July 2025

Developments in ESG governance, disclosure, financial regulation and litigation

ESG Matters

In this July edition of ESG Matters, our Highlight discusses the EU regulatory framework on greenwashing. Our Spotlight section provides updates on recent developments in ESG governance, disclosure, financial regulation, and litigation.

1 June in brief

In June, the Council adopted its position on the substantive Omnibus proposal for the trilogue negotiations. Below, we provide a high-level comparison of the current CSRD and CSDDD, the Omnibus proposal by the European Commission, and the position of the Council. Meanwhile, the European Parliament is still working on its mandate for the trilogue negotiations. The EP is divided on scope and ambition.

Another key topic is the new EU Climate Law, published by Commissioner Hoekstra on 2 July, including the target to achieve 90% GHG emission reduction per 2040. The next issue of ESG Matters will focus on that as well.

CSRD	Existing Directive	EC Omnibus proposal	Council position
Scope EU companies	NFRD companies (**wave 1**) Large companies (**wave 2**) Listed SMEs, small credit institutions, insurance captives (**wave 3**)	> 1000 employees; > 50m turnover; and > 25m balance sheet total	> 1000 employees; and > 450m turnover
Scope non-EU companies	> 150m turnover in EU; or > 40m turnover EU branch	> 450m turnover in EU; or > 50m turnover EU branch	> 450m turnover in EU; or > 50m turnover EU branch
ESRS reporting standards	12 ESRS 1100+ data points	Revision of ESRS by EFRAG Voluntary standards (500 - 1000 employees) No sector-specific ESRS	Revision of ESRS by EFRAG Voluntary standards (500 - 1000 employees) EC to consider sector-specific ESRS, incl. financial sector
Value chain cap		Value chain cap < 1000 employees Linked to VSME	Value chain cap: right to decline Linked to VSME
Audit	Limited assurance > reasonable assurance	Limited assurance	Limited assurance

CSDDD	Existing Directive	EC Omnibus proposal	Council position
Scope EU companies	>1000 employees; and > 450m turnover	>1000 employees; and > 450m turnover	> 5000 employees; and > 1.5 billion turnover Additional postponement until 26 July 2029
Scope non-EU companies	>450m turnover in EU	>450m turnover in EU	>1.5 billion turnover in EU

CSDDD	Existing Directive	EC Omnibus proposal	Council position
Due Diligence (DD) scope	Risk-based DD on 'chain of activities' Broad definition of 'stakeholders' Yearly DD review	DD limited to direct business relationships (tier 1), unless 'plausible' information Narrow definition of 'stakeholders' Five-yearly DD review	DD limited to direct business relationships (tier 1), unless 'objective and verifiable' information Narrow definition of 'stakeholders' Five-yearly DD review
DD financial sector	Financial sector review 26 July 2026	No financial sector review	No financial sector review
Climate transition plan	Obligations to 'adopt' and 'put into effect' 'Best efforts compatibility' with Paris	Obligation to 'adopt' 'Best efforts compatibility' with Paris	Obligation to 'adopt' 'Reasonable efforts contribution' to Paris Additional postponement until 26 July 2030
Liability	Harmonised civil liability regime Harmonised maximum fine (≥ 5% net turnover)	National civil liability regime National authorities to set maximum fine (≤ 5% net turnover)	National civil liability regime National authorities to set maximum fine (≤ 5% net turnover)

2 Highlight: EU greenwashing framework

While the ESG legislative space is focused on Omnibus, this Highlight focuses on a topic that has constantly remained high on the ESG agenda: greenwashing.

Withdrawal of the EU Green Claims Directive?

Last month, important news came out regarding the proposal for a Green Claims Directive (GCD). The proposed GCD aims to regulate sustainability claims in the EU. Among other things, it would require third-party verification of sustainability claims before any such claims are made. Just before the start of the trilogue negotiations on the GCD, a Commission spokesperson announced the withdrawal of the Green Claims Directive (GCD) proposal. Other sources later challenged this announcement, leaving the political fate of the GCD proposal uncertain.

Regardless of the political fate of the GCD, existing EU rules on sustainability claims still apply. From 27 September 2026, organisations must also comply with stricter anti-greenwashing standards under the Empowering Consumers for the Green Transition Directive. These existing and new rules will be discussed below.

