SGV Sustainability

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Sustainability Policy Developments

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An update on significant regulatory and legislative developments affecting EY teams and clients

Sustainability reporting and assurance

Global

On 30 January, the **Greenhouse Gas Protocol (GHG Protocol)** released the first Land Sector and Removals Standard. The standard establishes consistent requirements for accounting and reporting greenhouse gas (GHG) emissions and CO_2 removals from land-sector activities. The Standard addresses a gap in corporate GHG accounting, particularly for agriculture and land-use change, which account for nearly one-quarter of global emissions. Effective 1 January 2027, it provides methodologies for quantifying land-based emissions and technological removals, including direct air capture and geologic storage, and must be applied in combination with the Corporate and Scope 3 Standards. The initial version excludes forestry and non-productive land uses, with further guidance expected in subsequent updates.

On 29 January, the **International Public Sector Accounting Standards Board (IPSASB)** issued its finalized IPSASB SRS 1, Climate-related Disclosures, the first sustainability reporting standard designed specifically for governments and public sector entities. The finalized standard aligns closely with the **IFRS S2 Standard**, while incorporating modifications for public-sector terminology, broader user needs and a rebuttable presumption requiring use of the **GHG Protocol** unless justified otherwise. Disclosure requirements include oversight of climate-related risks and opportunities, analysis of financial effects and climate resilience, risk-identification processes and reporting of Scope 1, 2 and 3 emissions under an established methodology. IPSASB removed proposed disclosures on public policy programs, deferring them to a future phase to maintain initial focus on entities' own operations. Transitional reliefs include a three-year deferral for Scope 3 disclosures and no requirement for comparative information in the first reporting year. The standard applies to annual reporting periods beginning on or after 1 January 2028, with early adoption permitted. Additionally, on 22 January, the **IPSASB** issued IPSAS 51, Tangible Natural Resources Held for Conservation, the first comprehensive public sector accounting standard for natural resources preserved for environmental or conservation purposes. The new standard addresses a gap in public sector financial reporting by providing guidance on recognizing and measuring resources such as land, forests and water bodies that governments hold to preserve ecological value rather than generate economic returns.

Sustainability reporting and assurance (cont'd)

Global

IPSAS 51 provides a framework for reporting conservation assets and related changes — such as depletion, restoration, or degradation — in general-purpose financial statements. It supports greater transparency in how governments manage environmental resources and aligns with broader developments in sustainability reporting. The standard also clarifies links to existing IPSASB requirements where natural resources are held for alternative operational or economic uses, supporting more consistent and decision-useful public sector reporting.

On 28 January, the **International Sustainability Standards Board (ISSB)** unanimously voted in favor of the staff's recommendation to proceed with nature-related standard-setting, assuming that entities are applying **IFRS S1 and IFRS S2**. The ISSB also agreed that this work should encompass all nature-related risks and opportunities, rather than limiting scope to a particular nature-related topic or industry. Relevant terms and definitions will be presented to the ISSB in the coming months. The ISSB plans to release an Exposure Draft for public consultation in advance of the **COP17 Biodiversity and Nature summit** in October 2026.

Asia-Pacific

On 8 January, **Japan's Financial Service Agency** finalized its roadmap (*link in Japanese only*) for mandatory sustainability disclosure standards. The mandate applies to large-listed companies on the Tokyo Stock Exchange's Prime Market, with implementation staggered by market capitalization. Under the roadmap, companies with an average market capitalization of ¥3 trillion (~USD 20-21 billion) or more will begin reporting in line with the **Sustainability Standards Board of Japan Standards** for fiscal years ending on or after March 2027. Mandatory third-party assurance for these companies will begin for fiscal years ending in March 2028.

On 25 December 2025, **China's Ministry of Finance**, alongside several other ministries, regulators and the Central Bank, released its new **Sustainability Disclosure Standards for Enterprises No. 1 — Climate (Trial)** (*link in Chinese only*) informed by the **IFRS S2 Standard**. While designed to be functionally equivalent to the ISSB requirements, the standard introduces jurisdiction-specific elements intended to reflect domestic policy priorities. The Standard will initially apply on a voluntary basis pending future decisions on scope and timeline. This development follows China's earlier release of its **Sustainability Disclosure Standards for Business Enterprises — Basic Standard** and demonstrates continued progress toward establishing a national reporting framework that is explicitly aligned with the **IFRS S1 and S2 Standards** while incorporating local regulatory objectives.

