CLARITY AI

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Sustainable Finance Regulatory Outlook 2025

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Navigating the Shifting Landscape of Sustainable Finance Regulation in 2025

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2025 is already proving to be a year of upheaval for sustainable finance, with sweeping regulatory changes reshaping the landscape in real time.

From Brussels to Washington, policymakers are redefining how businesses disclose climate risks, how investors allocate capital, and how financial markets assess sustainability.

The stakes are enormous: Will transparency be strengthened or undermined? Will financial markets embrace long-term sustainability, or will political turbulence lead to a retreat?

The European Commission's Omnibus Proposal: A Radical Shift

On February 26, 2025, the European Commission made its highly anticipated announcement in Brussels, introducing its first Omnibus proposal aimed at revising key sustainability regulations, including the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), and the EU Taxonomy.

The announcement—one of three planned Omnibus proposals this year—was framed around the theme of "simplification." But beneath the rhetoric, it became clear that these changes amounted to significant deregulation rather than mere streamlining.

> Among the most striking shifts was a dramatic reduction in the number of companies required to report on sustainability, with estimates suggesting an 80% cut in companies required to report.

Investors and financial institutions rely on high-quality sustainability data to assess risks, support sustainable investment strategies, and meet growing client demand for ESG-aligned products. By rolling back these requirements, the EU risks creating an environment where greenwashing flourishes and important sustainability-related risks go unaddressed.

The next phase of negotiations in the European Parliament and Council will determine how far these deregulation efforts go, and whether policymakers push back against changes that weaken transparency and accountability.

The U.S. Retreat from Climate Policy: A Test for Investors

On the other side of the Atlantic, the regulatory landscape is shifting in a different direction. The first months of the new U.S. administration have been marked by a decisive pullback from climate-focused policies.

Executive orders have halted offshore wind development, eased restrictions on fossil fuel industries, and rolled back emissions reduction targets.

The withdrawal from the Paris Climate Agreement has sent a clear signal that federal support for sustainable finance is no longer a given.

These policy shifts have already had tangible effects on market dynamics. High-profile financial institutions have exited the Net Zero Banking Alliance, reflecting growing political and regulatory uncertainty.

However, while these moves indicate a weakening of voluntary climate alliances, they do not necessarily signal a retreat from sustainable investment principles.

Many firms are maintaining their internal net-zero commitments, recognizing that climate risk remains a fundamental financial consideration.

For investors, this moment calls for a renewed focus on fundamentals. Climate risks—both physical and transitional—are accelerating, regardless of political shifts. Wildfires, hurricanes, and extreme weather events are driving billions in financial losses annually, underscoring the need for resilient investment strategies.

While federal climate policy may be in flux, state-level initiatives and global regulatory developments will continue to shape investment decisions. Global companies will still need to comply with sustainability disclosure requirements under frameworks of regions in which they operate, reinforcing the need for a global perspective on climate finance.

The Acceleration of Global Sustainable Finance Regulations

While the EU and U.S. are making headlines with their regulatory shifts, other regions are taking decisive steps to strengthen sustainable finance policies. In Latin America, countries like Brazil are tightening disclosure requirements for companies seeking access to sustainable finance markets, with a growing focus on biodiversity risks and social impact.

Meanwhile, in Asia, jurisdictions such as Singapore, Hong Kong, and Japan are enhancing climate risk disclosure mandates to align with international standards like the Task Force on Climate-related Financial Disclosures (TCFD) and the International Sustainability Standards Board (ISSB).

For companies operating across multiple jurisdictions, this evolving patchwork of rules presents both compliance challenges and strategic opportunities.

Those that proactively align with emerging global standards will not only mitigate regulatory risks but also gain a competitive advantage in securing capital from sustainability-conscious investors.

Your Guide for a Complex Regulatory Landscape

In such a rapidly shifting environment, the need for a comprehensive, strategic approach to sustainable finance has never been greater.

This eBook serves as a guide to navigating this evolving landscape, providing insights into the key regulatory trends shaping 2025 and beyond.

EU Regulations

Corporate Sustainability Reporting Directive, Corporate Sustainability Due Diligence Directive, EU Taxonomy, EU Pillar 3 ESG Disclosures, Sustainable Finance Disclosure Requirements, ESMA Guidelines on Fund Names, MiFID II Sustainability Preferences, EU Green Bond Standard, Low Carbon Benchmark Regulations.

Corporate Sustainability Reporting Directive (CSRD)

2023

January 5, 2023
CSRD enters into force, replacing and expanding the scope of the Non-Financial Reporting Directive (NFRD).

July 31, 2023
European Commission adopts first set of European Sustainability Reporting Standards (ESRS), the framework for CSRD reporting.

2025

January 1, 2025
Large public-interest entities begin reporting under CSRD. Companies report in 2025 on FY 2024 data.

February 26, 2025
CSRD comes under scrutiny and faces changes as part of the EU Omnibus proposal. The future of the regulation is uncertain as the Commission suggests de-scoping a large number of reporting entities.

As a temporary measure, the Commission also proposes delaying the application to large companies (250+ employees, and 25m balance sheet or 50m revenue) and listed SMEs by two years.

Overview

The Corporate Sustainability Reporting Directive (CSRD) enhances financial statements with a standardized set of sustainability data. It requires firms to disclose opportunities, risks, and impacts, helping investors and stakeholders assess how they manage ESG responsibilities.

What Does It Require?

Starting with large companies already reporting under the EU-set threshold for the Non-Financial Reporting Directive (NFRD), in-scope firms must:

- **Report Under ESRS:** Disclose sustainability data per the European Sustainability Reporting Standards (ESRS).

- **Disclose Taxonomy Alignment:** Report EU Taxonomy alignment and any climate transition plan.

- **Double Materiality Assessment (DMA):** Assess material impacts, risks, and opportunities across operations and value chain. The assessment must cover both financial materiality and impact materiality.

- **Obtain Third-Party Assurance:** Verify CSRD reporting with an independent auditor.

Who does it impact?

- Corporates and financial institutions operating in Europe, including firms with European subsidiaries.

- Obligations are being introduced over four years, starting with the largest entities.

Omnibus in Focus: What's Next for the CSRD?

The Corporate Sustainability Reporting Directive (CSRD) was introduced to improve corporate transparency and provide investors with reliable ESG data. It significantly expanded reporting requirements, covering around 50,000 companies—up from 11,000 under its predecessor, the Non-Financial Reporting Directive (NFRD). However, a new proposal from the European Commission, known as the Omnibus Regulation, could dramatically alter the CSRD's scope and timeline.

Announced in February 2025, the Omnibus proposal would reduce the number of companies required to report by 80%, limiting the scope to firms with more than 1,000 employees and either a balance sheet exceeding EUR 25 million or revenues over EUR 50 million.
Additionally, companies originally scheduled to report in 2026 and 2027 would receive a two-year deadline extension, delaying the full rollout of CSRD.

Beyond these reductions, the Commission has proposed simplifying disclosure requirements. This includes eliminating sector-specific reporting standards, limiting the data companies can request from their value chain, and maintaining a lower assurance threshold of "limited" assurance instead of "reasonable" assurance. To fast-track these changes, parallel legislation has been introduced to pause the CSRD rollout for affected companies.

If enacted, these revisions risk weakening the CSRD's original objectives by significantly reducing the volume of sustainability data available. This would create challenges for investors seeking to assess companies' ESG risks and opportunities. We are closely monitoring how the Omnibus Regulation progresses through the EU institutions and which elements ultimately become law.

	Current CSRD	Commission Proposal
Temporary Measure	• Wave 1 already in force • Wave 2 report 2026, Wave 3 report 2027	• Temporary stop on Wave 2 and 3 of two years
Scope	• Wave 1: PIEs with > 500 employees • Wave 2: 250 employees, €50 million revenue or €25 million balance sheet • Wave 3: listed SMEs	• Companies with >1000 employees and €50 million revenue or €25 million balance sheet
Value Chain	• Required to report on value chain subject to double materiality assessment	• Double materiality assessment remains. • Reporting entities can only request information from out of scope companies based on VSME standard
ESRS	• Current version + sector standards	• Proposal due 6 months after entry into force: more quantitative and aligned to investor and bank regulation • Sector standards cancelled
Assurance	• Limited Assurance → Reasonable assurance	• Limited assurance only

Corporate Sustainability Due Diligence Directive (CSDDD)

2024

July 25, 2024
The CSDDD enters into force and member states have two years to transpose into national law.

2025

February 2025
CSDDD comes under scrutiny and faces changes as part of the EU Omnibus proposal. The future of the regulation is uncertain.

The European Commission proposes a one-year delay to the start of the regulation as well as significant changes to the requirements.

2027

Summer 2027/2028
Under the original CSDDD, application began for companies with over 5,000 employees and a net turnover of €1.5 billion, as well as non-EU companies with an EU net turnover of over €1.5 billion, in July 2027. Over the following two years the scope would be extended to more companies.

Under the Omnibus, the Commission proposes delaying initial CSDDD compliance to July 26, 2028, while the other 2028 and 2029 phase-ins remain unchanged.

It also proposes bringing forward the obligation by the EU Commission to develop due diligence guidelines to July, 2026, from January, 2027. This gives companies two years to implement the guidance.

Overview

CSDDD aims to hold firms accountable for minimizing social and environmental harm across their value chains. Companies must conduct due diligence and mitigate negative impacts in their operations and business models, especially on climate and human rights.

What Does It Require?

- **Identify and Address Harms:** Assess and mitigate actual and potential social and environmental harms in operations and supply chains.

- **Implement Due Diligence:** Create processes to detect and prioritize the most severe environmental and human rights risks.

- **Collaborate on Risk Mitigation:** Work with suppliers and customers to prevent harm and compensate for damages.

- **Develop Transition Plans:** Set climate targets aligned with the Paris Agreement, including interim goals and all emissions.

- **Report and Disclose:** Include actions taken to reduce harmful impacts and transition plans in future CSRD reports.

Who Does It Impact?

- The Directive applies to European firms with more than €450 million in global revenue and 1000 employees, as well as non-EU parent companies of groups that have reached those thresholds in the EU.

- Large domestic and foreign corporations operating in Europe, plus firms in their supply chains.

- Financial institutions have a partial two-year delay on their obligations.

Omnibus in Focus: What's Next for the CSDDD?

The CSDDD sets a new standard for due diligence commitments in the EU. Given its ambitious scope, it has been the subject of intense public debate since its approval.

In February 2025, the EU Commission proposed the Omnibus Regulation package to align the CSDDD and CSRD thresholds, delay compliance timelines, and revise key requirements.

The proposal narrows risk assessments to direct business partners, removes the obligation to terminate relationships, extends due diligence monitoring to a five-year cycle, and weakens civil liability and penalties. It also eliminates the review of financial services' due diligence requirements. Since due diligence obligations shape sustainability disclosures, these changes would have a direct impact on CSRD reporting.

The Omnibus Directive specifically targets the CSDDD, though not because of reporting burdens. Instead, critics argue that its compliance requirements impose excessive costs and bureaucracy on companies. Many non-EU firms are pushing back, citing concerns over its impact on global supply chains.

As negotiations continue, the debate is extending beyond the EU, with potential implications for U.S.-EU trade talks. If passed in its current form, the Omnibus Regulation would significantly weaken the CSDDD, diluting its original intent and limiting its impact.

	Current CSDDD	Commission Proposal
Scope	Remains the same > 1,000 employees and turnover of more than €450 million	
Dates of Application	• Application from 2027	• Delayed one year: Application from 2028
Due Diligence Assessment	• The entire value chain is covered: direct suppliers and indirect subcontractors • Assessment to be done annually	• Only Tier 1 suppliers, other parts of the value chain if there is "plausible information" • Assessment to be done every 5 years
Other Changes	• A potential proposal for regime for financial institutions is discarded • Removed civil responsibility and no threshold for fines (before was a minimum of 5%) • Removes a clause on ending relationships after mitigating impacts, also reduces stakeholder engagement • Limited ability to goldplate requirements for member states	

EU Taxonomy

2020

July 12, 2020
The EU Taxonomy Regulation (EU 2020/852) entered into force, establishing a framework for classifying environmentally sustainable economic activities.