Existing EU anti-greenwashing rules

Business-to-consumer communications are currently regulated by the Unfair Commercial Practices Directive (UCPD). The UCPD aims to prevent unfair commercial practices towards consumers, including misleading statements. In short, a statement is misleading if it is likely to materially distort the economic behaviour of the average consumer regarding a product or service, and is likely to cause a different economic decision. Statements that are factually correct can still be misleading, for instance if they omit material information or if they contain overly vague and general language. In addition to the UCPD, organisations should adhere to sector-specific legislation on B2C communications and labels, such as relating to buildings, cars, or organic products.

The UCPD's rules for sustainability claims are specified in the European Commission's Guidance on the UCPD. Sustainability claims are defined as statements in commercial communication, marketing or advertising, which create the impression that a good or service has a positive or reduced sustainability impact. This includes green imagery, overall presentation, and omitted information. In short, sustainability claims must be correct, clear, and evidence-based. Greenwashing occurs if a good or service is presented as more sustainable than it actually is, for instance due to vague or generic sustainability statements. Additionally, national supervisors such as Dutch supervisors AFM and ACM have issued useful guidelines for financial institutions and corporates on making green statements.

Litigation and supervision

Across Europe, various greenwashing cases based on the UCPD have been brought at national courts over the past years. Sustainability statements were often found misleading, with courts finding that sustainability information is important to the average consumer and therefore likely to materially influence their purchasing decisions. A common pitfall is that commercial statements relating to sustainability are formulated too vaguely and generically, without sufficient context on the overall sustainability impact of the product or company. Under Dutch civil law, a breach of the UCPD can entitle consumers to seek a declaration for law, claim any monetary damages, or attempt to nullify the contract.

Next to civil litigation, national supervisors regularly take enforcement action on greenwashing. Dutch supervisor ACM is particularly active, usually engaging in a 'normative conversation' with organisations on potentially misleading sustainability statements and subsequently publishing a press release announcing the removal of certain sustainability claims.

Why additional rules?

Despite the current anti-greenwashing framework and ongoing greenwashing litigation and supervision, a 2020 study by the Commission found that 53.3% of environmental claims investigated in the EU were vague, misleading or unfound, and 40% of the claims were insufficiently substantiated. This is considered to create an uneven playing field in the EU to the detriment of truly sustainable companies.

It would also hinder consumers to make sustainable choices. The EU intends to change this with the Empowering Consumers for the Green Transition Directive (ECGT), which will amend the UCPD. It will apply in EU Member States from 27 September 2026. We discuss three key rules of the ECGT.

ECGT: generic sustainability statements

Firstly, the ECGT regulates generic sustainability statements, which are defined as statements that are not specified in clear and prominent terms on the same medium. Examples include: 'Environmentally friendly', 'climate friendly, 'gentle on the environment', 'energy efficient', 'biodegradable', and 'biobased'. Such statements will always qualify as misleading, except if the trader holds an EU-recognised ecolabel for the relevant product or service.

ECGT: claims on future environmental performance

Secondly, claims relating to future environmental performance must meet the following criteria:

- it contains clear, objective, publicly available, and verifiable commitments, set out in a detailed and realistic implementation plan;
- the plan includes measurable and time-bound targets and other relevant elements necessary to support its implementation, such as allocation of resources;
- the plan is regularly verified by an independent third-party expert, whose findings are made available to consumers.

ECGT: blacklist of sustainability statements

Thirdly, the ECGT introduces a 'blacklist' of communications that always qualify as misleading. These include:

- Using a sustainability label that is not based on a transparent third-party certification scheme or not established by public authorities.
- Making an environmental claim about the entire product or the company's entire business, while in fact it concerns only a certain aspect of the product or a specific activity of the company's business.
- Based on the offsetting of greenhouse gas emissions, claiming that a product has a neutral, reduced or positive impact on the environment in terms of greenhouse gas emissions.
- Presenting requirements imposed by law as a distinctive feature of the company's offer.

