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Developments in ESG governance, disclosure, financial regulation and litigation

ESG Matters



In this May edition of ESG Matters, our Highlight discusses the EC notice on the treatment of defence under the EU sustainable finance framework and the CSDDD. Our Spotlight section provides updates on recent developments in ESG governance, disclosure, financial regulation, and litigation.

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Highlight: Defence & ESG – How does defence fit within the ESG framework

Against the backdrop of the geopolitical turmoil, a question that could no longer be avoided moved to the forefront: can defence be reconciled with an ESG framework?

In a [Notice](#) on the treatment of defence under the EU sustainable finance framework and the CSDDD, the EC makes clear that investment in the defence sector is compatible with the framework and that sustainability disclosures apply across all industries. The answer, however, comes with conditions, caveats and a firm insistence on case-by-case assessment. Crucially, the Notice does not change the law. Its significance lies in how it instructs market participants to interpret and apply the existing rules. As we are increasingly receiving questions on the subject, we highlight the December 2025 Notice in this issue of ESG Matters.

SFDR: the PAI indicators that matter

The EC's position is most clearly articulated under the SFDR. The EC confirms that defence exposure is not inherently adverse for PAI purposes, correcting the common practice of treating all defence-related investments as problematic by default. The decisive point is the narrow scope of the controversial weapons indicator, which applies only to anti-personnel mines, cluster munitions, chemical weapons and biological weapons. Nuclear weapons are explicitly excluded. The practical consequences are immediate. Holdings in companies involved in nuclear deterrence systems are not automatically caught, nor are investments in manufacturers of conventional military equipment such as firearms, armoured vehicles or communications systems. The indicator was designed to be limited, and internal exclusion policies that go further are more restrictive than the law requires. The EC also acknowledges that defence activities aimed at safeguarding peace and security may, depending on the circumstances, contribute to social objectives, provided they comply with human rights standards, export control rules and good governance requirements. For Article 8 and Article 9 products, this opens up a more credible disclosure narrative than a binary exclusion approach.

EU Taxonomy: absence of criteria is not a verdict

A similar clarification applies under the EU Taxonomy, where silence has often been misread as condemnation. The EC makes clear that the absence of defence specific technical screening criteria does not amount to a negative assessment of the sector. It is not a prohibition, but a gap in the framework. Defence companies may still report Taxonomy alignment for eligible horizontal activities, such as energy efficiency, sustainable infrastructure or renewable energy in their own operations. For example, a defence manufacturer installing solar panels or improving the energy performance of its facilities can legitimately claim Taxonomy aligned turnover or capital expenditure for those activities, subject to compliance with the minimum safeguards. The practical implication is that Taxonomy reporting for defence companies should focus on the activity level, rather than dismissing the framework altogether on sectoral grounds.

CSDDD: where due diligence ends in a defence supply chain

Under the CSDDD, the EC confirms that defence companies within scope are subject to the same human rights and environmental due diligence obligations as any other sector. There is no dilution of responsibility upstream. The key clarification is that, once the competent authorities have granted a valid export authorisation, a company's due diligence obligations do not extend to the downstream use of military or dual use products. The rationale is explicit: export control is a state function, and when a state authorises an export, it assumes responsibility for that decision. For companies and suppliers in the defence value chain, export licensing therefore becomes a key compliance pivot point. Mapping products that require authorisation, securing the necessary licences and retaining them systematically is not only a matter of regulatory hygiene, but also defines the boundary of downstream CSDDD responsibility.

CSRD: the classified information exemption

The CSRD presents a different, but equally practical, set of considerations. Defence companies are not subject to sector specific reporting restrictions; the full ESRS framework applies. What distinguishes defence is the availability of the exemption for classified or sensitive information under ESRS 1. The EC explicitly recognises that defence companies are more likely than most sectors to rely on this exemption where disclosure would compromise national security or contractual confidentiality. This is not a licence for generic or evasive reporting, but it does provide a meaningful safeguard where genuinely sensitive information is at stake. From a governance and assurance perspective, companies should identify in advance which material topics engage the exemption and document the reasons for any omissions, as auditors and supervisors will expect a clear paper trail.

MiFID II and sustainability preferences

The implications under MiFID II may be the most tangible for investment firms and private banks. The EC confirms that defence investments do not have to be treated as incompatible with sustainability preferences simply because of their sector. Products with defence exposure may still be offered to sustainability minded clients, provided they otherwise meet the relevant criteria under SFDR, the EU Taxonomy or applicable PAI indicators. MiFID II requires a genuine suitability assessment based on a product's actual sustainability characteristics. Automatically steering defence exposed products away from clients with sustainability preferences is precisely the type of sector based shortcut the EC now rejects.