2021

December 9, 2021
Technical Screening Criteria (TSC) for the first two environmental objectives—climate change mitigation and adaptation—were published in the Climate Delegated Act. Reporting on eligibility and alignment for these criteria became mandatory starting January 1, 2023.

2023

November 21, 2023
The Environmental Delegated Act was published, introducing TSC for the remaining four environmental objectives: water and marine resources, circular economy, pollution prevention and control, and biodiversity and ecosystems. Reporting on eligibility for all six objectives begins January 1, 2024 and alignment from 2025.

2026

February 26, 2025
Taxonomy comes under scrutiny and faces changes as part of the EU Omnibus proposal.

The Commission recommends delaying the roll-out of CSRD which would halt the roll-out of companies reporting under EU Taxonomy. The Commission also proposes permanent changes to the scope of companies required to report on EU Taxonomy and consults on changes to the reporting requirements.

Overview

The EU Taxonomy classifies environmentally sustainable activities to direct investments toward them. It sets criteria to assess contributions to six environmental objectives while preventing harm and ensuring human rights and labor standards. It also provides a common framework for defining and evaluating sustainable investments.

What Does It Require?

- **Identify eligible activities:** map economic activities to align with the EU Taxonomy's environmental objectives.

- **Ensure compliance with technical screening criteria:** determine if their economic activities meet the Technical Screening Criteria (TSC) to be Taxonomy-aligned.

- **Report and disclosure:** disclose EU Taxonomy alignment, including turnover, CapEx, and OpEx from eligible activities. Financial institutions report entity-level KPIs, while asset managers marketing SFDR Article 8 or 9 funds must report Taxonomy alignment at the product level.

Who does it impact?

- Entities currently required to report under the NFRD and CSRD

- Financial institutions and financial product manufacturers

- Any corporate with an environmental objective can leverage it for input in business decisions

Omnibus in Focus: What's Next for the EU Taxonomy?

The EU Taxonomy serves as a cornerstone of Europe's sustainable finance framework, guiding investment toward environmentally sustainable activities. Since its adoption in 2020, its requirements have been implemented gradually, with climate-related objectives taking effect in January 2022, followed by other environmental objectives a year later. However, compliance remains a challenge, as many companies still report low or zero alignment—for instance, 24% of companies in Clarity AI's universe reported 0% alignment.

In February 2025, the Omnibus Regulation proposal introduced major changes that would reduce the number of companies required to report on Taxonomy alignment. This includes a temporary delay in the CSRD rollout beyond the first wave of companies already reporting in 2025 and a permanent increase in the reporting threshold, limiting mandatory Taxonomy reporting to firms with more than 1,000 employees and EUR 450 million in revenue.

Alongside these scope reductions, the European Commission also launched a consultation on usability improvements, proposing changes to reporting templates, the introduction of a materiality threshold, and simplifications to the Do No Significant Harm assessment. While these adjustments aim to address usability concerns, the Omnibus Regulation's broader scope reductions could significantly impact data availability. With fewer companies reporting, investors may struggle to assess portfolio alignment with sustainability objectives, limiting transparency and potentially encouraging greenwashing.

As the EU Taxonomy has inspired over 50 similar frameworks worldwide, any weakening of its reporting framework could have global implications for sustainable finance and investment flows.

	Current EU Taxonomy	Commission Proposal
Temporary Measure	• Wave 1 already in force • Wave 2 report 2026, Wave 3 report 2027	• Temporary stop on Wave 2 and 3 of two years
Scope	• Wave 1: PIEs with > 500 employees • Wave 2: 250 employees, €50 million revenue or €25 million balance sheet • Wave 3: listed SMEs	• Companies with >1000 employees *and* €450 million revenue
Voluntary Reporting	• N/A	• Companies with >1000 employees and >€50 million revenue or >€25 million balance sheet can choose to report.

Other Changes	• Commission consultation launched:
	  • proposes new templates, reducing number of reporting lines by approximately 70%
	  • reduction in reporting, removal of Annex XII
	  • 10% materiality threshold introduced for reporting entities
	  • Green Asset Ratio denominator now excludes out of scope companies
	  • Simplification of DNSH proposed (related to harmful chemicals)
	• Limited assurance only	

EU Pillar 3 ESG Disclosures

2021

March 1, 2021
European Banking Authority (EBA) consults on regulation of banks climate and ESG risk exposures.

2022

January 24, 2022
EBA publishes its final draft guidance for Pillar 3 disclosures on ESG risks.

2023

January 1, 2023
Annual disclosures required from SIFIs for transition and physical risks.

2024

January 1, 2024
Taxonomy-alignment ratios and Scope 3 added to mandatory Pillar 3 ESG disclosure requirements.

2025

January 1, 2025
Pillar 3 ESG reporting extended to all EU banks, ITS with instructions for smaller institutions disclosures pending.

Overview

EU Pillar 3, based on the Basel III framework, enhances transparency by requiring banks to disclose risk exposures, capital adequacy, and sustainability risks. It helps regulators, investors, and stakeholders assess climate-related risks' impact on banks' operations, financial performance, and risk profiles.

What Does It Require?

From 2025, all banks in the EU under the scope of regulations Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) must provide disclosures leveraging 10 standardized templates that include:

- **Disclosures related to transition risks:** both qualitative and quantitative disclosures.
- **Disclosures related to physical risks:** financial risks stemming from climate-related hazards such as extreme weather events.
- **Green Asset Ratio (GAR):** which reflects their share of assets that are aligned with the EU Taxonomy.
- **Mitigating Actions:** what they are doing to mitigate ESG risks, including both transition and physical risks.

Who Does It Impact?

- All banks and credit institutions operating in the EU.

- Investment firms subject to capital requirements under Basel III.

- Large and listed financial institutions that meet regulatory thresholds.

- Systemically important financial institutions (SIFIs) with enhanced disclosure obligations.

- Institutions classified under the Capital Requirements Regulation (CRR) and subject to supervisory reporting requirements.

The Story So Far

The EU Pillar 3 ESG reporting requirements, part of the Capital Requirements Directive (CRD) and Regulation (CRR) under Basel III, expanded in January 2025 from large institutions to all banks in the EU. The proportionality approach for those smaller institutions remains under review.

Using ten standardized templates to ensure consistency in reporting, banks are required to disclose transition and physical risks, and outline mitigation actions. A key part of these disclosures are two ratios: the Green Asset Ratio and Banking Book Taxonomy Alignment Ratio, which track EU Taxonomy alignment. The expanded disclosures align with broader updates to EU banking regulations and the phased implementation of Basel III.

Pillar 3 ESG disclosures runs alongside European Central Bank oversight. A phased compliance period ended in December 2024, though early reporting revealed data quality gaps, with banks expected to improve accuracy over time.

What to Expect in 2025

To effectively manage climate-related and environmental risks in the eurozone banking system, Pillar 3 disclosures offer a qualitative and quantitative profile of banks' climate risk management process.

The aim is to make these disclosures forward-looking and comprehensive, offer supervisors the best information available to prevent any shocks to the system, as well as equip investors with the most useful information.

To achieve this, banks are highly dependent on data flows from counterparties and the correct aggregation of the data. Even with the roll out of CSRD, data will be varied and incomplete. For this reason, a well balanced revision of the sustainable finance framework through the Omnibus is key to allow businesses to remain competitive at the same time it allows for financial stability.

The Pillar 3 Data Hub—a central repository for prudential data—and other EU financial data initiatives are crucial for developing forward-looking metrics. Consistent disclosures by financial institutions and companies enable the aggregation of data over time, essential for evaluating progress against both historical performance and set targets. This comprehensive data approach is equally vital for supervisors, who can then make informed, data-driven decisions.

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Sustainable Finance Disclosure Regulation (SFDR)

2021

March 2021
SFDR starts applying. Product level disclosures for Article 8 and 9 funds begin.

June 30, 2021
Financial market participants are required to publish and maintain a PAI statement on their websites.

2023

January 1, 2023
Regulatory technical standards (RTS) start applying. These include templates for product-level disclosures and entity-level reporting on PAIs.

June, 2023
First entity level PAI reports due based on reference period from Jan. 1, 2022 to Dec. 31, 2022.

2024

May 2024
ESMA publishes its guidelines for fund names, building on SFDR to more closely control the use of ESG terms in fund names.

June 30, 2024
Second entity level PAI reports due based on reference period Jan. 1, 2023 to Dec. 31, 2023. Financial market participants must include year on year comparison.

2025

Q4 2025
Commission expected to publish proposal for SFDR 2.0.

Overview

The SFDR requires financial market participants to disclose how they integrate ESG risks and impacts in investment decisions. It groups funds as Article 6, 8, or 9, based on sustainability criteria, ensuring transparency and preventing greenwashing.

Firms must report on principal adverse impacts (PAIs) and provide standardized sustainability disclosures for investors, including entity-level reports on firm-wide policies and product-level disclosures on fund-specific sustainability claims.

What Does It Require?

Financial market participants under the scope of the SFDR must:

- **Classify Funds:** Entities must classify financial products under Article 6, 8, or 9, based on their ESG characteristics and sustainability objectives.

- **Disclose ESG Risks and Impacts:** Firms must report how they integrate ESG risks, consider PAIs, and align with sustainability objectives.

- **Provide Standardized Reporting:** Entities must ensure transparent and consistent sustainability disclosures to prevent greenwashing and support investor decision-making.

Who Does It Impact?

Financial market participants, including: asset managers, financial advisers, venture capital funds, insurers with investment products, portfolio managers, and some pension providers.

The Story So Far

Initially intended as a disclosure regulation, the SFDR moved away from its original purposes.

Article 8 (“light green”) and Article 9 (“dark green”) became de facto labels in the market, but without any of the minimum standards typical of a regulatory label. Because of this, many complained that Article 8 in particular contained a wide array of products with varying levels and types of sustainability.

This, coupled with the lack of clear definitions for terms like “sustainable investments” and “environmental and social characteristics” led to confusion. This led many asset managers to reclassify their funds, often downgrading from Article to 8 to 6 over concerns of being accused of greenwashing.

To address these challenges, the EU Commission launched a formal review in late 2023. The process gathered feedback from market participants and national regulators, with consultations closing on December 15, 2023. Based on this input, a proposal for a reformed SFDR is expected to be published by the Commission at some point in Q4 2025.

Given the legislative process and likely transition period, any substantial changes are unlikely to apply until 2027 or more likely 2028.

What to Expect in 2025

The market is eagerly awaiting the Commission’s SFDR 2.0 proposal, now delayed to Q4 2025.

Its content remains unknown but will be shaped by the 2023 consultation and could be influenced by the recent Omnibus announcement. The Platform on Sustainable Finance has proposed shifting SFDR from a disclosure regime to a regulation based on sustainability categories, including a “transition” category. ESMA has suggested a similar approach, but the Commission’s final proposal remains uncertain.

Monitoring the progress of the Omnibus directive in 2025 will be important to understand its impact on the availability of investee company data for SFDR reporting. Once the new SFDR proposal is out, we expect an extended negotation process with the EU Council and Parliament, along with a transition period. Significant changes likely won’t take effect until 2027 or 2028.

Tom Willman
Regulatory Lead at Clarity AI

ESMA Guidelines on Fund Names

2022

November 18, 2022
ESMA issues consultation on use of ESG or sustainability-related terms by EU-domiciled funds.

2023

September 14, 2023
European Commission (EC) launches a wide-ranging SFDR consultation, partly due to its common use as a labelling rather than a disclosure regime.

2024

May 3, 2024
EC summary report finds “no clear preference” for either of its proposed approaches for a fund labelling system.

May 14, 2024
ESMA publishes guidelines for fund names using sustainability-related terms, ahead of application from November 21, 2024.