What it means for you

- As of 27 September 2026, B2C communications must meet stricter anti-greenwashing rules. Non-compliance exposes the organisation to litigation and supervisory enforcement risks, with potentially significant reputational impacts.
- To ensure compliance, organisations should review existing communications on all media, including websites, social media, billboards, in writing, and audiovisual commercials.
- Organisations may need to revise their communication policies, and provide training to relevant personnel involved in communications.
- Companies should monitor the proposal for a Green Claims Directive, which could further regulate sustainability claims. If formally revoked, the other greenwashing regulations remain in place and must be complied with.

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3 Spotlight on ESG developments

Governance & transition

MEPs propose amendments to EP draft report on substantive Omnibus proposal

On 27 June, Members of European Parliament (MEPs) proposed 106 amendments to the EP draft report on the substantive Omnibus proposal.

On CSRD, the amendments include:

- application threshold of >500 employees and either >EUR 50m turnover or > EUR 25m balance sheet total (instead of EP draft report proposal of >3000 employees and >450 million turnover);
- introduction of a 'light regime' based on simplified ESRS for medium-large undertakings (500-1000 employees);
- value chain cap for companies with <500 employees;
- postponement of sector-specific ESRS by three years (instead of removal);
- application threshold for non-EU companies of >EUR 150 million EU turnover;
- introduction of reasonable assurance standards after 1 October 2030

On CSDDD, the amendments include introduction of a three-staged due diligence approach:

- Maintaining the obligations to 'put into effect' the climate transition plan and compatibility with Paris Agreement.
- Maintaining the harmonised civil liability regime.
- And a requirement for the commission to review the limited applicability of due diligence requirements to financial undertakings.

On Taxonomy, the application threshold for Taxonomy-reporting under CSRD would not be amended. Only OpEx disclosures would become voluntary.

EC adopts Clean Industrial Deal State Aid Framework

On 25 June, the EC adopted the Clean Industrial Deal State Aid Framework (CISAF) that accompanies the Clean Industrial Deal. It enables Member States to more easily support the development of clean energy, support for electricity costs for energy-intensive users, industrial decarbonisation, sufficient manufacturing capacity in clean technologies, and de-risking of private investments. CISAF applies from 25 June 2025 and remains in force until 31 December 2030.

EP adopts InvestEU programme

On 24 June, the European Parliament (EP) adopted the InvestEU proposal under Omnibus II. It aims to increase EU competitiveness and enhance investment capacity. The EP included additional proposals to increase the EU guarantee by EUR 4.5 billion and improve oversight and simplified procedures to encourage private sector involvement, especially from small and medium-sized enterprises (SMEs) and mid-cap companies. Advisory services should also be expanded with EUR 200 million, supporting complex sectors such as social housing and defence. The final text will now have to be negotiated with the Council, which already adopted its position.

Council adopts position on substantive Sustainability Omnibus proposal

On 23 June, the Council adopted its final position ahead of the trilogue negotiations on the substantive Sustainability Omnibus proposal. In general, the Council proposes a further scale down of CSRD and CSDD as compared to the EC proposal. On CSRD, the Council proposes: application threshold for EU companies of >1000 employees and >450m turnover; for non-EU companies, >450m turnover in EU or >50m turnover EU branch; EC to consider sector-specific ESRS including for the financial sector; right to decline under the value chain cap. On CSDDD, the Council proposes: application threshold for EU companies of >5000 employees and >1.5 billion turnover; additional postponement of due diligence obligations until 26 July 2029; limitation of due diligence to direct business relationships (tier 1), except for ‘objective and verifiable’ information; a ‘reasonable efforts contribution’ standard for the climate plan; postponement of climate plan until 26 July 2030.

SDSN publishes 2025 Sustainable Development Report

On 24 June, the Sustainable Development Solutions Network (SDSN) published the 2025 edition of the Sustainable Development Report, which tracks and ranks the performance of all UN member states on the SDGs. Almost all states (190 out of 193) voluntarily presented national action plans for advancing sustainable development. However, globally none of the 17 Sustainable Development Goals (SDGs) are on track to be achieved by 2030, with only 17% of state targets on course for success. The report also shows regional differences: European countries lead, while East and South Asia has shown the fastest progress on the SDGs since 2015. The report also highlights that half of the world’s population lives in nations unable to invest sufficiently in sustainable development due to debts and insufficient access to capital.