What this means for you:

- The EC expressly recognises the strategic importance of the defence industry for the EU's resilience and security. This is more than a technical clarification: it reflects a deliberate policy choice to align the sustainable finance framework with the EU's evolving security priorities.
- Investments in defence are considered compatible with the EU sustainable finance framework. The defence sector is, in principle, assessed in the same way as other sectors, with the exception of activities involving prohibited ("controversial") weapons, which remain subject to specific disclosure requirements.
- The overarching message is one of substance over presumption. Across SFDR, the EU Taxonomy, CSDDD, CSRD and MiFID II, the EC consistently calls for individual, evidence-based assessments rather than blanket sectoral exclusions. Internal policies and investor communications that automatically exclude or flag defence assets should be revisited in light of this Notice.

Contact our experts



Frans van der Eerden | partner
Financial Law
+31 6 51 86 97 12
frans.vandereerden@nautadutilh.com



Suzanne Kröner - Rosmalen | partner
Corporate Governance
+31 6 29 63 70 19
suzanne.kroner@nautadutilh.com



Stef Feyen | partner
Public Law & Regulatory
+32 499 69 84 14
stef.feyen@nautadutilh.com



Kim Heesterbeek | senior associate
Financial Litigation
+ 31 6 31 74 31 85
kim.heesterbeek@nautadutilh.com

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Spotlight on ESG developments



Governance & transition



SBTi updates the Absolute Contraction Approach under the Corporate Net-Zero Standard

On 29 April 2026, the Science Based Targets initiative (SBTi) [announced](#) an update to the Absolute Contraction Approach (ACA), the methodology used by companies to set absolute emissions reduction targets under the Corporate Net-Zero Standard V1.3 and the Corporate Near-Term Criteria V5.3. The update revises how annual reduction rates are calculated by taking into account a company's base year and net-zero target year, while keeping the requirement to reach net-zero emissions by 2050 or earlier and the minimum annual reduction rate of 4.2%. The revised approach aims to ensure greater consistency across companies with different starting points and aligns the methodology more closely with the direction proposed under the forthcoming Corporate Net-Zero Standard V2.0. The update applies with immediate effect to companies setting or renewing targets using the Absolute Contraction Approach in 2026 and 2027 and does not affect targets previously validated under the earlier method.



EU adopts Anti-Corruption Directive

On 21 April, the Council [adopted](#) the Anti-Corruption Directive, which aims to strengthen and harmonise the EU framework for combating corruption in both the public and private sectors. Key elements of the Directive include the harmonisation of definitions and the treatment of core corruption offences across Member States, the introduction of minimum penalty levels, and the alignment of the EU legislative framework with binding international standards, such as the United Nations Convention Against Corruption.

Dutch Implementation Act on Better Sustainability Information for Consumers

On 23 April, the Dutch House of Representatives [passed](#) the Implementation Act on Better Sustainability Information for Consumers. The Act transposes the European Empowering Consumers Directive into Dutch law and aims to strengthen consumer protection in the context of the green transition. It introduces stricter rules on environmental claims and sustainability labels, increases transparency for businesses, and gives consumers better access to reliable information on the sustainability of products and services. The Act also seeks to combat greenwashing and other unfair commercial practices related to sustainability.

SBTi publishes Trend Tracker 2025

On 9 April, the Science Based Targets initiative (SBTi) [published](#) its Trend Tracker 2025, providing insights into the global alignment of businesses with climate science and the progress of the net-zero transition. The report highlights three key trends. First, corporate adoption continues to accelerate: the number of companies with validated near-term targets grew by 40% year-on-year, while validated net-zero targets increased by 61%. Second, Asia is emerging as a major driver of growth, now scaling at a pace comparable to Europe, signalling that corporate climate ambition is increasingly extending beyond traditional frontrunners into Asia and other emerging markets. Third, significant momentum is observed in sectors such as health care, information technology and materials.



Disclosure

EC publishes fourth notice on Article 8 Taxonomy reporting

On 30 April, the European Commission (EC) published its [fourth Commission Notice](#) providing interpretative guidance on Article 8 Taxonomy reporting, as amended by the Omnibus Delegated Act. Published in the Official Journal, the Notice addresses key questions relating to the application of the revised reporting rules for taxonomy-eligible and taxonomy-aligned activities and assets. Topics covered include transitional options for 2025 reporting, comparative information requirements, the use of opt-outs, materiality assessments, and the treatment of specific KPIs and exposures, in particular for financial institutions and SPVs. The guidance aims to facilitate consistent and practical implementation of the amended disclosure framework without introducing new obligations.