November 21, 2024
Guidelines begin to apply for new funds.

December 13, 2024
ESMA puts forward clarification Q&A on aspects of its name rule.

2024

May 21, 2025
Guidelines begin to apply to funds already launched before November 21, 2024.

Overview

The European Securities and Markets Authority (ESMA) issued May 2024 guidelines to prevent greenwashing by ensuring fund names accurately reflect their strategies. The rules set strict criteria for funds using sustainability-related terms, enhancing transparency and trust in ESG-labeled funds.

What Does It Require?

- **Align Fund Name and Strategy:** ESMA requires funds using sustainability-related terms to match their investment strategy.

- **Minimum Investment Threshold:** Funds using transition, social, or governance-related terms must allocate 80% of investments to environmental or social characteristics (Article 8), or sustainable objectives (Article 9), while avoiding EU Climate Transition Benchmark exclusions.

- **Stricter Rules for Certain Terms:** Funds with environmental, impact, or sustainability-related names must meet the 80% threshold and restrict fossil fuel and carbon-intensive investments under the Paris-aligned Benchmark exclusions. Funds with names using sustainability-related terms should also commit to invest meaningfully in ‘sustainable investments’, which ESMA clarified means a minimum of 50% sustainable investment.

Who Does It Impact?

The rules apply to all asset managers marketing mutual funds and ETFs in the EU.

The Story So Far

With around 4,000 European funds including sustainability-related terms in their names, ESMA's fund names guidelines, effective November 2024, are expected to result in significant changes in fund composition or names. Funds launched before their introduction have until May 21, 2025 to comply.

ESMA has long warned of greenwashing risks from the use of sustainability-related terms in fund names. The regulator developed guidance for funds using sustainability-related names, but feedback called for a pause until the European Commission clarified the SFDR's definition of a sustainable investment. In late 2022, ESMA consulted on the guidelines, eventually finalising them in May 2024.

In December 2024, ESMA said funds investing less than 50% in sustainable assets may not use 'sustainable' in their name. It also clarified that bonds issued under the European Green Bonds Regulation do not have to be assessed on a 'look-through' basis for exclusions set out on the EU Benchmark Regulation, unlike all other use-of-proceeds instruments.

Meanwhile, the industry awaits the Level 1 review of SFDR, which may create new sustainable fund categories, though changes likely won't apply until 2028.

What to Expect in 2025

Since the guidelines were finalized in mid 2024, the market has been moving fast to comply. Funds falling short of the regulatory expectations had two options: change their name or tweak their asset structure.

On the latter, there are two main elements. First, evidencing a positive contribution through an 80% allocation towards the promotion of sustainability characteristics (for Article 8 funds) or sustainable investments (Article 9 funds). Funds using impact, transition or sustainability-related terms, face additional requirements.

Second, ensuring the fund is not exposed to the climate transition benchmark (social, governance, transition related terms) or Paris-aligned benchmark (sustainability, environmental, impact related terms) exclusionary criteria. Clarity AI research suggests the market has a long way to go on the latter. Over half of funds using sustainability, environmental or impact-related terms are currently exposed to at least one company breaching the PAB exclusionary criteria.

In 2025, we foresee more changes. Expect many funds to have to change their name or increase their allocation of sustainable investments before the May deadline.

Tom Willman
Regulatory Lead at Clarity AI

MiFID II Sustainability Preferences

2018

May 28, 2018
ESMA publishes initial guidelines on sustainability aspects of MiFID II suitability assessments.

2021

April 21, 2021
European Commission amends delegated regulation 2021/1253 to update suitability rules to ensure distributors take account of the end client's sustainability preferences.

2022

August 2, 2022
MiFID II amendments on sustainability preferences take effect, meaning firms should now seek to include relevant information on client sustainability preferences.

September 23, 2022
ESMA publishes final guidelines on MiFID II sustainability requirements.

November 22, 2022
New MiFID II product governance rules come into force.

2023

October 3, 2023
ESMA announces 2024 Common Supervisory Action (CSA) to assess the implementation of sustainability preferences into suitability assessments.

2024

October 1, 2024
ESMA announces continuation of 2024 CSA in 2025 work plan.

Overview

To help retail investors make informed choices, the EU amended MiFID II in August 2022. Investment intermediaries must now consider clients' sustainability preferences in advice and product distribution. Product governance rules were also updated to support the development of products aligned with investor demand.

What Does It Require?

- **Assess and Document Preferences:** Firms must consider clients' sustainability preferences in investment advice and product distribution, documenting preferences on EU Taxonomy alignment, SFDR sustainable investments, and PAIs.

- **Offer Suitable Products:** Recommend financial products that align with clients' sustainability preferences.

- **Integrate Sustainability in Governance:** Embed sustainability in product design, approval, and review processes.

- **Update Disclosures and Processes:** Ensure sustainability factors are reflected in investment recommendations and governance.

Who Does It Impact?

- **Distributors of financial products:** entities providing investment services, operating trading venues, or offering investment-related banking services within the European Economic Area (EEA).

- Non-EU firms serving EEA clients and those managing investment portfolios (including pension funds).

The Story So Far

The MiFID II changes integrate sustainability into investment advice, requiring firms to assess client preferences alongside risk appetite and investment horizon. In-scope firms must identify and meet clients' sustainable investment needs, providing explanations where necessary.

The requirement created uncertainty for advisors, as regulatory frameworks were still evolving. To express sustainability preferences, clients can refer to three metrics: EU Taxonomy alignment, proportion of sustainable investments under SFDR, and principal adverse impacts (PAIs) investors may wish to consider.

Since August 2022, firms must incorporate sustainability into suitability assessments, impacting training, record-keeping, and data management. Some green funds hesitate to claim high taxonomy alignment due to data gaps and anti-greenwashing risks, making it harder to match client preferences with products.

From November 2022, firms must factor sustainability into product approval and governance, ensuring products align with client needs and their sustainability benefits are communicated and monitored.

What to Expect in 2025

MiFID II sustainability preferences have been challenging for the market, highlighting the difficulty of turning solid regulatory concepts into practical action.

While incorporating a client's sustainability preferences into product suitability decisions makes sense, framing that choice for meaningful dialogue between distributors and clients has been difficult.

Key challenges include retail investors' lack of understanding of the choice architecture (EU Taxonomy, Sustainable Investment, PAI) and a shortage of products meeting investor expectations, with low values of Taxonomy alignment still common.

Despite this, 2025 should bring improved implementation, with technology helping distributors apply the rules intuitively. ESMA's ongoing supervisory activity is also driving firms toward comprehensive solutions.

Distributors will closely watch the Commission's 2025 SFDR proposal, as it may lead to changes in MiFID II suitability rules further down the line.

Tom Willman
Regulatory Lead at Clarity AI

EU Green Bonds (EuGB) Regulation

2019

March 6, 2019
European Commission consults of initial Technical Expert Group recommendations for an EU green bond standard.

2021

July 9, 2021
European Commission issues legislative proposal for a voluntary EU green bond standard.

2023

February 28, 2023
Agreement on proposed standard reached between European Parliament and Council.

December 21, 2023
EuGB Regulation enters into force.

2024

March 26, 2024
ESMA consults on technical standards for external reviewers of EU green bonds.

December 21, 2024
The official start for issuance under EuGB Regulation.

Overview

The EU Green Bond (EuGB) Standard ensures bond proceeds support sustainable projects by requiring EU Taxonomy alignment, detailed disclosures, and third-party verification. Designed as a "gold standard," it enhances credibility and prevents greenwashing in the green bond market.

What Does It Require?

Any corporate or other issuing entity can choose to issue a bond under the EuGB regulation, but it must fully comply with all the regulation's requirements to use the Green Bond label both pre-issuance and post-issuance. Firms must:

- **Allocate Proceeds Sustainably:** At least 85% of net proceeds must fund EU Taxonomy-aligned activities, meeting environmental objectives and minimum safeguards.

- **Meet Reporting Standards:** Issuers must follow pre and post-issuance reporting through templates, which must be independently verified.

- **Disclose Use of Proceeds:** Issuers must report how funds support transition plans and comply with EU Prospectus Regulation.

- **Optional 'Lite' Disclosure:** Non-taxonomy and sustainability-linked bond issuers can opt into simplified reporting.

Who Does It Impact?

- Any issuer issuing a bond using the EuGB label.

- External reviewers conducting pre and post-issuance reviews must register and comply with ESMA supervision.

The Story So Far

EuGB-labelled bonds were first proposed in the European Commission's 2018 Sustainable Finance Action Plan, but the first was issued in January 2025, a month after the framework opened.

While voluntary standards exist, such as the ICMA Green Bond Principles and Climate Bonds Initiative standards, the EuGB standard is fully integrated with other EU sustainable finance legislation, including the EU Taxonomy, CSRD, and SFDR.

For investors, this means easier inclusion in green bond fund portfolios with minimal compliance efforts, while template-based disclosures improve comparability and valuation. However, issuer adoption remains uncertain due to the strict requirements for using the label.

Issuers must allocate proceeds to fixed assets, limited capex, opex, financial assets, or household assets, with strict rules for each. A five-year capex plan must show how funds will expand or upgrade taxonomy-aligned activities. However, there is flexibility to allocate up to 15% of proceeds to fund activities without finalized Taxonomy criteria (e.g. agriculture).

Issuers face sanctions for non-compliance and must pay for independent verification from an ESMA-supervised third party.

What to Expect in 2025

Issuance of sustainable bonds globally is expected to grow in 2025 and the market eagerly waits to discover what contribution bonds issued under the EU Green Bond Standard will make to this.

Having a green bond standard hard-coded in regulation can be seen as a positive step for the market which traditionally relied on voluntary or industry-led standards.

Some, however, have been critical of the regulation noting it places a strong emphasis (and a high bar) on taxonomy alignment that might be difficult for issuers in certain sectors.

Volume of issuance of EU Green Bonds over the course of 2025 will tell us the value that investors place on the standard.

Tom Willman
Regulatory Lead at Clarity AI

Low Carbon Benchmark Regulation

2019

December 10, 2019
EU Low Carbon Benchmark Regulation enters into force.

2020

April 30, 2020
Benchmark administrators are required to provide disclosures on how methodologies reflect ESG factors, and statements on ESG factors reflected in each benchmark.

July 17, 2020
Publication of delegated regulation covering PAB and CTB minimum standards and disclosure requirements for EU benchmarks.

2022

January 31, 2022
Major EU benchmark providers expected to endeavour to provide one or more CTB.

2023

October 2023
New MiFID II product governance rules come into force.

2025

January 2025
ESMA announces 2024 Common Supervisory Action (CSA) to assess the implementation of sustainability preferences into suitability assessments.

Overview

The Low Carbon regulation of 2019 amended the existing EU Benchmark Regulation and established the Paris-aligned Benchmark (PAB) and Climate Transition Benchmark (CTB), along with ESG disclosure requirements. These benchmarks were designed to help passive investors pursue decarbonization goals.

What Does It Require?

The Low Carbon Benchmark regulation requires providers to meet minimum standards:

- Administrators of EU Climate Transition Benchmarks (EU CTB) and EU Paris-Aligned Benchmarks (EU PAB) must meet minimum standards for their methodologies.

- As a baseline for these benchmarks, EU PABs must reduce carbon intensity by 50% versus the investable universe, while EU CTBs must achieve a 30% reduction.

- Both must follow a 7% annual decarbonization trajectory.

- Both PAB and CTB must follow strict exclusionary criteria related to tobacco, weapons, UNGC / OECD breaches and, in the case of PAB, fossil fuels.

Who Does It Impact?

- PAB and CTB Benchmark providers, administrators and users.

The Story So Far

PAB and CTB have been growing in terms of their significance. In 2023, the Commission confirmed that funds that track PABs or CTBs can be deemed to make sustainable investments and are therefore eligible for Article 9 status, increasing their popularity amongst investors.