EC classifies country risks under Deforestation Regulation

On 21 June, the EC published Implementing Regulation (EU) 2025/1093, setting out the country risk classifications under the EU Deforestation Regulation (EUDR). The EUDR imposes mandatory due diligence requirements on operators placing cattle, cocoa, coffee, oil palm, rubber, soya, and wood products on the EU market. Operators sourcing from low-risk countries benefit from simplified compliance obligations, while stricter checks apply for high-risk countries. The regulation identifies Belarus, North Korea, Myanmar, and Russia as high-risk, and lists countries such as the United States, United Kingdom, and many EU Member States as low risk. All other countries are considered standard risk.

Political unclarity on Green Claims Directive proposal

On 20 June, an EC spokesperson announced during a press conference that the EC intends to withdraw the proposed Green Claims Directive (GCD), while the final trilogue negotiations were set to initiate on 23 June. The Council subsequently cancelled the trilogue. However, the EC's announcement to withdraw was criticised by MEPs and was later nuanced by other EC sources. The political fate of the GCD proposal therefore remains unclear. Any withdrawal of the GCD does not affect the Empowering Consumers for the Green Transition Directive, which will apply in EU Member States from 27 September 2026.

Council adopts position on Battery Regulation

On 19 June, the European Council adopted its negotiation position on the revision of the Battery Due Diligence Regulation under Omnibus. The proposal would postpone the date of application of due diligence obligations for economic operators placing batteries on the EU market by two years. The Council will now enter into negotiations with the EP to reach a final agreement on the proposal.

EC publishes guidance on application of CSRD, CSDDD, EU Taxonomy, SFDR to defence sector

On 17 June, the EC publishes the Defence Readiness Omnibus aiming to facilitate over EUR 800 billion in investments in the defence sector over the next four years. The package includes a Commission Notice providing detailed guidance on how the EU sustainable finance framework (SFDR, EU Taxonomy, MIFID II, BMR), the CSRD and the CSDDD should be applied to (investments in) the defence industry and by defence companies themselves. Among other things, investments should not be considered unsustainable only because they are in the defence sector. The CSDDD excludes due diligence on authorised military and dual-use goods. The notice is particularly relevant for financial market participants, the defence industry, ESG rating and label providers, and index and benchmark providers. The package will also amend the definition of controversial weapons under the sustainable benchmarks regulation.

SBTN publishes validation mechanism for nature materiality assessments

On 17 June, the Science Based Targets Network (SBTN) published a new validation milestone, allowing companies to have their materiality assessments independently validated by the Accountability Accelerator. Materiality assessments help companies evaluate their environmental footprint and identify significant impacts on nature, uncovering hidden risks in the supply chain. By validating this assessment, companies can publicly claim early, science-based progress and strengthen their sustainability reporting, including for CSRD requirements.

SBTi launches pilot on draft corporate net-zero standard v2

On 16 June, the Science Based Targets initiative (SBTi) launched the next phase of its Corporate Net-Zero Standard V2 revision by inviting companies to pilot the draft standard. The pilot is open to all businesses and aims to ensure the updated standard is scientifically sound and practical. The revised standard aims to accelerate emissions reductions from 2026. The pilot will consist of two phases: a survey from June 16 to August 15, 2025, to refine the draft, and a hands-on trial with selected companies to address implementation challenges.

EP and Council agree on CBAM revision under Omnibus

On 13 June, the European Parliament and Council reached political agreement on revisions to the Carbon Border Adjustment Mechanism (CBAM) under Omnibus. The changes introduce a key exemption for small importers of up to 50 tonnes per year. This would exempt 90% of importers (mainly SMEs) while still covering 99% of emissions. The revised CBAM also includes measures to simplify data collection, compliance procedures, and prevent abuse. The agreement now awaits formal approval, after which it will be published in the Official Journal of the EU.

SBTi launches consultation on net zero standards for automative industry

On 12 June, the Science Based Targets initiative (SBTi) launched a public consultation on its draft updated automotive sector net-zero standard. The standard would apply to automakers producing over 10,000 vehicles annually and manufacturers generating at least 20% of revenue from automotive components. The updates include sector-specific criteria for emissions reductions across all operational areas and supply chains (scopes 1, 2, and 3). The consultation particularly seeks feedback on alignment with the draft SBTi corporate net-zero standard v2; the combination of relevant scope 1-3 emissions for new vehicles; the 'low-emission vehicle sales share' replacing the commitment to the zero emissions vehicles declaration; regional emissions pathways; part manufacturers criteria; and the emissions calculation guidance. The consultation is open until 11 August 2025.