OECD publishes overview of due diligence reporting requirements

On 3 April 2026, the OECD [published](#) a report analysing reporting requirements across a range of mandatory and voluntary social and environmental due diligence frameworks. The report maps differences in disclosure requirements, including their scope, risk assessment and prioritisation criteria, supply-chain coverage and units of analysis. It finds that these differences limit the reusability of information across frameworks and may result in multiple disclosures covering similar issues. The report also outlines areas where disclosure requirements diverge across frameworks and documents the implications for reporting practices.

ESMA publishes compliance table on enforcement of sustainability reporting

On 1 April, the European Securities and Markets Authority (ESMA) [published](#) a compliance table in connection with its Guidelines on Enforcement of Sustainability Information. These Guidelines set out how national competent authorities should supervise compliance with the European Sustainability Reporting Standards (ESRS). In the compliance table, ESMA indicates the extent to which each national competent authority complies with, intends to comply with, or does not comply with the Guidelines. Notably, the Netherlands is currently listed as non-compliant. ESMA also reiterated its call for a proportionate and flexible approach during the initial phase of application of the ESRS.



Financial institutions & regulation

ESMA consults on draft endorsement guidelines under the ESG Ratings Regulation

On 29 April, the European Securities and Markets Authority (ESMA) launched a [consultation](#) on draft guidelines concerning the endorsement of third-country ESG ratings under the ESG Ratings Regulation. The draft guidelines set out the conditions under which EU-registered ESG rating providers may endorse ratings produced outside the EU and specify the information to be submitted as part of an endorsement application. ESMA invites stakeholder feedback to help ensure that the guidelines are clear, proportionate and workable, and that the endorsement regime is applied consistently across the Union. The consultation runs until 29 May 2026.

EFRAG publishes its first Sustainability Report


On 27 April 2026, the European Financial Reporting Advisory Group (EFRAG) [published](#) its first Sustainability Report, covering the 2025 reporting year. The report has been prepared in accordance with the Voluntary Sustainability Reporting Standard for SMEs (VSME) and presents EFRAG's environmental, social and governance (ESG) disclosures. It describes EFRAG's sustainability-related policies and practices across its activities and internal organisation. The report has been produced using the VSME Digital Template and Converter and is published as a human-readable Inline XBRL document with disclosures tagged according to the VSME XBRL taxonomy.

EBA, EIOPA and ESMA publish their joint annual report

On 24 April, the Joint Committee of the European Supervisory Authorities (EBA, EIOPA and ESMA) published its 2025 [Annual Report](#), setting out supervisory priorities across the EU financial sector. Key areas of focus include consumer protection in increasingly digital markets, the strengthening of operational and cyber resilience through the implementation of DORA and enhancing the effectiveness of sustainable finance disclosures.

AFM publishes 2025 annual report

On 14 April, the Dutch Authority for the Financial Markets (AFM) [published](#) its 2025 annual report, addressing key developments in the supervision of sustainability-related practices across the financial sector. With respect to sustainability reporting, the AFM observes that companies and accountants have actively implemented its recommendations, contributing to the consistent application of CSRD requirements and improving the overall quality of reported ESG information.



EBA launches consultation on major simplification of supervisory reporting

On 10 April, the European Banking Authority (EBA) launched a [consultation](#) on a package of measures aimed at significantly simplifying EU supervisory reporting. The proposed amendments seek to better align reporting requirements with supervisory needs, reduce the overall number of data points, and strengthen proportionality, in particular for small and non-complex institutions. The consultation covers several modules relating to the development of Implementing Technical Standards (ITS) on supervisory reporting and supervisory benchmarking, including a dedicated ESG reporting module accompanied by a related consultation paper.

AFM publishes updated guidelines on appropriate mortgage advice

On 9 April, the AFM [published](#) the final version of its updated guidelines on appropriate mortgage advice. At the request of the sector, sustainability has been incorporated as a new theme in the guidelines, reflecting its growing relevance in mortgage advisory practice. The sustainability section sets out how mortgage consultants can advise consumers on available sustainability options, corresponding financing arrangements and the potential financial implications thereof.

NGFS publishes Nature Package on nature-related financial risks

On 9 April, the Network for Greening the Financial System (NGFS) [published](#) its Nature Package, aimed at strengthening the capacity of central banks and supervisory authorities to assess and manage nature-related financial risks. These risks – including biodiversity loss, ecosystem degradation and water stress – extend beyond climate change and may pose significant threats to macro-financial stability. The Nature Package consists of three publications. First, a [summary note](#) on current modelling tools for nature-related financial risk scenarios, which highlights the need for more advanced frameworks to capture interactions between nature, climate, the economy and the financial system. Second, a [note on navigating nature-related data](#), which provides an overview of available metrics, data sources and methodologies for financial risk assessments while identifying persistent challenges relating to data quality and geographic granularity. Third, a [note on the supervision of nature-related financial risks](#), which presents emerging supervisory practices across jurisdictions and proposes a structured, phased approach to integrating these risks into supervisory frameworks.