Currently, around €180 billion in assets are managed using PABs or CTBs, around 75% of all climate transition funds globally. However, critics argue that strict exclusions of high-emitting sectors limit investment options, while others call for greater use of forward-looking indicators.

The 7% year on year requirement can further reduce the investable universe and adhering to it while managing returns can introduce a large tracking error against the parent index.

Finally, the regulation has been criticised for effectively excluding some of the highest emitting companies that cannot meet the strict eligibility criteria, even if they demonstrate progress and that their decarbonisation may be critical to the real economy's transition.

What to Expect in 2025

It will be interesting to see if CTB and PAB benchmark growth continues into 2025. There are two key factors: (1) investor demand via products tracking the indices and (2) asset availability for index inclusion, meeting eligibility while maintaining growth and minimizing tracking error.

The SFDR review in Q4 may impact passive funds with sustainability characteristics or objectives, affecting PABs, CTBs, and the broader benchmark industry.

EU Benchmark regulation defines how benchmarks operate in the EU, including PAB and CTB. Recent changes aim to streamline industry requirements by focusing on significant benchmarks while leaving smaller ones out of scope to ease their regulatory burden.

The inclusion of PAB and CTB in the regulation indicates they are significant enough for supervision alongside the most relevant benchmarks.

Whether this supports growth in the industry will depend on demand. We will also be observing how other significant and ESG-related indexes manage their ESG disclosures, including evidencing any sustainability goals of the index.

Claudia Marin
Regulatory Associate,
Clarity AI

United Kingdom Regulations

UK Sustainability Disclosure Requirements, UK Sustainability Reporting Standards, UK Green Taxonomy.

UK Sustainability Disclosure Requirements (SDR)

2021

October 18, 2021
UK government unveils Greening Finance roadmap, including plans for "economy-wide" SDRs.

2022

October 25, 2022
FCA consults on measures needed to clamp down on greenwashing.

2023

November 28, 2023
FCA publishes final rules, including labels, to help retail investors to make informed sustainable investment decisions; also consults on anti-greenwashing rule.

2024

May 31, 2024
Anti-greenwashing rule come into effect.

July 31, 2024
Fund managers can apply to use four sustainability investment labels.

December 2, 2024
Naming and marketing rules for non-labelled funds come into effect.

2025

2025
Expect FCA to publish its final recommendations on extending SDR to portfolio management services (delayed from Q2 to later in 2025). Also expect news on the extension of SDR to overseas funds.

Overview

The Sustainability Disclosure Requirements aim to protect retail investors from greenwashing by ensuring sustainable products justify their claims. Enforced by the UK Financial Conduct Authority (FCA), it includes an anti-greenwashing rule, a four-tier product labeling system, and stricter naming and marketing requirements for funds with sustainability characteristics.

What Does It Require?

- **Provide Sustainability Disclosures:** Firms must offer pre-contractual and ongoing product-level disclosures for products using sustainability labels or ESG-related terms, and entity-level disclosures aligned with TCFD and ISSB frameworks.

- **Justify ESG Claims:** Products marketed as sustainable must provide clear evidence to support their claims.

- **Comply with the Anti-Greenwashing Rule:** All FCA-authorized firms must ensure sustainability claims are fair, clear, and not misleading.

- **Follow Naming and Marketing Rules:** Firms must align fund names and marketing materials with sustainability characteristics to prevent misleading ESG-related promotions.

Who Does It Impact?

- **Anti-greenwashing rule:** all FCA-authorised firms that make sustainability-related claims about their products.

- **SDR investment labels:** optional for asset managers.

- **Naming and marketing rules:** any fund using ESG related terms in its name or marketing materials.

- Distributors of sustainable funds are also captured by the SDR rules.

- As well as product-level disclosures for sustainability-related funds, entity-level SDR disclosures will apply to larger regulated firms, above £5 billion AUM.

The Story So Far

Like other parts of the UK's Green Finance strategy, the SDR regime has seen delays. After consulting on SDRs and investment labels, in March 2023 the FCA said more time was needed. Measures came a year later than planned.

Proposed in 2022, the SDR underwent consultations and revisions before finalization in 2023. The final rules, published November 2023, set compliance deadlines starting May 2024 for the anti-greenwashing rule, with fund labeling and disclosure requirements phased in through 2025.

Despite regulatory backing, concerns remain about interpretation and compliance costs. Some firms are reassessing fund classifications. The FCA is expected to refine guidance based on market feedback.

What to Expect in 2025

The SDR rollout has not been without its challenges with the initial uptake of labels being lower than many expected in the market.

Over the past months, however, the number of labels has been steadily increasing and we expect more funds to label or confirm their adherence to the naming and marketing rule in the first quarter of 2025.

In early 2025, the FCA indicated that as many as 100 funds now either had a label or were in the process of attaining one.

Elsewhere, in 2025 we expect FCA to publish its final recommendations on extending SDR to portfolio management services and we expect further news on the extension of SDR to overseas funds from HMT (Treasury).

These developments could have a dramatic impact on the number of labelled products. December 2025 will also see the first entity level disclosures in line with the regulation.

Tom Willman
Regulatory Lead,
Clarity AI

UK Sustainability Reporting Standards (SRS)

2023

March 30, 2023
UK government's Green Finance Strategy commits to assess suitability of IFRS S1 and S2 as basis for the first two UK SRS.

June 26, 2023
ISSB issues its first standards: IFRS S1 and IFRS S2.

August 10, 2023
FCA outlines its approach to implementing ISSB standards.

2024

May 16, 2024
Implementation update to Green Finance Strategy outlines process and sets timeline for publishing first SRS in Q1 2025.

November 14, 2024
Chancellor announces consultation on use of SRS for streamlined sustainability disclosures by economically significant companies.

December 18, 2024
TAC recommendations issued for incorporating IFRS S1 and S2 into SRS.

Overview

Having been one of the first countries to mandate reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), the UK is planning to introduce its Sustainability Reporting Standards (SRS) in 2026.

These will align requirements for UK entities with general sustainability (IFRS S1) and climate (IFRS S2) disclosure standards of the International Sustainability Standards Board (ISSB), providing investors with standardised and comparable information to guide efforts to reduce portfolio emissions.

What Does It Require?

Based on the recommendations of the UK Sustainability Disclosure Technical Advisory Committee (TAC), the UK SRS will require:

- **Climate-Related Disclosures:** For Scope 1 and 2 emissions in the first year, followed by Scope 3 disclosures in the second year and broader sustainability-related disclosures in the third year of implementation.

Who Does It Impact?

Applicability of SRS will be determined by a UK government consultation expected in H1 2025 and subsequent rules set by the Financial Conduct Authority (FCA). Large corporates and asset owners are already mandated to report on climate risks in line with the TCFD. SRS are expected to be effective for accounting periods from January 2026 at the earliest.

The Story So Far

The UK was one of the first jurisdictions to mandate TCFD-based climate reporting, and endorsed the ISSB in 2021, but has experienced delays in implementing its standards.

One of four pillars of the UK's 2023 Green Finance strategy, alongside transition plans, Sustainability Disclosure Requirements and investment labels, and the UK Green Taxonomy, SRS are aimed at aligning UK disclosures with international standards. In addition to the implementation timeline (see above), the TAC recommended minor adjustments of ISSB standards to the UK context, calling for greater flexibility to use existing classification systems for the reporting of financed emissions.

Following a UK government consultation, the FCA is expected to use the SRS as a basis for new disclosure requirements for UK-listed firms, while the government will decide on further applications of the new standards.

This will be coordinated by a policy and implementation committee which will work with regulators and standard setters on scope and exemptions, connectivity with accounting standards, impacts on competitiveness and assurance requirements.

What to Expect in 2025

We expect the UK government to consult on the implementation of ISSB-style sustainability reporting standards in early 2025.

The consultation marks an important milestone in the evolution of sustainability reporting in the UK but is just the start of the process.

Following the consultation, expect FCA to publish its own consultation with details on the reporting rules for listed and regulated entities.

The UK is likely to be joined by other jurisdictions in updating its reporting regime to favour ISSB over TCFD reporting standards.

Tom Willman
Regulatory Lead,
Clarity AI

UK Green Taxonomy

2020

November 9, 2020
The UK Chancellor commits to introducing a Green Taxonomy, alongside sovereign green bond and TCFD-aligned reporting.

2021

October 18, 2021
'Greening Finance' roadmap confirms UK's intention to develop a Green Taxonomy to meet needs of UK businesses and investors.

2022

December 14,2022
HM Treasury announces Financial Services and Markets Bill will repeal retained EU law including the EU Taxonomy Regulation, paving the way for the UK Green Taxonomy.

2023

March 30, 2023
UK's updated Green Finance Strategy pledges to consult on Green Taxonomy in the autumn, enabling investment in nuclear power to be included.

2024

November 14, 2024 - February 6 2025
UK government consults on value case for Green Taxonomy.

Overview

In line with the commitments made in the Climate Change Act 2008 and its 2050 net zero amendment in 2019, the UK is evaluating a Green Taxonomy in 2025 to classify activities supporting climate and sustainability objectives.

It aims to mobilize private finance, prevent greenwashing, and complement the SDR regime, including disclosure standards, transition plans, and investment labels.

What Does It Require?

• **Verify Substantial Contribution:** Ensure that economic activities make a substantial contribution to at least one of the defined environmental objectives, in line with the technical screening criteria set out in the taxonomy.

• **Do No Significant Harm (DNSH):** Confirm that these activities do not cause significant harm to any other environmental objectives, adhering to both generic and activity-specific DNSH criteria.

• **Minimum Safeguards Compliance:** Carry out activities in compliance with minimum safeguards, ensuring alignment with broader sustainability and governance standards.

Who Does It Impact?

It is expected the UK Green Taxonomy will lead to taxonomy-aligned disclosure requirements for:

- Corporates
- Asset managers
- Other regulated providers of sustainable investment and finance products

The Story So Far

Details about the implementation of the UK's Green Taxonomy have been repeatedly delayed since it was first announced in 2020, despite the UK government instituting an expert body – the Green Technical Advisory Group (GTAG) – to develop its use cases in June 2021.

The UK declined to onshore the European Commission's taxonomy in the aftermath of Brexit, but did have in its pipeline a plan for legislating for a Green Taxonomy. It has been delayed several times since, a May 2024 update on its SDR regime again committed to its introduction.

Having committed to accelerating the UK's green transition in opposition, the Labour government launched a consultation on the value case of the Taxonomy , covering how effectively it would contribute to channelling capital, preventing greenwashing and supporting transition finance.

Other areas covered in the consultation included interoperability with other taxonomies, lessons to be learned from other regimes, and timelines for implementation.

What to Expect in 2025

The UK Green Taxonomy is still in its early stages, with the government gathering stakeholder input to learn from the challenges faced by other taxonomies. Rather than focusing on technical details, the consultation sought insights to help shape a more effective framework.

The consultation closed on February 6, 2025 and the government is now evaluating responses before deciding whether to pass the Taxonomy legislation. If approved, a specific regulatory framework would need development. Feedback will also inform ongoing sustainability disclosure and transition planning consultations, aligning with the UK's ambition to be a transition finance hub.

Initially, reporting under the UK Green Taxonomy is expected to be voluntary for two years, allowing for dialogue between the public and private sectors to refine the framework.

By leveraging lessons from other taxonomies, the UK has an opportunity to address complex issues such as Do No Significant Harm and Minimum Safeguards assessments. Integrating technology into these processes could enhance scalability, ensure the UK remains competitive, and support a more effective transition finance ecosystem.

Claudia Marin
Regulatory Associate,
Clarity AI

Canada Regulations

Canadian Sustainability Disclosure Standards, Canadian Taxonomy.

Canadian Sustainability Disclosure Standards (CSDS)

2021

October 18, 2021
Canadian Securities Administrators (CSA), a regulatory body, consults on proposals for climate-related disclosure requirements.

2022

June 15, 2022
Financial Reporting & Assurance Standards Canada establishes the Canadian Sustainability Standards Board (CSSB), to develop domestic standards aligned to the ISSB.

