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Global ESG Jurisdictional Snapshot

Review of H2 2025 and Outlook for 2026

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During the second half of 2025, sustainability regulation continued to evolve toward more decision-useful, comparable and enforceable disclosures, with a growing emphasis on data quality and assurance.

Many regulators and standard setters progressed from encouraging voluntary transparency toward embedding sustainability-related disclosures within corporate and financial reporting frameworks, increasingly referencing ISSB/IFRS S1 and S2 as an emerging global baseline for investor-focused disclosure. In several major jurisdictions, including the EU and the UK, momentum remained strong, although the period also marked a policy shift toward phased implementation and simplification to balance sustainability objectives with competitiveness. EU institutions initiated proposals to recalibrate reporting and due-diligence scope - including adjustments affecting CSRD and CSDDD - while maintaining the broader trajectory toward standardised reporting expectations and supervisory scrutiny. The UK, meanwhile, formalised voluntary adoption of the UK Sustainability Reporting Standards - IFRS-aligned - in February 2026.

Across markets, sustainability assurance advanced from a largely voluntary practice toward a more structured and formalised expectation, supported by the roll-out of dedicated assurance frameworks, including the UK's adoption of ISSA (UK) 5000, aligned with global IAASB developments. This trend is reinforcing confidence in reported metrics and heightening expectations around governance, internal controls and data quality. By contrast, the United States continued to display a more contested and fragmented trajectory, with ongoing debate over the scope and enforceability of climate and ESG disclosures and increasing divergence driven by state-level action. Overall, H2 2025 reinforced that ESG regulation is becoming more formalised and internationally interconnected, although the pace and form of implementation continue to vary significantly by jurisdiction.

Key highlights for the UK

In 2025, the UK continued to strengthen the credibility and governance of ESG and climate-related reporting, with a particular focus on (i) supervisory expectations for regulated firms' climate risk management, (ii) formalisation of sustainability assurance, and (iii) progress toward UK Sustainability Reporting Standards (UK SRS) aligned to the ISSB global baseline. At the same time, the government signalled a more targeted toolkit approach to sustainable finance by deciding not to proceed with a UK Green Taxonomy, prioritising other levers such as reporting standards, assurance and transition-related disclosures.



1 Bank of England / PRA – PS25/25 (Climate-related financial risks)

In December 2025, the Prudential Regulation Authority (PRA) published Policy Statement PS25/25, replacing SS3/19 with a new Supervisory Statement SS5/25. This update strengthens expectations for how banks and insurers identify, manage and disclose climate-related financial risks. The revised framework places greater emphasis on board accountability, integration of climate risks into existing risk management frameworks, forward-looking scenario analysis, and data quality and controls

While the policy took effect immediately, firms are expected to assess their alignment and develop remediation plans, with supervisory engagement expected once firms have had time to embed the updated expectations.

Why it matters? Climate risk management is now firmly embedded within mainstream prudential supervision, with clearer and more enforceable supervisory expectations.

2 FRC – International Standard on Sustainability Assurance (UK) 5000

The Financial Reporting Council (FRC) issued International Standard on Sustainability Assurance (UK) 5000 in November 2025, marking a significant step toward formalising assurance over sustainability information in the UK. The standard is currently voluntary and applies to assurance engagements over sustainability disclosures prepared under any recognised framework (including ISSB-based reporting). It supports both limited and reasonable assurance and strengthens requirements around evidence, judgement and transparency. The standard becomes effective for reporting periods beginning on or after 15 December 2026, with early adoption permitted.

Why it matters? Sustainability assurance in the UK is moving from ad-hoc practices toward a consistent, internationally aligned assurance framework, increasing confidence in ESG disclosures.

3 UK Sustainability Reporting Standards (UK SRS)

The UK Government has initiated the UK Sustainability Reporting Standards (UK SRS) on a voluntary basis, to form the core of the UK's future sustainability reporting framework. The standards are based on the ISSB's IFRS S1 and S2, adapted for the UK regulatory and legal environment.

Exposure drafts were published in June 2025, with consultation closing in September 2025. In February 2026, the Department for Business and Trade confirmed the finalisation of UK SRS on a voluntary basis, with regulators - including the FCA - preparing consultations on how the standards will apply. Mandatory adoption is expected to be phased, initially targeting large UK companies and financial institutions.

Why it matters? ISSA 5000 provides the first comprehensive internationally recognised sustainability assurance standard, going beyond general assurance standards like ISAE 3000, and supports consistent assurance practice globally and in the UK.

Key highlights for the EU

In 2025, the European Union continued to advance its sustainability and climate agenda, while introducing a clear pivot toward simplification and phased implementation to support competitiveness. Key developments focused on (i) narrowing and streamlining sustainability reporting and due diligence obligations under the Omnibus I Package, (ii) reaffirming long-term climate ambition through agreement on a 2040 emissions reduction target, and (iii) preparing for the transition to operational regimes such as CBAM and circular economy measures. Overall, the EU signalled a move toward fewer companies in scope, but higher expectations for those captured.