On 22 December 2025, the **Securities and Exchange Commission Philippines** announced the adoption of the ISSB-aligned **Philippine Financial Reporting Standards on Sustainability Disclosures** for large and listed companies. The standards will be phased in from 2027 for entities with market capitalization above ₱50 billion (~USD 848.9 million), with subsequent tiers following in 2028 and 2029. Mandatory limited assurance of Scope 1 and 2 emissions will apply two years after initial reporting. Transitional relief allows temporary omission of Scope 3 emissions and staged disclosure of climate-related risks.

Sustainability reporting and assurance (cont'd)

Americas

On 9 January, the **Ninth Circuit Court of Appeals** heard arguments concerning **California's climate disclosure laws, SB 253 and SB 261.** Specifically, the court heard arguments by several business groups seeking to stop both laws from taking effect until a final decision on the merits of their case against the laws has been made. SB 261, which requires biennial disclosures of climate-related financial risks, was scheduled to take effect starting 1 January 2026. SB 253, which requires annual disclosures of GHG emissions, is scheduled to take effect on 10 August 2026. In November 2025, the Court issued a one-paragraph ruling that paused the implementation of SB 261. The Court declined to pause implementation of SB 253. At the 9 January hearing, parties to the lawsuit addressed a key issue: whether the climate-related disclosures that SB 253 and SB 261 mandate constitute commercial speech beyond the authority of the State of California to compel or regulate. Counsel representing businesses argued that the laws, by requiring companies to report climate-related information, compel those companies to engage in commercial speech beyond California's authority to regulate such speech. Counsel for the State of California argued that the laws require disclosure of data and other information, not policy views or other information that would constitute unconstitutionally compelled commercial speech. A ruling on whether to extend or modify the November 2025 injunction is expected within several months. Continued appeals and further litigation regarding both laws are possible.

On 9 December 2025, the **California Air Resources Board (CARB)** released draft regulatory text establishing fees for companies subject to **SB 253 and SB 261** as well as a reporting deadline for SB 253. A public hearing on the draft regulatory text is scheduled for 26–27 February. The proposal aligns revenue thresholds with California tax definitions of "gross receipts" and affirms the first mandatory emissions reporting deadline pursuant to SB 253 as 10 August 2026 (pending outcome of legal challenge to both SB 253 and SB 261). CARB reiterated that it will not enforce SB 261 requirements during the ongoing court injunction and has opened a voluntary reporting docket. The agency's staff report provides further justification for scope, applicability and the use of two-year lookback criteria to stabilize coverage for entities with fluctuating revenues. The public hearing notice specifies that the "establishment of this reporting deadline is intended to provide a clear backstop for reporting but is not intended to establish other program requirements, including, but not limited to, reporting and assurance requirements and enforcement provisions. These elements will be developed and adopted through a subsequent rulemaking." The consultation remains open until 9 February.

Europe, Middle East, India and Africa

On 30 January, the **United Kingdom (UK) Financial Conduct Authority (FCA)** published CP26/5: Aligning listed issuers' sustainability disclosures with international standards. The consultation seeks public feedback on replacing the current **UK Listing Rules (UKLRs)**, which are aligned to the **Task Force on Climate-related Financial Disclosures (TCFD)**, with new requirements for in-scope listed companies to report against the **UK Sustainability Reporting Standards (UK SRS)**, subject to government endorsement. The FCA proposes to maintain a scope consistent with the existing TCFD-aligned UKLRs, while introducing a more flexible approach for international companies that hold a primary listing in another jurisdiction.

Sustainability reporting and assurance (cont'd)

Europe, Middle East, India and Africa

In scope listed companies would be required to:

- Report against UK SRS S2 (excluding Scope 3) climate disclosures on a mandatory basis.
- Report against UK SRS S2 Scope 3 emissions data on a 'comply or explain' basis.
- Report against UK SRS S1 non-climate disclosures on a 'comply or explain' basis.
- Specify whether the company has published a climate-related transition plan, and, if so where it can be found, and, if not, the reason why.
- Specify whether or not they have obtained third-party sustainability assurance on disclosures relating to UK SRS (including UK SRS S2 Scope 3 and UK SRS S1).