2023

November 21, 2023
In its Fall Economic Statement, the Canadian government commits to expand the coverage of mandatory climate disclosure requirements to private companies.

2024

March 13, 2024
The CSSB releases exposure drafts of CSDS 1 and 2 for consultation.

October 9, 2024
Finance Minister Chrystia Freeland outlines government plans for mandatory climate-related financial disclosures for large private companies.

December 18, 2024
Final versions of CSDS 1 and 2 are released by the CSSB.

2025

January 1, 2025
CSDS become effective for voluntary reporting.

Overview

Canada will require large federally incorporated private companies to disclose climate-related financial risks to attract investment.

The newly finalized Canadian Sustainability Disclosure Standards (CSDSs) aim to enhance transparency, comparability, and capital allocation to low-carbon investments. CSDSs align with the International Sustainability Standards Board (ISSB) to ensure consistency in sustainability reporting.

What Does It Require?

Compliance with Canada's sustainability disclosure standard (CSDS 1) and climate-related disclosure standard (CSDS 2) is voluntary until an amendment is passed to the Canada Business Corporations Act, which will introduce climate reporting requirements for large companies.

Who Does It Impact?

- Disclosure requirements are already in place for publicly-owned federal Crown corporations and federally regulated financial institutions.

- Small and medium enterprises (SMEs) are explicitly left out of the 'Disclosure Mandate' announced last October, but it is expected the standards will become commonly used in transaction documentation.

The Story So Far

Canada has experienced a stop-start journey since the CSA first consulted on climate-related financial disclosures for large companies in 2021, but these are now expected to become a reality via amendments to the Canada Business Corporations Act.

The CSA paused efforts to align with ISSB and U.S. disclosure plans and has signaled plans to incorporate CSDS 2 into its climate disclosure proposal. In the interim, listed firms must disclose climate risks on a 'comply or explain' basis.

Although they have been designed to follow the ISSB's lead the Canadian Sustainability Standards Board's (CSSB) release of CSDS 1 and 2 was significant, particularly CSDS 2, which introduced detailed Scope 3 emissions requirements (aligned with GHG Protocol) and climate scenario analysis—though firms have three years of relief before full compliance.

For investors seeking greater transparency on climate-related risks from investments in Canadian firms, much will depend on how the CSA proposes to incorporate the CSSB's standards.

What to Expect in 2025

The hosting of PRI In Person in Canada in late 2024 enabled the government to announce significant progress on two flagship sustainability initiatives: its taxonomy and corporate reporting.

On company reporting, it has developed its ISSB-inspired CSSB standards which became effective for reporting on a voluntary basis on January 1, 2025.

Expect to see the first voluntary reports emerge throughout 2025. Elsewhere, we await news from the CSA on the scope and reporting deadlines for mandatory reporting.

Tom Willman
Regulatory Lead,
Clarity AI

Canadian Taxonomy

2021

May 13, 2021
The Canadian government convenes a 25-member SFAC to mobilise private capital to support the country's sustainability goals.

2023

March 13, 2023
Government releases SFAC taxonomy roadmap report, based on ten recommendations across design, governance and future development.

November 21, 2023
In its Fall Economic Statement, the Canadian government commits to develop a sustainable finance taxonomy identifying green and transition investments.

2024

October 9, 2024
Finance Minister Chrystia Freeland outlines plans for a 'Made-in-Canada' sustainable investment guidelines based on implementation of a green taxonomy.

Overview

Canada's Taxonomy is a voluntary tool for investors and lenders to identify green and transition activities aligned with the 1.5°C climate goal.

It aims to use science-based guidelines to drive private capital into sustainable projects that will deliver a net zero economy, focusing on decarbonizing high-emission sectors. However, details on implementation, scope, and criteria remain unclear.

What Does It Require?

Although current recommendations are subject to future decisions by an arm's length body, it is expected that firms will need to:

- **Provide Robust Climate Disclosures:** Related to net zero targets, including credible transition plans, for their products and services to determine if they meet the "green" or "transition" eligibility criteria. Green activities are defined as low or zero-emitting, while transition activities are those that decarbonize emission-intensive sectors.

Who Does It Impact?

The Canadian Taxonomy for Sustainable Finance is designed to be used on a voluntary basis by companies and financial institutions.

The Story So Far

Based on advice from the Sustainable Finance Action Council (SFAC), which included several institutional investors, Canada's taxonomy will separately label green and transition activities, with the latter defined as emissions-intensive processes and services essential for sectoral transformation of the Canadian economy, consistent with a scientifically credible net zero pathway.

Green and transition activities will also be assessed against 'do no significant harm' criteria to ensure they are not detrimental to other environmental, social and governance objectives.

Although SFAC recommends transition activities should not lock-in carbon dependency, there are concerns this definition could allow inclusion of high-emission sectors such as liquified natural gas.

To support rapid decarbonisation, the taxonomy will outline criteria for green and transition activities for five sectors: electricity; transportation; buildings; agriculture and forestry; and heavy industry - including both manufacturing and extractive industries.

Potential use cases for the taxonomy already identified include green bonds frameworks and evaluating the green and transition credentials of financial instruments or issuers.

Following the October announcement, which commits to funding, there is much to be decided, including the nature of the arm's length organisation(s) tasked with developing and implementing the taxonomy.

What to Expect in 2025

With Canada's sustainable finance taxonomy advancing, 2025 is expected to bring more details on the implementation timelines, criteria and use cases for the taxonomy.

We also expect green and transition eligibility criteria for two or three priority sectors expected to be released no more than 12 months after the taxonomy body is established.

Tom Willman
Regulatory Lead,
Clarity AI

Australia Regulations

Australia Sustainability Reporting Standards, Australian Sustainable Finance Taxonomy

Australian Sustainability Reporting Standards (ASRS)

2022

December 12, 2022
Australian Treasury consults on design and implementation of proposed climate reporting standards.

2023

October 23, 2023
The Australian Accounting Standards Board (AASB) consults on exposure draft for ASRSs, building on ISSB's IFRS S1 and IFRS S2.

November 21, 2023
The bill introducing Australia's climate disclosure rules completes its passage through Parliament, ahead of royal assent.

2024

October 8, 2024
AASB publishes voluntary sustainability disclosure standard AASB S1 and mandatory climate standard AASB S2.

November 7, 2024
The Australian Securities and Investments Commission (ASIC) launches six-week consultation on its draft guidance on compliance with new reporting rules.

Overview

Australia's mandatory climate disclosures support its Sustainable Finance Roadmap, providing investors with transparency on climate risks and strategies.

Based on requirements of the Australian Sustainability Reporting Standard's (ASRS) AASB S2, and voluntary requirements of AASB S1, they align with the standards of the International Sustainability Standards Board (ISSB), to ensure interoperability with global frameworks.

What Does It Require?

- **Produce a Sustainability Report:** that includes a climate statement detailing material climate-related risks and opportunities, metrics related to GHG emissions, and governance procedures for managing these risks.

- **Disclose GHG Emissions:** these should include Scope 1 and 2 emissions from the first reporting year, and information on Scope 3 emissions starting from the second year, alongside details on transition plans and targets.

- **Include a Signed Declaration:** from directors confirming that the sustainability report complies with the Corporations Act and the relevant sustainability standards.

Who Does It Impact?

Australia's climate disclosure rules take effect in January 2025, covering corporates, asset owners, and public sector entities. Scope 3 reporting begins a year later, with three years of litigation protection.

- **Corporates:** Large private and publicly listed firms (500+ employees, A$500m+ revenues, A$1 billion+ assets) must report for financial periods from January 2025. Medium firms (250+ employees, A$200 million+ revenues, A$500 million+ in assets) start in July 2026, and smaller firms a year later.

- **Asset Owners:** with more than A$5 billion in assets must report from July 2026.

The Story So Far

With the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024, Australia became one of the first to mandate ISSB-aligned climate reporting. The final standards align with the GHG Protocol while minimizing 'green tape' through a phased rollout under AASB S2, with general sustainability reporting remaining voluntary.

AASB S1 outlines reporting on sustainability risks and opportunities affecting cash flow, finance access, and capital costs. The biggest shift under AASB S2 is the annual sustainability report, published with financial statements, detailing climate governance, risk management, transition plans, and targets—some covered by directors' declarations and three-year litigation protection.

Financial regulator ASIC is providing compliance guidance, while AUASB is developing assurance standards for third-party verification.

What to Expect in 2025

Australia continues to develop its sustainable finance framework and the onshoring of ISSB standards marks an important step.

These disclosures will provide investors with much needed clarity on the sustainability performance of Australian companies and crucially will ensure interoperability with other ISSB jurisdictions.

Tom Willman
Regulatory Lead,
Clarity AI

Australian Sustainabile Finance Taxonomy (ASFT)

2022

May 23, 2022
ASFI formally starts work on ASFT, appointing committees and issuing RFPs.

2023

March 27, 2023
ASFI publishes final recommendations for design of ASFT, responding to government intentions for a sustainable finance strategy.

April 21, 2023
Australian Treasurer Jim Chalmers announces co-funding of ASFT's development by ASFI at an investor roundtable outlining the government's net zero strategy.

2024

May 28, 2024
First consultation on ASFT covering climate mitigation criteria for three priority industries: mining and metals; built environment; energy generation and supply.

October 30, 2024
Second consultation covering all priority sectors (including transport; manufacturing; and agriculture), plus 'do no significant harm' and minimum social safeguards.

Overview

The ASFT is a core element of Australia's 2024 Sustainable Finance Roadmap, aimed at supporting the mobilisation of private capital to sustainable economic activities, while also supporting measures to address greenwashing and drive Australia's net zero transition.

Developed by the Australian Treasury and the Australian Sustainable Finance Institute (ASFI), the ASFT is designed to be "credible, usable and internationally interoperable, while reflecting the Australian economy and context."

What Does It Require?

Entities under the scope of the ASFT are expected to classify their activities. Adoption is voluntary, but for those that choose to adhere to the standards can use the taxonomy to:

- **Assess Sustainability Credentials:** fund managers can evaluate the sustainability of new investments.

- **Support Environmental Goals:** align with objectives like climate mitigation, adaptation, biodiversity, water resources, circular economy, and pollution prevention.

- **Ensure DNSH Compliance:** meet Do No Significant Harm (DNSH) criteria and minimum social safeguards (MSS).

- **Report Taxonomy Alignment:** mandatory for users making sustainability claims based on the Taxonomy's objectives.

Who Does It Impact?

The ASFT is currently proposed to be a voluntary initiative, for optional use by corporates and investors, with taxonomy-alignment expected to be incorporated into sustainable finance guidelines and frameworks.

The Story So Far

The ASFT was first developed by Australian Sustainable Finance Institute (ASFI), with its design later adopted by Australia's Labor government, which committed to a 43% CO2 reduction by 2035 (from 2005 levels).

Like other taxonomies, the ASFT defines environmentally sustainable activities, but currently includes criteria only for climate mitigation, with adaptation, biodiversity, water, pollution, and circularity to follow.

A key feature is its focus on six strategic industry sectors—including mining—offering sector-specific criteria, unlike most taxonomies. It also distinguishes green and transition activities with a defined methodology.

However, its voluntary nature raises uncertainty about adoption. Investors call for incentives, mandatory entity-level reporting, and capex taxonomy alignment to drive uptake.

Additionally, there is scope for the ASFT to be incorporated into climate disclosure regulations, green bond frameworks, transition plans, fund labelling schemes, and stewardship obligations.

What to Expect in 2025

While still intended to be a voluntary initiative, the development of an Australia green taxonomy is a welcome step and demonstrates the country's commitment to supporting the flow of investment to activities supporting the transition to a more sustainable economy.

Ensuring the taxonomy is interoperable with other taxonomies globally including the EU taxonomy and the international Common Ground Taxonomy should support this.