1 Omnibus I Package – CSRD & CSDDD simplification

In December 2025, EU institutions reached a provisional agreement on the Omnibus I Package, significantly streamlining sustainability reporting and due diligence requirements. CSRD reporting is narrowed primarily to the largest undertakings, with higher thresholds and safeguards to limit trickle-down effects on smaller firms. CSDDD obligations are refocused on very large companies (over 5,000 employees and €1.5 billion turnover), with simplified due diligence expectations, removal of the mandatory climate transition plan, and capped penalties.

Why it matters? The EU is recalibrating its ESG framework to reduce burden while maintaining strong expectations for companies with the greatest sustainability impacts and risks.

2 European Climate Law – 2040 climate target

The European Parliament and Council reached a provisional agreement to amend the European Climate Law, setting a binding 2040 target of a 90% net reduction in greenhouse gas emissions compared to 1990 levels. This milestone reinforces the EU's trajectory toward climate neutrality by 2050, with limited flexibility mechanisms to support implementation.

Why it matters? Long-term climate ambition remains firmly intact and will continue to shape EU policy, investment and regulatory measures across sectors.

3 Carbon Border Adjustment Mechanism (CBAM) – transition to the definitive regime

From 1 January 2026, CBAM enters its definitive regime (with deferred financial obligations), following the transitional reporting-only period. However, the EU has introduced targeted simplifications, including a 50-tonne annual import exemption and a deferral of CBAM certificate sales until 1 February 2027, meaning 2026 will primarily function as a preparation and measurement year. CBAM continues to apply initially to imports of carbon-intensive goods, including cement, iron and steel, aluminium, fertilisers, electricity and hydrogen.

Why it matters? Companies have a limited window in 2026 to strengthen emissions data, supplier engagement and internal controls before CBAM becomes fully financialised.

4 Packaging and Packaging Waste Regulation (PPWR)

The Packaging and Packaging Waste Regulation (EU) 2025/40 will apply from August 2026, introducing binding EU-wide rules on recyclability, waste reduction and packaging design. In parallel, the Commission is preparing a Circular Economy Act, with a proposal expected in 2026, aimed at accelerating the transition to a resource-efficient, low-waste economy.

Why it matters? EU sustainability regulation is extending beyond reporting into product design, materials use and supply-chain transformation.

5 SFDR 2.0- Updates to the Sustainable Finance Disclosure Regulation

In November 2025, the European Commission published a legislative proposal to revise the Sustainable Finance Disclosure Regulation (SFDR). The review followed an assessment by the Commission which concluded that the existing framework had resulted in complex, lengthy and sometimes inconsistent disclosures, and that the Article 8 and Article 9 classifications were being used as de facto sustainability labels. The proposal aims not only to simplify disclosure requirements but also to introduce a clearer product categorisation regime, strengthen safeguards against greenwashing, and improve alignment with other EU sustainable finance legislation, including the EU Taxonomy and CSRD. Among the proposed changes are a revised product classification framework, streamlined disclosure templates, adjustments to principal adverse impact (PAI) reporting requirements, and stricter rules on the use of sustainability-related terms in product names and marketing.

Why it matters? If adopted, the revised framework is expected to provide clearer and more comparable sustainability information for investors, while reducing unnecessary complexity in disclosures. At the same time, financial market participants may need to reassess product classifications, documentation and data processes to comply with the new categorisation criteria and marketing rules. The reform seeks to enhance investor confidence, reduce greenwashing risks, and improve the functioning of EU sustainable capital markets.

Key highlights for the US

In 2025 and early 2026, the US ESG regulatory environment has been defined less by a single national disclosure regime and more by a pronounced federal-state divide. At the federal level, the SEC's climate disclosure rules remain stayed in litigation, and in March 2025 the SEC voted to cease defending the rules in court. This has materially reduced near-term clarity around whether, when, and in what form a federal climate disclosure regime will take effect. At the same time, several climate-focused federal initiatives (including financial supervisory guidance and federal contractor disclosure proposals) have been withdrawn or rolled back. In contrast, at the state level, particularly in California, mandatory climate disclosure initiatives continue to advance, while other states have enacted measures limiting or constraining the use of ESG factors in public finance and contracting. The result is an increasingly fragmented compliance landscape for multi-state businesses.

1 Federal – SEC climate disclosure rules

The SEC adopted climate disclosure rules on 6 March 2024. On 4 April 2024, the SEC issued a voluntary stay pending judicial review in consolidated Eighth Circuit litigation. On 27 March 2025, the SEC voted to end its defence of the rules in court, signalling a significant shift in federal regulatory posture without formally rescinding the rules. As of early 2026, the rules remain stayed and are not operative.

