# The evolving landscape of ESG regulations ahead of 2025



In recent months, the landscape of Environmental, Social, and Governance (ESG) regulations has evolved, particularly within Europe and the United Kingdom, while projections for 2025 highlight an anticipated increase in divergence between these regions and the United States. The analysis presented by co-authors Mary Bonsu, Chiara Fiori, and Karrissa Webster in a report from JD Supra, outlines significant changes in ESG legislation, critical developments at international conferences, and a glimpse into 2025 trends.

During the latter half of 2024, there was a discernible uptick in ESG legislation and guidance throughout Europe. This followed earlier analyses, such as the July 2024 midyear review by Skadden, which highlighted the increasing alignment of legislative efforts in the European Union with the commitments laid out in the Paris Agreement. A landmark ruling by a court within the EU clarified the judicial roles in enforcing compliance with these global climate mandates.

A key legislative milestone was reached with the activation of the Corporate Sustainability Due Diligence Directive (CS3D) on 25 July 2024. This directive imposes rigorous due diligence obligations on companies regarding human rights and environmental risks within their supply chains and will progressively apply to businesses from 2027 through 2029 based on employee count and financial thresholds. The directive's implementation will require companies to align their transition plans with the Paris Agreement and will impose civil liability for any non-compliance.

Alongside these measures, the European Securities and Markets Authority (ESMA) introduced fresh guidelines to regulate the naming of funds that include ESG-related terms. As of May 2024, fund managers must ensure that at least 80% of investments meet stated environmental or social criteria. These guidelines aim to enhance investor trust by reducing instances of greenwashing, though concerns have been raised over potential increases in compliance costs for managers.

The UK's regulatory environment also saw notable developments, including the introduction of a Carbon Border Adjustment Mechanism (CBAM), set to take effect in January 2027. This mechanism seeks to impose a carbon price on certain industrial goods, initially focusing on sectors like aluminium and steel. Additionally, the UK's Financial Conduct Authority proposed that companies disclose climate-related risks in prospectuses, reflecting a cautious but growing trend towards enhanced transparency and accountability.

In Australia, significant tax disclosure reforms were introduced, demanding that multinational corporations disclose detailed financial information across multiple jurisdictions to combat tax secrecy and profit-shifting practices. This new legislation aims to create a model for global tax transparency.

However, there remain delays and inconsistencies among existing ESG regulations, particularly concerning the EU's Deforestation Regulation, with its implementation postponed to 2025 for larger entities. Meanwhile, differing antitrust guidelines across various jurisdictions have created a complex landscape for companies attempting to engage in cross-border collaborative sustainability efforts.

Two significant international conferences, COP16 and COP29, were held in late 2024, yielding mixed outcomes. COP16 witnessed the launch of initiatives aimed at increasing investments in biodiversity through debt conversion schemes. In contrast, COP29 struggled with division among participating nations on crucial issues, notably the role of fossil fuels in the climate transition but did achieve agreement on standards for global carbon trading.

As attention shifts to 2025, anticipated trends include an evolving landscape under potential leadership changes in the US, particularly with implications for the federal climate disclosure rules initiated under the SEC. President-elect Donald Trump’s administration is expected to focus on a business-friendly approach to regulation, potentially hindering the progress made in climate-related policies.

European companies are preparing for the transition under the incoming EU Corporate Sustainability Reporting Directive (CSRD), which will require them to disclose their sustainability impacts in 2025. Concurrently, the EU is considering a simplification of its ESG reporting obligations, potentially reducing regulatory burdens for businesses.

The forthcoming year hints at a critical juncture as differences in ESG regulatory frameworks between the US and Europe could pose substantial compliance challenges for firms engaged in international business. Overall, the insights extracted from the JD Supra article reveal a proactive, albeit scrutinising approach towards ESG regulations, setting the stage for continued discourse and developments in the global business environment.

Source: [Noah Wire Services](https://www.noahwire.com)

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