Tom Willman
Regulatory Lead,
Clarity AI

United Stated Regulations

SEC ESG Disclosure Requirements, Federal and State-Level Climate Reporting Requirements.

SEC ESG Fund Requirements

2021

March 8, 2021
Reports emerge of SEC anti-greenwashing investigation into asset manager DWS.

August 26, 2021
SEC approved a proposal to amend the "Names Rule". The amendment required funds with ESG-related names to invest at least 80% of their assets in alignment with the investment focus suggested by their names.

2022

May 25, 2022
SEC unveils proposals of rule changes to address greenwashing in the US investment funds market.

2023

September 20, 2023
SEC adopts Name Rule amendment to Investment Companies Act.

September 25, 2023
DWS parent Deutsche Bank fined US$25 million for AML violations and ESG misstatements.

2025

December 2025
The SEC Name Rule comes into force and the largest asset managers must comply.

Overview

In 2022, the U.S. Securities and Exchange Commission (SEC) proposed two rules to curb greenwashing in sustainable funds.

The first, now adopted, requires funds with sustainability-related names to invest largely in accordance with the investment focus implied by the name.

The second is still pending, after a period for public consultation closed in 2022. It would require investment companies and advisers to disclose certain information around their ESG strategies and GHG emissions of their investments. It is unlikely the second rule will be finalized in the near future.

What Does It Require?

- **Align Fund Investments with Names:** Sustainability-themed funds must allocate at least 80% of assets in line with their name's focus (e.g., "growth" or "value"), similar to other investment products.

- **Provide ESG Disclosures:** The pending categorisation rule broadly categorizes different types of ESG strategies and mandates funds to disclose more detailed information based on the ESG strategies they implement.

Who Does It Impact?

The SEC's proposed changes to the Name Rule introduce amendments to the Investment Companies Act and so apply to any firm regulated by that legislation.

This applies to the majority of registered investment funds and certain investment advisors.

The Story So Far

The SEC's first major greenwashing action came in 2021 with an investigation into DWS, after a whistleblower exposed the firm for overstating ESG-managed fund claims due to weak ESG data integration. The U.S. was the first major jurisdiction to take enforcement action against greenwashing, proposing two rule changes, though only one has been adopted.

The SEC introduced amendments to its existing Names Rule for Registered Funds, finalized in 2023. The main focus was preventing misleading ESG fund marketing and promoting investor protection.

The SEC's amendments to the Names Rule require funds with names suggesting a specific investment focus—such as ESG (Environmental, Social, and Governance)—to allocate at least 80% of their assets in line with that focus. The rule also mandates that funds define these terms in their prospectuses and review their compliance quarterly, having to realign if they fall below the threshold.

Another rule was proposed that would have established different categories of sustainable investment funds with attendant disclosure requirements. This rule was however never finalised and it looks increasingly unlikely to be finalised in the near future.

What to Expect in 2025

The SEC is set for major shifts after the 2024 election, with Paul Atkins, a deregulation advocate, expected to become SEC Chair. This will impact ESG-related regulations,

The Names Rule took effect in December 2023. Fund groups with net assets of $1 billion or more were given 24 months for compliance, while those with less than $1 billion in assets have until mid-2026.

Under the Names rule, all funds should be in the process of thoroughly assessing these guidelines when naming new products and reviewing the names of existing ones ahead of the December compliance deadline. Those funds whose name suggests any ESG-focus will need to ensure that the product invests at least 80% of its assets in line with that strategy.

Although the SEC has not indicated any plans to postpone the compliance date, there is uncertainty about whether it will be implemented as scheduled as a result of the new political shift in the US.

However, the SEC remains active in enforcing the rule, having released a Q&A in January 2025 to provide further guidance. Investors must leverage data and technology to stay ahead—ensuring compliance with evolving regulations, a fragmented regulatory landscape and aligning with their climate commitments.

Claudia Marin
Regulatory Associate,
Clarity AI

Federal and State-Level Climate Reporting Requirements

2022

March 21, 2022
The U.S. SEC proposes rules for standardised climate-related disclosures by listed firms, including material Scope 3 emissions.

2023

October 7, 2023
overnor Gavin Newsom signs off on California's SB 253 and SB 261 climate disclosure laws.

2024

March 6, 2024
The U.S. SEC adopts its climate risk disclosure rules, but drops requirements to report Scope 3 emissions.

April 9, 2024
The U.S. SEC 'stays' climate disclosure rule pending judicial review.

2025

January 27, 2025
Climate corporate data accountability bill introduced in New York state senate.

January 28, 2025
Disclosures of Climate Emissions bill in Colorado introduced in Colorado House of Representatives.

Overview

In a small number of states, legislation has been introduced or passed requiring large firms to report on their climate-related risks, including greenhouse gas (GHG) emissions.

This trend has accelerated in 2024 due to a series of political, judicial and regulatory developments which have delayed mandatory federal-level climate risk disclosures. California passed two complementary climate disclosure laws in 2023, while legislation has been tabled in several others, including New York and, most recently, Colorado.

What Does It Require?

California, New York and Colorado have introduced state-level climate reporting requirements, targeting the same groups of companies and requirements but starting at different points:

- **California:** Starting in 2026, companies must disclose climate-related data. Scope 1 and 2 GHG emissions reporting is required for certain firms, with Scope 3 disclosures phased in later. Companies will also be required to make climate risks disclosures twice a year.

- **New York:** Scope 1 and 2 emissions reporting would begin in 2027, with Scope 3 reporting starting in 2028.

- **Colorado:** Scope 1 and 2 emissions reporting would begin in 2028, with Scope 3 phasing in the following year.

Who Does It Impact?

• **California:** Companies operating in the state with over $1 billion in annual revenue must report Scope 1 and 2 emissions, while those with more than $500 million in revenue must disclose climate-related risks every two years.

• **New York:** Companies operating under U.S. law with over $1 billion in annual revenue and operating in New York.

• **Colorado:** Companies operating under U.S. law with over $1 billion in annual revenue and doing business in Colorado.

The Story So Far

The SEC adopted its climate risk disclosure rule in March 2024 after delays and criticism, removing Scope 3 and supply chain emissions. Legal challenges followed, and on April 9, 2024, the SEC paused implementation pending judicial review.

Separately, in June 2024, the Supreme Court ended the 'Chevron Deference,' limiting federal agencies' rule-making power. While the SEC claimed this didn't affect its authority, the new Trump administration and SEC leadership change make implementation unlikely.

Meanwhile, California advanced its climate laws, passing key bills in October 2023, despite legal challenges. The California Air Resources Board (CARB) must adopt further regulations to implement and specify the requirements of SB-253 by July 1, 2025, with stakeholder consultations running until March 2025. New York and Colorado also proposed climate disclosure rules in 2024, closely aligning with California's framework. These are still in early regulatory stages and, if approved, would take effect two to three years later.

What to Expect in 2025

With the pending confirmation of Paul Atkins as Chair of the Securities and Exchange Commission (SEC), it is very likely the agency's climate disclosure rule will no longer be defended in court and end its application.

In contrast, California's Air Resources Board (CARB) is pushing ahead with its consultation process to finalize the state's climate reporting rules by July 2025. Given the political context and contesting positions surrounding climate disclosures, the CARB is expected to receive a large volume of public comments from both supporters and critics. For comparison, the SEC's proposal drew thousands of submissions.

This development is particularly pertinent for SEC registrants, as many entities that would have been subject to the SEC's rule will now fall under state-level regulations, especially in states like California.

These potential federal rollbacks drive even more attention to state-level efforts. As other states consider similar legislation as California, companies will face a patchwork of climate disclosure requirements, increasing the need for robust data to support investment decisions and mitigate the risk of greenwashing.

Claudia Marin
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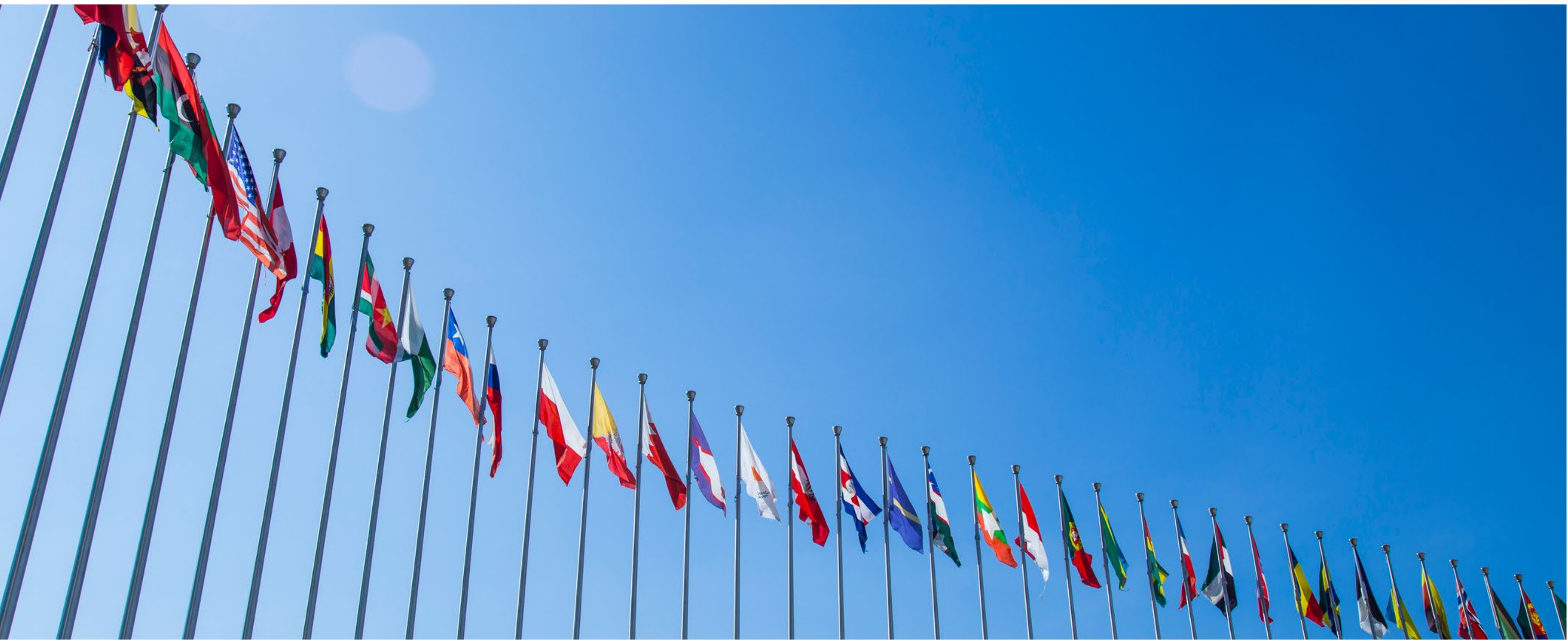

International Regulations

ISSB Standards.

The International Sustainability Standards Board's (ISSB) IFRS S1 and IFRS S2

2021

November, 2021
ISSB is established at COP26 to create global sustainability disclosure standards.

2022

March, 2022
ISSB publishes draft International Financial Reporting Standards (IFRS): IFRS S1 (general sustainability disclosures) and IFRS S2 (climate-related disclosures) for public consultation.

2023

June, 2023
ISSB finalizes and releases IFRS S1 and S2, marking the first global baseline for sustainability reporting.

2024

January, 2024
IFRS S1 and S2 officially take effect, with companies expected to begin voluntary adoption.

2025

2025
ISSB plans to review Scope 3 reporting challenges and assess potential refinements to implementation.

Overview

ISSB standards are intended to provide a 'global baseline' for sustainability-related disclosures, with IFRS S1 and S2 representing the standard setter's first outputs. Governments and regulators around the world are expected to use the standards as the basis for their own sustainability disclosure requirements.

The ISSB has provided implementation guidance to help ensure that international firms face similar rules, also providing investors with comparable information, across markets.

What Does It Require?