Why it matters? Federal climate disclosure requirements, timing, and enforcement trajectory remain uncertain. However, investor expectations around climate governance, risk management narrative, and emissions data discipline continue to evolve independently of formal rulemaking, meaning disclosure scrutiny has not disappeared—only the regulatory anchor has shifted.

2 State - California climate disclosure laws

California's SB 253 (GHG emissions disclosure) and SB 261 (climate-related financial risk disclosure) represent the most significant state-led climate reporting regimes in the United States. SB 253 rulemaking has progressed through 2025 and into 2026, with implementing regulations under development. SB 261, while enacted, has been subject to ongoing litigation, including Ninth Circuit proceedings and interim court decisions affecting enforcement. This litigation has introduced uncertainty around implementation timelines, but has not eliminated the underlying statutory framework.

Why it matters? For many large companies, California is effectively the primary driver of structured emissions inventory development, internal controls, and climate risk reporting capability in the US, even amid legal uncertainty. At the same time, a number of other states have enacted laws designed to restrict or limit ESG considerations in public pension management, public contracting, and financial relationships. These measures do not typically impose disclosure obligations, but they materially affect market access and public-sector engagement strategies. The combined effect is a dynamic and politically sensitive, state-by-state compliance environment.

3 US ESG compliance in 2026 is increasingly a multi-jurisdictional strategy exercise. Companies must balance:

- (i) California-driven disclosure readiness and data infrastructure;
- (ii) ongoing federal regulatory uncertainty; and
- (iii) divergent state-level approaches to ESG in finance, procurement, and public funds.

In practical terms, this requires parallel scenario planning rather than reliance on a single, nationally harmonised ESG framework.



Key highlights for selected countries across continents

Across the rest of the world, 2025 marked a continued convergence toward global sustainability reporting and climate policy baselines, particularly the ISSB/IFRS S1 and S2 standards, albeit with phased, jurisdiction-specific implementation.

Rather than introducing entirely new concepts, regulators focused on gradual mandates, proportional scope thresholds, and integration with national decarbonisation strategies, balancing ambition with market readiness.

- 1 Japan progressed ISSB-aligned sustainability reporting through the SSBJ standards and advanced its national decarbonisation framework, including legal backing for a mandatory emissions trading scheme from 2026.
- 2 Emerging markets, including India, the Philippines and Brazil, moved toward more structured ESG disclosure regimes, often starting with listed entities and sustainable finance instruments, supported by phased timelines and increasing assurance expectations.
- 3 Across jurisdictions, mandatory adoption remains targeted and phased, with an emphasis on investor-focused disclosures, emissions transparency, and alignment with international standards rather than bespoke local frameworks.

Why it matters? Across jurisdictions, ESG regulation is becoming more consistent and globally aligned, but implementation remains incremental, requiring companies to track local timing and scope while building scalable, ISSB-aligned reporting and data capabilities.





Outlook for the rest of 2026

Looking ahead to the rest of 2026, global ESG regulation is expected to shift less toward headline expansion and more toward implementation, consolidation, supervisory scrutiny and enforcement. Momentum toward alignment with ISSB/IFRS S1 and S2 continues across several major jurisdictions, following the confirmation of the UK's voluntary adoption of UK SRS in February 2026.

Many countries are finalising adoption decisions, refining local adaptations and embedding these standards into regulatory and supervisory frameworks. As a result, comparability, consistency, and assurance-readiness are increasingly shaping regulatory expectations.

At the same time, governments in leading markets are translating long-term climate targets into more concrete sectoral measures, carbon pricing mechanisms and operational requirements. While some jurisdictions are simplifying scope to reduce reporting burdens, this is being balanced by clearer accountability for large companies, stronger scrutiny of data quality, and more structured approaches to climate risk management and transition planning.

For companies, the rest of 2026 is likely to be a pivotal execution phase. ESG and climate disclosures are becoming more tightly integrated into governance, risk management and financial decision-making, with investors and supervisors placing greater emphasis on credibility, internal controls and assurance rather than volume of disclosure. Across major capital markets, ESG reporting is increasingly embedded within mainstream corporate reporting and strategy.