ECB publishes opinion piece on Europe's fossil fuel dependence and energy transition

On 7 April, Frank Elderson, Member of the Executive Board of the European Central Bank (ECB), [published](#) an opinion piece addressing Europe's dependence on fossil fuels and its implications for economic and price stability. Elderson argues that this dependence constitutes a significant macroeconomic vulnerability, particularly in light of geopolitical risks that Europe cannot control but can mitigate. He advocates for reducing reliance on imported fossil fuels and accelerating the transition to domestically produced clean energy. According to Elderson, such a transition would not only strengthen macroeconomic stability and lower long-term energy costs, but also support economic growth, deliver public health benefits and enhance Europe's strategic autonomy. He underscores that the necessary instruments are already available, stressing the importance of delivering on existing decarbonisation commitments and preserving the integrity of the Emissions Trading System (ETS) as a credible, market-based mechanism for carbon pricing.

AFM publishes review of sustainability practices in the non-life insurance sector

On 2 April, the AFM [published](#) the findings of its review of sustainability integration in the non-life insurance sector. The AFM concludes that insurers have generally embedded sustainability-related features in their products and processes and recognise the sector's role in the energy transition. At the same time, the review identifies a number of areas for improvement. In particular, the AFM notes that insurers rarely measure the actual environmental impact of sustainability-related features, instead relying primarily on usage metrics. Sustainability-related features are also more common in retail insurance than in business insurance, and emerging sustainability-related risks remain difficult to insure because of their novelty and complexity. The AFM reiterates that sustainability-related claims must be accurate, clear and substantiated in accordance with existing regulatory requirements.



Litigation



Greenpeace v. Energy Transfer

On 16 April, Greenpeace International and the US energy company Energy Transfer [appeared](#) before the District Court of Amsterdam in a dispute arising from protests against the Dakota Access Pipeline. Greenpeace seeks a declaratory judgment that Energy Transfer has acted unlawfully by bringing a Strategic Lawsuit Against Public Participation (SLAPP), aimed at silencing the organisation through claims for hundreds of millions of euros in damages. Energy Transfer disputes the jurisdiction of the Dutch courts and argues that the case should be stayed pending the outcome of ongoing appellate proceedings in the United States. The District Court of Amsterdam is expected to issue its decision on the continuation of the proceedings on 3 June.



Dutch Government appeals climate case Bonaire

On 10 April, the Minister of Climate Policy and Green Growth [informed](#) the House of Representatives that the Dutch Government will appeal the ruling of the District Court of the Hague of 28 January 2026. The Court found that the Dutch State had violated Articles 8 and 14 of the ECHR and Article 1 of the 12th Protocol by failing to protect Bonaire residents adequately against climate change. The Minister states that there are weighty (legal) reasons for having the judgment reviewed by the Hague Court of Appeal. The Minister questions the legal framework applied by the District Court, the legal obligations it derived from UN Climate Conferences, and the District Court's decision that emissions from international aviation and maritime transport must be considered when establishing national emissions reduction targets. As the ruling took immediate effect, the State has requested its suspension pending appeal. The House of Representatives will be further informed about the steps taken to implement the District Court's ruling no later than the State Opening of Parliament.

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](#).

Key contacts



Frans van der Eerden | **partner Financial Law**. Focus on financial regulatory & sustainability



Maartje Govaert | **partner Employment & Pensions**. Focus on social pillar of ESG (employment law matters)



Iris Kieft | **partner Public Law & Regulatory**. Focus on public regulatory, energy, climate change and the circular economy



Suzanne Kröner-Rosmalen | **partner Corporate Governance**. Focus on sustainable corporate governance, ESG disclosures and strategy



Jens Mosselmans | **partner Public Law & Regulatory**. Focus on energy transition and public regulatory



Geert Raaijmakers | **partner Corporate Governance**. Focus on sustainable corporate governance



Freerk Vermeulen | **partner Dispute Resolution and head of the Supreme Court Litigation Team**. Focus on climate litigation and sustainability strategy



David Wumkes | **partner Real Estate**. Focus on real estate, sustainability and energy projects

Meet the [whole team](#)

Editors: [Kim Heesterbeek](#), [Erik van Engelenburg](#) & [Deniz Poelsma](#)