EC launches consultation on disclosure requirements under Ecodesign Regulation

On 12 June, the EC launched a public consultation on a draft Implementing Regulation including an Annex which set out the details and format for disclosures on discarded unsold consumer products under the Ecodesign Regulation for Sustainable Products (ESPR). The ESPR requires economic operators that discard unsold consumer products (directly or on their behalf) to disclose information relating to the destruction (e.g., the weight and number of discarded products). The Implementing Regulation specifies the product types in scope, disclosure formats, and verification methods. The consultation is open until 10 July.

IEA publishes world energy investment report 2025

On 5 June, the International Energy Agency (IEA) published the World Energy Investment 2025 report, including an executive summary. It provides an overview of investments in the global energy sector. In 2025, expected capital flows to the energy sector are USD 3.3 trillion, up 2% from 2024. In 2024, about two thirds of global energy investments were in renewables, nuclear, grids, storage, low-emissions fuels, efficiency and electrification. One third was invested in oil, natural gas and coal. Solar energy remains the dominant technology, outperforming all other energy types including oil. China was the largest investor in both clean energy and fossil fuels. The strong increase in electricity demand is mainly driven by industry, cooling, electric mobility, data centres and AI. Nuclear and gas investments have increased over the past years.

EC adopts water resilience strategy

On 4 June, the European Commission adopted the European Water Resilience Strategy, setting out a comprehensive roadmap for sustainable water management across the EU. The strategy focuses on three core objectives: restoring the water cycle, building a water-smart economy, and ensuring access to clean and affordable water. It aims to strengthen water security, protect vital ecosystems, and support a resilient blue economy. To track progress, a Water Resilience Forum will be held every two years starting in December 2025, bringing together EU stakeholders for coordinated implementation and dialogue. The strategy reflects growing recognition of water as a critical resource in the EU's climate and economic resilience agenda.

EC launches consultation on carbon removals certification framework

On 3 June, the European Commission launched a public consultation on a draft regulation supporting the EU Carbon Removal Certification Framework (CRCF), a voluntary framework designed to enhance the credibility, transparency, and investment appeal of carbon removal projects across the EU. The proposed regulation introduces a harmonised approach to third-party verification, ensuring consistent certification standards across sectors and member states. It also includes simplified compliance measures for small-scale carbon farming operators, aiming to reduce barriers to participation. The consultation closed on 1 July 2025.

Disclosure

ICMA publishes updates on green, social, and sustainability bond principles

On 26 June, the International Capital Market Association (ICMA) published guidance on its Green, Social, Sustainability and Sustainability-Linked Bond Principles. The key publication is the practitioner's guide on Sustainable Bonds for Nature. Links to other guidance documents and updates can be found here.

GRI publishes updated reporting standards on climate change and energy

On 26 June, the Global Reporting Initiative (GRI) published updated voluntary reporting standards on climate change and energy (available at the bottom of this page as GRI 102 and GRI 103, including FAQs). The update incorporates recent developments and intergovernmental instruments. The climate change reporting standards aim to incorporate reporting on just transition principles, climate change mitigation and adaptation strategies, emissions reduction targets and progress, GHG removals within the value chain, and the use of carbon credits. The energy reporting standards include a management disclosure on energy policies and commitments, as well as reporting on topics such as energy consumption and generation by the own organisation and the upstream and downstream value chain, energy intensity, and reduction of energy consumption. On 23 June, GRI also published the Sustainability Taxonomy, which is a machine-readable version of the GRI standards based on the XBRL.

IFRS Foundation publishes guidance on climate transition plan disclosures

On 23 June, the International Financial Reporting Standards (IFRS) Foundation released new guidance to support companies in disclosing transition plans under IFRS S2 on Climate-related Disclosures. The guide aims to bring greater consistency to how companies report on their climate transition strategies. It supports the ISSB's global baseline by helping entities explain how they set climate targets, take action, and allocate resources to address climate-related risks and opportunities, and clarifies what must be disclosed under IFRS S2 for companies with a transition strategy.