Key sources:

For Europe

- ▶ Council and Parliament strike a deal to simplify sustainability reporting and due diligence requirements and boost EU competitiveness
- ▶ Simplified sustainability reporting and due diligence rules for businesses
- ▶ 2040 climate target: Council and Parliament agree on a 90% emissions reduction
- ▶ Officially published: Simplifications for the Carbon Border Adjustment Mechanism (CBAM)
- ▶ Commission adopts REsourceEU to secure raw materials, reduce dependencies and boost competitiveness*
- ▶ European integrated framework for climate resilience
- ▶ Commission launches consultation and call for evidence for upcoming Circular Economy Act
- ▶ The IMO Net-Zero Framework - FAQs
- ▶ Packaging and packaging waste (from 2026)

For Brazil

- ▶ International Bar Association

For UK

- ▶ Bank of England SS5/25
- ▶ FRC takes steps to support quality and consistency in the assurance of sustainability reporting
- ▶ UK Sustainability Reporting Standards

For Japan

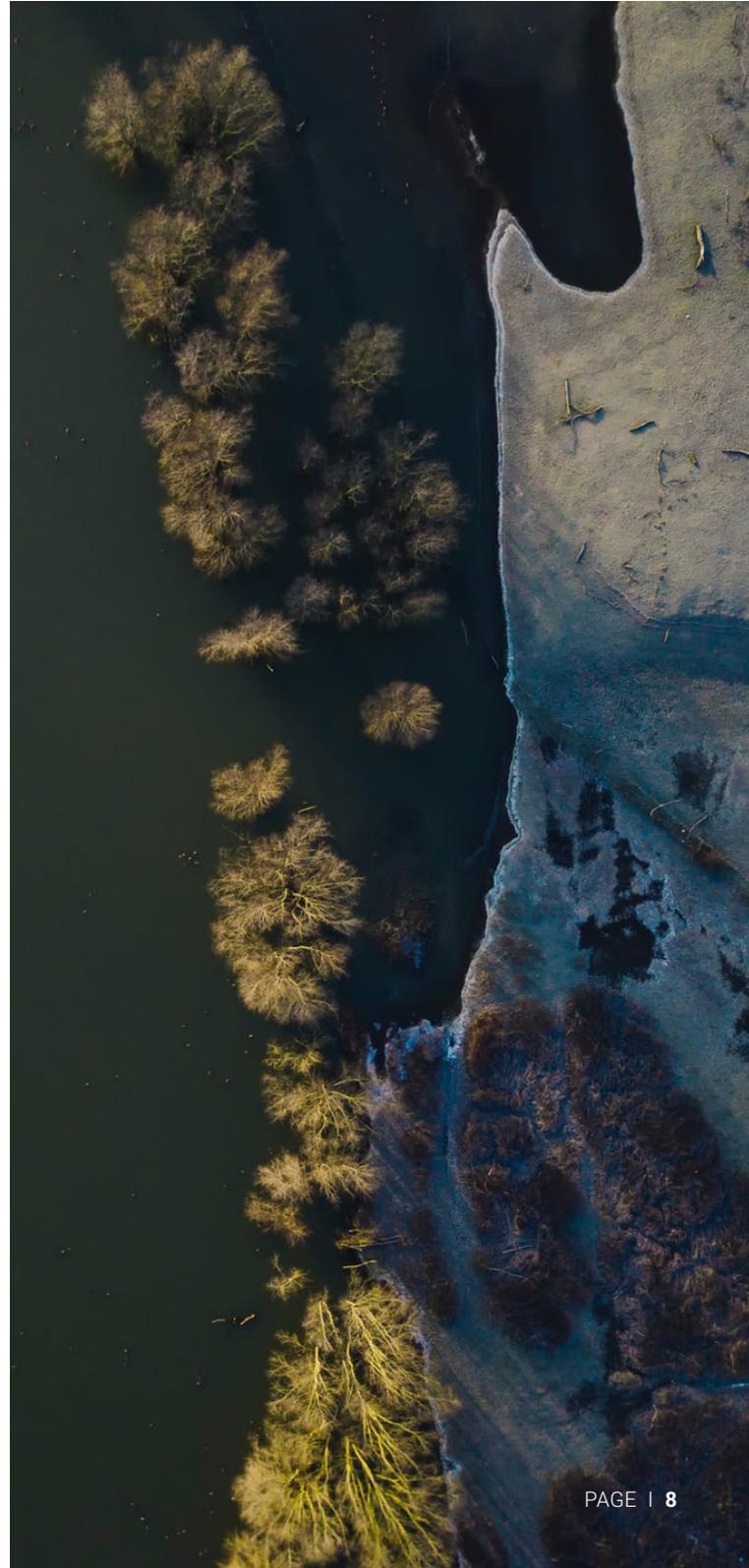
- ▶ Jurisdictional snapshot: Japan
- ▶ Press Conference by Minister Muto (Excerpt)
- ▶ Japan emissions trading scheme (GX-ETS)

For India

- ▶ Securities and Exchange Board of India
- ▶ India Launches New Regulations for Social, Sustainability, Sustainability-Linked Bonds

For Philippines

- ▶ Connecting leaders to make sense of global challenges and move the world forward together
- ▶ Welcome to The Philippine Stock Exchange



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