The FCA aims to bring the proposed rules into effect from 1 January 2027, applying to accounting periods beginning on or after this date. Transitional relief would be available for certain UK SRS requirements, including a one-year deferral for reporting UK SRS S2 Scope 3 emissions and up to a two-year deferral for UK SRS S1 non-climate disclosures. The consultation is open until 20 March.

On 20 January, **Haute Autorité de l'Audit (H2A)**, the statutory audit and sustainability assurance regulator in France, published its updated guidelines (*link in French only*) for **Corporate Sustainability Reporting Directive (CSRD)** assurance engagements. The updates include recent amendments to French law and consequences of the "Stop the Clock" directive and also take into account lessons learned from the first year of CSRD assurance engagements.

On 8 January, as part of the **European Commission's (EC) Omnibus I Simplification Package**, a new Delegated Act concerning the **EU Taxonomy** was published in the **Official Journal of the European Union (EU)**. It amends the Disclosures Delegated Act to simplify the content and presentation of disclosures. It also modifies the Climate and Environmental Delegated Acts to simplify the generic Do No Significant Harm criteria for the Pollution prevention and control objective (Appendix C). The revised EU Taxonomy Delegated Act is applicable for the 2026 reporting cycle covering the financial year 2025. However, undertakings have the option to continue applying the non-amended reporting rules for financial year 2025.

On 22 December 2025, the **European Financial Reporting Advisory Group (EFRAG)** released its cost-benefit analysis on the amended **European Sustainability Reporting Standards (ESRS)**, revealing diverging views between report preparers and sustainability data users. According to the analysis:

- Companies expect significant cost reductions, estimated at €3.7 billion between 2027 and 2031, driven primarily by a 61% cut in mandatory datapoints and increased flexibility in the value-chain requirements.
- Investors and financial institutions, however, expressed concern that these simplifications will reduce information quality, citing diminished comparability and the loss of critical climate and environmental metrics.

While most users recognized some improvement in usability, they emphasized that analytical robustness and completeness may be compromised despite the objectives of the **EC Omnibus I Simplification Package**.

Sustainability reporting and assurance (cont'd)

Europe, Middle East, India and Africa

On 17 December 2025, **EFRAG** published a discussion paper examining mechanisms to enhance connectivity between financial statements and sustainability disclosures. The paper identifies gaps such as inconsistent terminology and limited integration of sustainability-related information in segment reporting. It proposes clarifying the boundary of the financial statements and developing guidance for assessing qualitatively material information. A supplementary document provides 17 real-world illustrations demonstrating early connectivity practices across **ESRS**, **ISSB Standards** and **IFRS Accounting Standards**. The paper is open for consultation until 30 June, with EFRAG highlighting the need for coordinated engagement among preparers, auditors and standard-setters.

On 17 December 2025, the **Qatar Central Bank** adopted sustainability disclosure requirements aligned with the **IFRS S1 and S2 Standards**, applicable to banks and insurance firms for reporting periods beginning 1 January 2026. The announcement positions Qatar as an early adopter of the ISSB framework in the Middle East (at least with respect to banking and insurance firms) and signals a shift toward integrating sustainability-related disclosure expectations within prudential oversight. The Central Bank also confirmed its intention to develop an assurance framework consistent with international practice, reflecting global momentum toward embedding reliable and decision-useful sustainability information within financial sector supervision.

On 12 December 2025, **EFRAG** submitted its comment letter on the **ISSB's proposed amendments to the Sustainability Accounting Standards Board (SASB) Standards and industry-based guidance**. While supporting the ISSB's efforts to enhance global alignment, EFRAG recommended clarifying that entities "may," rather than "shall," refer to SASB topics and metrics when applying the **IFRS S1 and S2 Standards**, to avoid implying mandatory reporting obligations. The letter also emphasized the importance of interoperability between SASB and **ESRS**, proportionality of datapoints and clearer articulation of the role of SASB within the IFRS S1 and S2 Standards. EFRAG further encouraged transparency regarding the ISSB's future workplan, particularly on human capital and biodiversity standards, to support preparers in long-term planning.

Carbon pricing and markets

Americas

On 19 December 2025, the **Canadian Government** launched a public consultation on changes to the minimum national stringency standards for industrial carbon pricing, known as the **federal benchmark criteria**. These changes aim to strengthen emission reduction incentives, accelerate clean technology investments and maintain competitiveness for 2026–30. Proposed updates include strengthening the federal benchmark, potentially lowering mandatory thresholds (e.g., to 10,000 ton of CO_2e for certain sectors) to capture more smaller facilities. The consultation closed on 30 January.