EFRAG targets 50% reduction in ESRS datapoints to ease CSRD reporting burden

On 20 June, EFRAG published a progress report on its work to simplify the European Sustainability Reporting Standards (ESRS) as part of Omnibus. EFRAG expects to reduce the number of ESRS datapoints by at least 50%, particularly by eliminating excessively detailed narrative disclosures. At the same time, it intends to maintain the CSRD's core objectives. ESRS identifies six simplification levers: (i) streamlining the double materiality assessment (DMA); (ii) improving readability and conciseness of sustainability disclosures; (iii) clarifying the link between minimum disclosure requirements (MDR) and topical standards to avoid duplication; (iv) enhancing understandability and accessibility of the ESRS; (v) targeted burden reliefs; and (vi) strengthening interoperability with international frameworks, such as the ISSB standards. EFRAG aims to approve the ESRS draft by mid-July 2025 and launch a public consultation shortly thereafter. It aims to deliver its technical advice to the EC by 31 October 2025.

ESMA issues statement on first-time application of ESRS and supervisory expectation

On 20 June, ESMA published a public statement on the supervision of sustainability reporting in the context of the first application of the ESRS. ESMA acknowledges the uncertainty caused by the simultaneous introduction of the ESRS, the incomplete transposition of the CSRD into national law, and ongoing Omnibus proposals. Together with national competent authorities (NCAs), ESMA reaffirms its commitment to transparent sustainability reporting, the prevention of greenwashing, and a proportionate and realistic supervisory approach. The application of the ESMA Guidelines on Enforcement of Sustainability Information (GLESI), in force since January 2025, will be approached flexibly during the initial phase to accommodate the learning curve for both companies and regulators.

EU accounting boards jointly call for simplification of sustainability reporting standards

On 20 June, the national accounting standard setters of France, Germany, Italy, and Spain (ANC, DRSC, OIC, and ICAC) jointly submitted a staff working paper to EFRAG urging a major simplification of the ESRS. The proposal advocates a more pragmatic and business-oriented approach to ESG reporting, easing the growing compliance burden faced by companies under the CSRD. The paper calls for a substantial reduction in datapoints, particularly those outside a company's control or business scope, and includes targeted recommendations such as: streamlining double materiality assessments, limiting value chain disclosures, especially quantitative data on upstream and downstream activities, clarifying expectations for financial effects disclosures in line with ISSB practices, making operational control reporting optional to increase flexibility, improving alignment with ISSB standards for global interoperability, and enhancing coordination with the SFDR to create a more integrated EU sustainability reporting framework.

EP committee publishes study on EU sustainability reporting rules and Omnibus

On 13 June, the European Parliament's JURI Committee published a study on EU sustainability reporting obligations under CSRD, CSDDD, and the Taxonomy Regulation. While recognising the burdens associated with these reporting obligations, the study does not find explicit overlaps. The report offers recommendations for smarter integration of requirements and streamlining of obligations. The study also identifies several defects in the political process regarding Omnibus, including the neglection of available evidence and lack of stakeholder consultation. The study urges the EC to reconsider its legislative proposals and to clarify how anticipated burden reductions compare to potential losses in transparency, governance quality, risk management, and stakeholder trust, especially when removing sector-specific standards or altering requirements without clear justification.

TNFD publishes final guidance for ocean sectors and launches consultation on metrics

On 6 June, the TNFD published final sector guidance for fishing, marine transport, and cruise lines, helping companies assess and disclose their impacts on ocean ecosystems. Key topics include overfishing, IUU fishing, and marine protected areas. TNFD also launched a consultation on ocean-related metrics, open until 1 October 2025, aimed at improving data and supporting the LEAP risk assessment process. The guidance and consultation mark a key step in integrating ocean health into financial and corporate decisions.

Financial institutions & regulation

AFM publishes report on ESG engagement by Dutch asset managers

On 30 June, the Dutch Authority for Financial Markets (AFM) published an occasional paper (also in Dutch) on the role of engagement on ESG topics by Dutch asset managers. It finds that the effectiveness of engagement is difficult to demonstrate. Engagement can nevertheless be a valuable tool within a sustainable investment strategy. Engagement aimed at strengthening governance or providing information about a company's sustainability performance are useful steps forward. More specific reporting on engagement efforts can strengthen insight into the value case for engagement. A success factor is limiting engagement efforts to a select group of companies and ESG, as engagement across the entire portfolio is often not realistic. Other success factors include a credible threat of escalation and entering into partnerships with other shareholders.