- **Single Materiality:** IFRS S1 and S2 require companies to disclose sustainability and climate factors that affect enterprise value, but broader environmental or social impacts are not required.

- **Comply or Explain:** IFRS S1 requires firms to fully comply or explain omissions. Both S1 and S2 allow for a proportionate approach in preparing disclosures. Requirements depend on how countries transpose S1 and S2 into national law.

- **Disclose Climate Risks & Scope 3 Emissions:** IFRS S2 mandates reporting on physical and transition climate risks, including Scope 3 emissions, with a phased-in period. The ISSB is reviewing Scope 3 challenges in 2025.

Who Does It Impact?

Corporates and financial institutions, with precise scope depending on the implementation approach of individual regulators and jurisdictions.

The Story So Far

Formed at COP26 in 2021, the ISSB develops global reporting standards with a climate-first approach. S2 built on the recommendations of the Task Force on Climate-related Financial Disclosures, which were already being used on a voluntary and mandatory basis.

After their June 2023 launch, the International Organisation of Securities Commissions (IOSCO) recommended S1 and S2 adoption to its 130 members. By May 2024, over 20 jurisdictions committed to adoption or alignment, representing more than 50% global GDP and GHG emissions. Firms could voluntarily apply the standards from January 2024, with investors urging portfolio companies to follow suit.

To support the compatibility of S1 and S2 with the European Union's CSRD, the ISSB has co-published 'interoperability guidance' with European Financial Reporting Advisory Group (EFRAG), the body overseeing European reporting standards.

As part of its expanding remit, in 2024 the ISSB assumed responsibility for the guidance of the UK's Transition Planning Taskforce (TPT), designed to provide investors with comparable insights into firms' net-zero and nature-positive transition plans, and the TCFD.

What to Expect in 2025

Since its formation at COP26 in 2021, the ISSB has worked to align sustainability reporting and reduce market fragmentation, earning praise for establishing a global baseline focused on financial materiality of environmental and climate issues.

While ISSB standards have been adopted by IOSCO, jurisdictions are at different stages of implementation. Notable examples of adoption include Hong Kong, Australia, Canada, and Brazil, with the UK planning a 2025 consultation. However, application dates and phased-in periods vary, and emerging markets may need adapted approaches due to capacity constraints.

Recognising this, ISSB has begun focusing on building capacity and facilitating information-sharing in these regions, especially through initiatives like those led by IOSCO.

The ISSB's first Standards mark a significant milestone in global sustainability reporting, offering a key foundation for many disclosure regimes worldwide. Potential changes around Scope 3, could highlight the ongoing iterative process and offer valuable lessons on the interoperability with other frameworks.

Claudia Marin
Regulatory Associate,
Clarity AI

Middle East Regulations

UAE Guidance on ESG-Labeled Investment Vehicles, UAE Climate Risk Principles, Saudi Exchange ESG Disclosure Guidelines.

UAE Guidance on ESG-Labeled Investment Vehicles

2022

November 10, 2022
ADGM consults on proposed regulatory framework for sustainable finance.

2023

July 4, 2023
ADGM SFRF comes into force, setting rules for green and climate transition funds.

2024

May 20, 2024
ADGM consults on enhancements to its SFRF, including guidance for ESG-labeled investment vehicles.

November 14, 2024
ADGM issues new guidance for ESG-focused funds and model portfolios.

Overview

The Financial Services Regulatory Authority (FRSA), the regulatory arm of the Abu Dhabi Global Market (ADGM), first developed a framework for green and climate transition funds in July 2023.

Last year, it issued new guidance for all ESG-labeled funds marketed in its jurisdiction, which are expected to become binding over time. According to the regulator, the new regime clarifies expectations to mitigate the risk of greenwashing and to align with global best practices to ensure transparency, accountability, and integrity.

What Does It Require?

- **Fund Labels:** the FSRA has set clear guidelines for asset managers who want their funds to carry either an ADGM Green Fund or Climate Transition Fund label, covering use of benchmarks and indexes, alignment of assets, and disclosures.

- **ESG Disclosures:** asset managers are required to comply-or-explain ESG disclosures. Firms are permitted to choose their own preferred international framework to follow (e.g. the International Sustainability Standards Board).

Who Does It Impact?

• Fund Labels impact Asset managers that want their funds to carry either the ADGM Green Fund or Climate Transition label.

• ESG Disclosures impact Asset managers (above US$6 billion AUM) operating in the financial freezone.

• Issued last year, the non-binding guidance covers all domestic funds, model portfolios and foreign funds marketed as having ESG characteristics.

The Story So Far

The ADGM's FSRA introduced opt-in requirements for green and transition-labeled funds in July 2023.

To receive an ADGM Green Fund Designation, assets must align with an existing green taxonomy, the in-development UAE taxonomy, or the EU Paris-aligned Benchmark. Funds have two years to align 50% of assets, increasing to 75% after three years.

For an ADGM Climate Transition Fund label, 75% of assets must be invested in transition-aligned activities within one year. The framework also defines criteria for providers of third-party attestations and selection criteria to be used by labeled funds.

In November 2024, the FSRA issued ESG fund guidance, requiring clear and accurate fund names, minimum holding thresholds, and performance metrics. It also covers taxonomy use, third-party indexes, and greenwashing prevention.

As best practices evolve, the FSRA expects to turn this guidance into formal rules.

What to Expect in 2025

The FRSA framework and guidance have supported Abu Dhabi to position itself as one of the regional leaders in terms of developing its sustainable finance framework in the region.

These developments have helped support integrity and transparency in the Abu Dhabi investment market, ultimately supporting the reduction of greenwashing.

In 2025, expect to see further market developments and possible moves towards formal rulemaking, including potentially making the 2024 guidance binding.

Tom Willman
Regulatory Lead,
Clarity AI

UAE Climate Risk Principles

2021

November 5, 2021
UAE SFWG outlines its roadmap including collaboration on sustainability disclosures, corporate governance and taxonomy development.

2023

March 8, 2023
UAE SFWG and ADGM consult on principles for effective management of climate-related risks.

September 26, 2023
UAE SFWG consults on principles for sustainability-related disclosures for reporting entities.

November 13, 2023
The UAE's four main financial regulators adopt the Climate Risk Principles.

2024

May 20, 2024
ADGM consults on enhancing its Sustainable Finance Regulatory Framework, including new expectations on climate-related risk management and transition planning.

Overview

The UAE Climate Risk Principles, established in 2023 by the Sustainable Finance Working Group (SFWG), outline climate risk management expectations for asset managers and financial firms.

Developed to advance the 2021 ESG roadmap, which focused on reporting, governance, risk management, and UAE-specific taxonomy. The ADGM is consulting on making these principles mandatory, including requiring firms to publish transition plans.

What Does It Require?

- **Integrate climate-related financial risks into governance:** Asset managers need to incorporate climate risk considerations into their overall business strategy, risk management framework, and decision-making processes.

- **Monitor and report on climate risks:** Firms are expected to establish oversight mechanisms for climate-related financial risks and regularly report on their exposure and management of these risks.

Who Does It Impact?

- **Financial sector firms:** All firms operating within the financial sector in the UAE, including banks, investment companies, and insurance firms.

- **Regulatory authorities:** The principles were adopted by various regulatory bodies in the UAE, such as the Securities and Commodities Authority (SCA), Dubai Financial Services Authority (DFSA), and Abu Dhabi Global Market (ADGM) Financial Services Regulatory Authority (FSRA).

The Story So Far

The UAE Climate Risk Principles were one of the first major outcomes from its SFWG, formed in 2019 to support the development of sustainable finance in the country and to help meet its obligations under the Paris Agreement.

They cover physical, transition, and liability risks, addressing board oversight, business strategy, risk management, and scenario analysis.

In May 2024, the ADGM's FSRA proposed new climate-related risk guidance as part of its Sustainable Finance Regulatory Framework update. It suggested adopting and expanding the UAE SFWG's principles, potentially tailoring them for specific activities like asset management.

The FSRA also sought feedback on proportionality, ensuring new rules don't overburden smaller firms. It also proposed forward-looking, credible net-zero transition plans and requested input on guidance for scope, sector-specificity, and proportionality.

What to Expect in 2025

UAE continues to roll-out key features of its 2021 ESG roadmap and develop its sustainable finance infrastructure. Off the back of its hosting of COP 28, it continues to endeavour to become a Global Climate Financial Hub.

The Climate Risk Principles are a core element of the roadmap and expect to see more disclosure under the standard this year. We also await further news of the UAE Taxonomy, still under development. When finalised, we expect to see a "traffic light" system, similar to the one used in Singapore and other jurisdictions.

Tom Willman
Regulatory Lead,
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Saudi Exchange ESG Disclosure Guidelines

2018

December 17, 2018
Saudi Exchange joins the UN Sustainable Stock Exchanges initiative.

2020

August 17, 2020
Saudi Exchange announces plans to launch an ESG-themed index.

2021

October 28, 2021
Saudi Exchange issues ESG Disclosure Guidelines.

2023

January 9, 2023
The Gulf Cooperation Council publishes unified ESG Disclosure Metrics, a voluntary initiative aimed at standardising reporting by firms in member countries.

Overview

The Saudi Exchange's ESG Disclosure Guidelines provide guidance to listed firms to integrate sustainability into disclosures and business strategies. They provide recommendations on identifying ESG risks, oversight, and future reporting options.

The guidelines aim to support firms on their ESG journey, strengthen ties with institutional investors, and align with Saudi Arabia's Vision 2030 goals for economic diversification and sustainable growth.

What Does It Require?

• **Report on ESG Performance:**
listed companies are encouraged to disclose their ESG performance and practices, aligning with global best practices to enhance transparency and accountability.

• **Adopt a Consistent Approach:**
companies should follow a consistent methodology for ESG reporting, utilizing the guidelines as a framework to measure and communicate their sustainability efforts effectively.

Who Does It Impact?

The Saudi Exchange's ESG Disclosure Guidelines are advisory, aimed at current and prospective listed firms, of any size. There are almost 250 firms listed on the exchange's main board, with a collective market capitalisation of around US$3 trillion, making it one of the ten largest globally.

The Story So Far

The Saudi Exchange encourages listed firms to integrate ESG risks and opportunities into disclosures and business practices, aligning with Saudi Arabia's goal of attracting international capital for its Vision 2030.

This includes the Financial Sector Development Program, which seeks to modernize and expand capital attraction for Vision 2030 priorities like the National Renewable Energy Program.

Released in 2021, the Saudi Exchange's ESG Disclosure Guidelines outline benefits and practical steps for integrating and disclosing ESG factors, as well as potential themes that can be included in ESG reports. They outline several format options, including standalone sustainability reporting, incorporation of material ESG factors into financial reporting, and fully integrated reporting.

Relevant supporting initiatives include the alignment with international standards of ESG reporting guidelines for listed firms by members of the Gulf Cooperation Council, and the development of Saudi Arabia's corporate governance rules in 2023, covering board responsibilities, disclosures and shareholder rights.

The exchange intends to publish updated guidance in due course to ensure continued relevance and in support of the sustainable growth of the Saudi capital market.

In 2023, the Saudi Exchange is reported to have further encouraged listed firms to assess and prioritise relevant ESG factors.

What to Expect in 2025

Saudi Arabia continues to roll out features of its Vision 2030 plan and is well positioned as one of the frontrunners of the Middle East's economies when it comes to developing sustainable finance policy.

Expect more progress in 2025 as the sustainable finance regulatory framework develops and the depth of reporting by listed companies continues to improve.

This could include further announcements in relation to a Saudi Taxonomy, first envisaged as part of an MMOU between the Saudi Capital Market Authority and the Saudi Stock Exchange back in 2023 as part of a broader ESG framework for the Saudi market.

Tom Willman
Regulatory Lead,
Clarity AI

Latin America Regulations

Brazil Taxonomy, ISSB Standards in Latin America

Brazilian Sustainable Taxonomy

2023

September 21, 2023
Consultation on draft Sustainable Taxonomy Action Plan launched by Ministry of Finance.

