- Comes into effect

EU ESG RATINGS REGULATION

2ND JULY 2026:
- Comes into effect

EBA

JANUARY 2026:
- EBA Guidelines on the management of ESG risks become applicable for large institutions.
- Pillar 3 Data Hub (P3DH) expected to go live.

31ST DECEMBER 2026:
- Critical "go-live" reference date for the amended ESG Pillar 3 ITS.
  - New Scope: Disclosure obligations will extend to all institutions

JANUARY 2027:
- EBA's final guidelines on Environmental Scenario Analysis require EU banks to integrate climate-related risks into stress tests and strategic planning
- EBA Guidelines on the management of ESG risks apply to Small and non-complex institutions (SNCIs).

SFDR

NOVEMBER 2025:
- SFDR Amending Regulation Commission proposal published in November 2025.

2026-2028:
- Draft amendments to the PAI RTS expected between 2026 and 2028.

UK SRS: SUSTAINABILITY REPORTING STANDARDS

2026
- In 2026 Financial Conduct Authority (FCA) will consult on making SRS mandatory for listed firms
- Initial voluntary adoption possible from early 2026.

FEBRUARY 2026
- UK SRS to be issued in February, based on ISSB

CALIFORNIA CLIMATE CORPORATE ACCOUNTABILITY PACKAGE

10TH AUGUST 2026
- SB 253: Climate Corporate Data Accountability Act applies to companies with over $1 billion in annual revenue doing business in the state.
- First Reporting (Scope 1 & 2 Emissions): Proposed deadline for the first report, covering fiscal year 2025 data.

2027
- Disclosure for indirect (Scope 3) emissions set to begin in 2027, using fiscal year 2026 data.

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