ESMA publishes report on sustainability risks and disclosures in investment fund sector

On 30 June, the European Securities and Markets Authority (ESMA) published a report on its Common Supervisory Action (CSA) in 2023 and 2024 with national authorities on the integration of sustainability risks and disclosures in the investment fund sector. The CSA focused on compliance with (i) requirements on the integration of sustainability risks under the AIFMD and UCITS Directive; (ii) the Sustainable Finance Disclosure Regulation (SFDR), including disclosure of Taxonomy-aligned investments; and (iii) the ESMA Supervisory briefing on sustainably risks and disclosures for investment management. While the overall level of compliance was satisfactory, national supervisory authorities found several vulnerabilities. These were addressed through bilateral letters and other supervisory orders. Going forward, improvement is needed on the integration of sustainability risks, and SFDR disclosures on the entity and product level. ESMA encourages national authorities to continue proactive engagement with market participants and follow up where vulnerabilities were detected, including enforcement where appropriate.

EIOPA publishes report on biodiversity risk management in the insurance sector

On 30 June, the European Insurance and Occupational Pensions Authority (EIOPA) published a report exploring to what extent and how EU (re)insurers identify, measure and manage biodiversity risks. Over half of global GDP is estimated to depend on biodiversity services, with particular exposure of sectors such as agriculture, construction and healthcare. Assessing biodiversity risks is challenging, due to their complexity and interconnectedness with other environmental risk factors. About one in every five undertaking mentions biodiversity in their Own Risk and Solvency Assessment (ORSA), although current assessments remain largely qualitative. Undertakings recognise biodiversity loss as a significant emerging risk but face challenges in quantifying its financial impact. Insurers are therefore still in the early stages of identifying, measuring and managing biodiversity loss, and primarily consider it from a reputational point of view. Further engagement is necessary to strengthen the industry's response to biodiversity-related risks.

ESAs launches consultation on guidelines for supervisory stress testing of ESG risks

On 27 June, the European Supervisory Authorities (EBA, EIOPA, and ESMA, together: the ESAs) published a joint consultation paper on draft guidelines for stress testing of ESG risks. The guidelines are addressed to competent authorities for the banking and insurance sectors, who should apply the guidelines when they conduct stress tests. They provide guidance on the design and characteristics of stress tests with ESG elements, as well as on the organisational and governance arrangements necessary for such stress tests. The consultation is open until 19 September 2025.

ESMA outlines supervisory approach to first-time ESRS sustainability reporting

On 20 June, ESMA issued a public statement on how it and national authorities will supervise sustainability reporting by the first wave of large public-interest entities under the ESRS. In its statement, ESMA acknowledges the challenges posed by the simultaneous rollout of ESRS, delays in national implementation of the CSRD, and ongoing legislative changes under the Omnibus proposals. To address these complexities, ESMA emphasizes that enforcement of its Guidelines for Enforcement of Sustainability Information will be proportionate and pragmatic during this early phase. The guidelines offer built-in flexibility, allowing national authorities to tailor their approach based on local legal frameworks and issuer circumstances.

Basel Committee releases voluntary climate risk disclosure framework for banks

On 13 June, the Basel Committee on Banking Supervision (BCBS) published a voluntary disclosure framework to guide banks in reporting climate-related financial risks. The framework provides templates for both qualitative and quantitative disclosures, covering key areas such as financed emissions, exposure to physical climate risks, energy efficiency in real estate portfolios, and sector-level emissions intensity. Key changes compared to the November 2023 draft include: (i) replacing references to 'forecasts' with 'targets' to better reflect the voluntary nature of the revised framework, (ii) updating terminology to align with the materiality principle under the Pillar 3 disclosure framework; and (iii) removing the reporting template for facilitated emissions related to capital markets activities. The Committee also emphasises the need for flexibility, acknowledging that climate data is still evolving and that a mix of metrics is needed to capture the full scope of banks' climate-related exposures, encouraging a holistic interpretation of the disclosures.