December 6, 2023
Brazil's Taxonomy Action Plan officially launched at COP28.

2024

March 25, 2024
Brazilian Sustainable Taxonomy Inter-institutional Committee established to coordinate TSB development and implementation.

December 12, 2024
Two-phase public consultation on draft TSB announced and first consultation package open until January 2025.

2025

February 1, 2025
Second Phase of the TSB consultation begins, open until March 31, 2025.

Overview

The Brazilian Sustainable Taxonomy (TSB) aims to support the country's Ecological Transformation Plan by channeling finance to activities with positive environmental and social impacts, providing reliable information to investors and other providers of sustainable financial services.

Unlike most taxonomies, it is one of few to include both environmental and social objectives. It also addresses specific domestic priorities, targeting the sustainable management and use of land and forests.

What Does It Require?

While the taxonomy is still under development, the Brazilian government has made clear its intention to make compliance with the taxonomy mandatory from 2026. It will eventually require entities within its scope to:

- **Classify Activities:** entities will need to classify their activities based on the taxonomy's criteria to determine if they qualify as sustainable investments.

- **Meet Sustainability Criteria:** the taxonomy will establish specific criteria and indicators to assess whether an activity contributes to sustainability and/or the transition to a sustainable economy.

- **Report and Disclose:** entities will be required to produce transparent reports on their sustainable economic and financial activities.

Who Does It Impact?

- **Companies and Corporations:** All businesses operating in sectors covered by the taxonomy, including agribusiness, extractive industries, and social services, should assess and classify their activities based on the taxonomy's sustainability criteria.

- **Financial Institutions:** Banks, investment firms, and other financial entities that provide funding or investment in projects must align their practices with the taxonomy.

The Story So Far

As outlined in the 2023's Sustainable Taxonomy Action Plan, the TSB is one of a series of sustainable finance policies supporting Brazil's Ecological Transformation Plan, which aims to provide decent work, promote environmental and climate justice, and reduce inequality in the country.

Activities qualify if they meet technical criteria and contribute to one of seven environmental objectives (climate mitigation, climate adaptation, pollution prevention, biodiversity restoration, sustainable water use, circularity transition, or sustainable land use), or four social objectives (decent work, reducing inequalities, gender and racial inclusion, improving quality of life). Activities must also demonstrate they do no significant harm to other objectives, while also meeting minimum safeguards across ESG themes.

The draft taxonomy, released in December 2024, is undergoing a two-phase consultation. The first phase focuses on methodology, safeguards, and reporting, while the second refines sector-specific thresholds and climate criteria.

What to Expect in 2025

Brazil's Sustainable Taxonomy has three key objectives: (1) Direct public and private investments toward sustainable and inclusive development; (2) Foster technological advancements that enhance sustainability, productivity, and competitiveness; (3) Ensure transparency in sustainable finance through reliable data and long-term economic planning.

The goal is to coordinate economic efforts and establish monitoring mechanisms to track investment effectiveness and close financial gaps, in a way to solve the country's specific environmental and social ambitions.

The TSB also aims to align finance flows with the UN Sustainable Development Goals, and sits alongside efforts by the Brazilian government to integrate sustainability into financial decision-making both domestically and internationally through its leadership of the Group of 20 in 2023 and its hosting of COP30 in November 2025.

After the public consultation, thematic groups will evaluate contributions through governance review and approval. The first consolidated edition of the TSB will be published in July 2025. As a living document, it will be updated over time to incorporate broader climate, environmental, and socio-economic objectives and expand its economic activities.

Claudia Marin
Regulatory Associate,
Clarity AI

ISSB Standards in Latin America

2023

June 26, 2023
The ISSB unveiled its general sustainability disclosure standard (IFRS S1) and climate disclosure standard (IFRS S2).

October 18, 2023
Trustees of the IFRS Foundation meet in Panama to discuss the adoption of ISSB standards in Latin America.

October 20, 2023
Brazil commits to incorporating IFRS S1 and S2 into its regulatory requirements for listed firms on a mandatory basis from 2026.

2024

May 28, 2024
IFRS Foundation publishes Inaugural Jurisdictional Guide for the adoption of ISSB standards.

October 29, 2024
Brazil finalizes domestic versions of IFRS S1 and S2.

Overview

Since Brazil became the first country in the world to announce adoption of the first two standards issued by ISSB, several Latin American countries have followed its lead, achieving varying levels of progress.

Different countries are in the process of finalizing approval of domestic versions of IFRS S1 and IFRS S2 ahead of introduction in 2026 or later.

All are adopting the ISSB standards to ensure their large corporates are reporting sustainability performance to the same standard as international peers to ensure competitiveness and to continue to attract sustainable investment.

What Does It Require?

- **Brazil:** Publicly listed firms must publish sustainability reports per ISSB standards for financial years from January 2026, with voluntary reporting from 2024. Large financial institutions must also report for periods from January 2026, with smaller institutions starting in 2028.

- **Costa Rica:** Requires listed firms to disclose against IFRS S1 and S2 from 2025, with other large taxpaying firms in scope 12 months later.

- In most cases, ISSB-related disclosures apply to publicly listed firms, with some jurisdictions extending compliance. Many countries are also adopting international assurance standards for third-party verification of sustainability reports.

Who Does It Impact?

In general, ISSB rules target large and listed companies.

The Story So Far

In October 2023, the Brazilian Securities Commission adopted IFRS S1 and S2 as part of its Sustainable Financial Action Plan, supporting the country's Ecological Transformation Plan, with mandatory disclosure from 2026. Exposure drafts were issued for consultation in April 2024, with final versions published in October.

Other countries exploring ISSB adoption include Costa Rica, Panama, Bolivia, Chile, and Mexico. Panama, which hosted ISSB's first Latin America meeting, mandated banking and securities regulators to plan adoption while the Ministry of Finance develops a taxonomy.

Bolivia's accounting body outlined ISSB adoption in March 2024, requiring listed firms to report from 2027, with voluntary early adoption. In Mexico regulation was passed recently by which issuers of securities in Mexico must follow IFRS S1 and S2 for sustainability reporting, starting in 2026. Chile also launched a consultation in September and plans to introduce reporting requirements from 2027.

What to Expect in 2025

The ESG regulatory landscape in LAC countries is advancing rapidly, with several nations rolling out frameworks to support sustainability goals. In 2025, we expect to see these efforts materialize through stronger climate commitments, expanded regulations, and increased investment flows into a region crucial for global climate targets.

Specifically, we anticipate greater adoption of the ISSB disclosure standards, aligning corporate reporting with global best practices.

Additionally, the region will see further development and harmonization of national sustainable taxonomies, to ensure more aligned cross-border investment opportunities. The push for interoperability across LAC taxonomies and common reporting frameworks will be a key factor in attracting both regional and international investors, fostering a more transparent and efficient sustainable finance ecosystem.

Claudia Marin
Regulatory Associate,
Clarity AI

Asia Regulations

Singapore-Asia Taxonomy

Singapore-Asia Taxonomy

2023

July, 2023
MAS closes its final public consultation on the taxonomy, incorporating feedback from various stakeholders.

December 3, 2023
Singapore-Asia Taxonomy officially launched by the MAS at COP28.

2024

November, 2024
MAS collaborates with the People's Bank of China and European Union to launch the Multi-Jurisdiction Common Ground Taxonomy to enhance interoperability of taxonomies across EU, China and Singapore.

Overview

Launched by the Monetary Authority of Singapore (MAS), the Singapore-Asia Taxonomy provides a comprehensive framework to guide financial institutions and businesses in identifying and classifying green and transition activities across eight key sectors, aiming to direct capital towards sustainable projects and facilitate the region's shift towards a net-zero economy.

What Does It Require?

The taxonomy introduces a "traffic light" system categorizing activities as green (environmentally sustainable), amber (transition), or red (ineligible). Entities are required to:

- **Classify Activities:** Assess and categorize their economic activities based on the taxonomy's criteria.

- **Meet Sustainability Criteria:** Ensure activities align with defined thresholds for environmental objectives, primarily focusing on climate change mitigation.

- **Report and Disclose:** Provide transparent reporting on the alignment of their activities with the taxonomy's classifications.

Who Does It Impact?

- **Financial Institutions:** Banks, investment firms, and other financial entities can align their financing and investment activities with the taxonomy's classifications.

- **Businesses:** Companies across sectors such as energy, real estate, transportation, and agriculture can assess and align their operations with the taxonomy to access sustainable finance and ensure compliance.

The Story So Far

The Singapore-Asia Taxonomy, developed by MAS's Green Finance Industry Taskforce, serves as a tool in steering capital towards sustainable and transition activities within the region.

It employs a novel "traffic light" system to classify activities, acknowledging the diverse economic contexts of Asia and facilitating a structured transition towards sustainability.

The taxonomy emphasizes climate change mitigation and includes "Do No Significant Harm" criteria to ensure that activities contributing to one environmental objective do not adversely impact others. Since its launch, MAS has engaged in extensive consultations and capacity-building initiatives to support effective implementation.

What to Expect in 2025

In 2025, the Singapore-Asia Taxonomy could take on a more prominent role in Singapore's sustainable finance landscape.

Entities wishing to report can now integrate the taxonomy's classifications into their operations, investment decisions, and reporting processes. Though MAS is still unlikely to enforce compliance through regulatory measures, further efforts may be made to ensure that financial flows are consistently directed towards activities aligned with the taxonomy's criteria.

Continuous updates to the taxonomy are anticipated, expanding its scope to cover additional environmental objectives such as biodiversity protection and pollution prevention. We await further news as to whether the taxonomy may be made mandatory.

The successful adoption of the Singapore-Asia Taxonomy is poised to solidify Singapore's position as a leading hub for green finance in the region.

Tom Willman
Regulatory Lead,
Clarity AI

How Clarity AI Supports Financial Institutions

Clarity AI acts as an extension of investment teams, providing solutions that simplify compliance, reduce costs, and enhance decision-making for:

Regulatory Compliance

Simplify complaince with key regulations, including SFDR, EU Taxonomy, CSRD, MiFID II, TCFD-based disclosures, and other national and voluntary disclosure standards.

ESG Risk

Identify high-risk investments, enhance portfolio diversification, and integrate ESG seamlessly for more sustainable risk-adjusted returns. Clarity AI helps you assess ESG risks, screen for controversies, and apply negative screening to strengthen portfolio resilience.

Impact

Leverage AI-powered sustainability analysis and insights to deliver on the UN Sustainable Development Goals, and to create client-friendly, and real-world Impact Highlights reports.

Climate & Nature

Assess and manage climate and biodiversity risks and opportunities with precision. Clarity AI enables you to track carbon and biodiversity footprints, analyze climate transition plans, evaluate climate and nature-related risks, or report against TCFD or TNFD.

Modular Solutions

Sustainability isn't one-size-fits-all. As a tech company, we help organizations integrate it on their own terms. Connect with our team to explore tailored solutions that fit your needs.

About Clarity AI

Clarity AI is the leading sustainability tech company, leveraging advanced technology and AI to provide data-driven environmental and social insights to investors, corporates, governments, and consumers. AI has been at the core of Clarity AI's offering from the start, supporting a fully flexible set of data solutions, insights, analytics capabilities, and tools used for portfolio management, corporate research and engagement, benchmarking, regulatory reporting, online banking, and e-commerce. Clarity AI was named a leader by independent research in The Forrester Wave: ESG Data & Analytics, Q3 2024.

Within the investment sector, Clarity AI serves a direct network of clients managing over $60 trillion in assets and includes firms like Invesco, Nordea, and Santander. Our strategic partnerships with financial institutions such as BlackRock, the London Stock Exchange Group (LSEG), BNP Paribas, Caceis, or SimCorp, allow thousands of users to access Clarity AI advanced data analytics capabilities through their usual investment platforms, ensuring a seamless workflow experience. Clarity AI has offices in North America, Europe, and the Middle East. For more information visit www.clarity.ai