SEC withdraws proposed ESG disclosure rules for US investment firms

On 12 June, the U.S. Securities and Exchange Commission (SEC) withdrew its proposed rule requiring enhanced ESG disclosures from certain investment advisers and investment companies. The proposal, originally issued as part of a broader ESG rulemaking agenda between 2022 and 2023, aimed to improve transparency around how firms define and apply environmental, social, and governance criteria in their investment strategies. The SEC has now confirmed it will not move forward with finalising the rule. Any future action in this area would require a new proposal. The decision reflects a shift in the SEC's regulatory approach and leaves ESG disclosure expectations for investment firms in the U.S. less defined, for now.

ECB publishes climate-related financial disclosures on ECB portfolios

On 12 June, the ECB published its third set of climate-related financial disclosures, covering its Eurosystem assets held for monetary policy purposes and the ECB's foreign reserves and its non-monetary policy portfolios. Emissions from ECB corporate bond holdings in the Eurosystem have fallen by 25% since 2021, supported by the ECB's tilting framework, which aims to cut emissions intensity by 7% annually. The ECB also introduced a nature-related risk indicator, showing that 30% of its corporate bond portfolio is invested in sectors vulnerable to biodiversity loss, such as utilities, food, and real estate. The share of green bonds climbed to 28%, with a target of 32% by 2025. The ECB stresses that despite the progress, data quality and consistency remain challenging. ECB calls for stronger, harmonised reporting standards across the financial system to drive more informed and effective climate action.

Speech by ECB's Claudia Burch: simplification without deregulation

On 11 June, the ECB published a speech by Claudia Burch, Chair of the ECB's Supervisory Board, titled 'Simplification without deregulation'. The speech highlights the ECB's approach to streamlining banking supervision while maintaining strong regulatory standards, particularly in relation to sustainability. Climate and environmental risks are now central to supervisory assessments, not secondary concerns. While simplification efforts, such as refining the SREP process, aim to enhance clarity and efficiency, they will not dilute ESG expectations. The ECB's supervisory priorities for 2025–2027 continue to place strong emphasis on environmental risk management, with remediation measures for banks falling short on ESG governance. Supervision should be aligned with the EU's sustainable finance agenda, including the Taxonomy Regulation and the CSRD. Broader reforms like Basel III and CRR3 further integrate ESG across the banking sector.

AFM calls for clearer, enforceable product categories in SFDR review

On 30 May, the AFM submitted its response to the EC's call for evidence on the review of the SFDR). The AFM reiterates its proposal to introduce two clear and enforceable product categories: 'sustainable' and 'transition', each based on objective minimum criteria to improve clarity, comparability, and oversight. The AFM warns against introducing a vague third category for 'light' ESG products, cautioning that it could mislead investors unless accompanied by clear labelling and minimum standards. The regulator also stresses the importance of SFDR disclosures applying equally to both retail and professional products. In a joint letter with Germany's BaFin and Austria's FMA, the AFM urges the EC to test any new categories with investors and market participants to ensure the framework remains credible and effective.

Litigation

Global trends in climate change litigation: 2025 snapshot

On 25 June, LSE has published the report 'Global trends in climate change litigation: 2025 snapshot'. The report describes key developments in global climate change litigation in 2024 and the beginning of 2025. Key findings include that: (i) over 226 new climate cases were filed in 2024, of which 80% can be considered strategic; (ii) more than 80% of cases involve government defendants; (iii) more attention is being paid to the implementation of judgments in favour of claimants.

Paris Court of Appeal upholds French postal company's breach of due diligence requirement

On 17 June, the Paris Court of Appeal upheld a 2023 ruling against La Poste for failing to meet its obligations under the French Duty of Vigilance Law (see also the French press release). This law requires large companies to draft and implement diligence plans to identify, prevent and mitigate the risks of serious violations of human rights and fundamental freedoms, the health and safety of individuals and the environment resulting from their business activities and supply chains. The Paris Court of Appeal found La Poste's 2021 vigilance plan insufficiently detailed, notably lacking risk prioritization and meaningful stakeholder consultation. It ordered La Poste to revise its vigilance plan. This marks the first time a French appeals court has upheld a ruling concerning the substantive obligations of the Vigilance Law.

Questions?

If you have any questions or comments on a specific ESG topic, please contact our [Sustainable Business & Climate Change team]. To receive ESG Matters, please [sign up].

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