Europe, Middle East, India and Africa

On 14 January, the **EU** confirmed that it will begin formal negotiations with the **UK** on linking their respective **emissions trading systems (ETSs)** in the coming weeks. The linkage will solely be for the **EU ETS1** and the **UK ETS** and aims to prevent specific UK sector exports from an EU carbon leakage cost under the EU's recently implemented **Carbon Border Adjustment Mechanism (CBAM)**. The discussions follow last year's political agreement to reconnect carbon markets post-Brexit, though no negotiation timeline has been disclosed. UK industry groups have urged rapid progress to avoid CBAM exposure, particularly for steel and other emissions-intensive goods. A linked ETS would support price convergence and facilitate more coherent cross-border decarbonization incentives.

On 23 December 2025, the **EC** adopted amendments to the **ETS State aid Guidelines** to address elevated carbon leakage risks resulting from sustained increases in EU ETS allowance prices. The revisions:

- Expand the list of eligible sectors by adding 20 sectors and two subsectors.
- Raise maximum aid intensity from 75% to 80% for previously eligible industries.
- Update regional CO_2 emission factors for 2026–30.

Member States may request the inclusion of additional sectors subject to evidence of genuine carbon leakage exposure. Large beneficiaries must invest a portion of aid in electricity system decarbonization projects. The amendments follow a multi-year evaluation and stakeholder consultation process.

On 16 December 2025, the **EC** proposed expanding the **EU CBAM** to 180 downstream steel- and aluminium-intensive products from 1 January 2028. The proposal aims to prevent circumvention of the existing CBAM scope and mitigate competitiveness risks for EU manufacturers using carbon-priced materials. Additional measures include enhanced traceability, strengthened reporting requirements and revised rules addressing misdeclarations of embedded emissions. A temporary decarbonization fund is also proposed to support EU producers facing carbon leakage risks, financed partly through CBAM certificate revenues. A parallel review of CBAM's transitional period highlights its role in promoting global decarbonization and outlines steps toward the definitive regime beginning in 2026.

Other key sustainability policy developments

Global

On 13 January, the **World Benchmarking Alliance** released its 2026 benchmark, assessing 2,000 companies across climate, nature, human rights and AI governance. The assessment highlights the potential for businesses to mobilize $1.3 trillion toward closing the clean energy investment gap by 2030. Key findings include:

- Limited living-wage provisions
- Minimal quantification of nature-related risks
- Insufficient traceability of supply-chain impacts
- Weak human-rights accountability in the tech sector, with no major firms disclosing human-rights impact assessment outcomes

According to the assessment, these results reaffirm widespread implementation challenges, despite ongoing global initiatives to strengthen sustainability disclosure frameworks.

On 6 January, the **Organization for Economic Co-operation and Development (OECD)** published a study identifying sectors most associated with adverse environmental and social impacts. The analysis indicates that:

- Extractive industries, agriculture, manufacturing and heavy industry face the broadest risk exposure.
- Digital, pharmaceutical and food and beverage firms exhibit narrower, issue-specific impacts.
- Education, real estate and non-profits demonstrate minimal association with systemic sustainability harms.

The OECD emphasized that evidence across sectors remains fragmented, limiting comparability for due diligence assessments. The study supports ongoing global regulatory efforts, including mandatory human rights and environmental due-diligence legislation, to improve risk identification and guide cross-sectoral sustainability expectations.

Asia-Pacific

On 22 January, the **Hong Kong Monetary Authority (HKMA)** published its Hong Kong Taxonomy for Sustainable Finance (Phase 2A), advancing the jurisdiction's efforts to establish a comprehensive framework for classifying green and transition-aligned economic activities. Phase 2A builds on Phase 1, released in May 2024, incorporating expanded sectoral coverage, transition elements and climate-change adaptation criteria. It also reflects feedback from the September 2025 public consultation, during which stakeholders from financial and real-economy sectors broadly supported these enhancements. The HKMA also issued a consultation report summarizing industry input. Development of subsequent phases is ongoing, with future updates expected to incorporate market developments, government policy priorities and technological advancements.

Other key sustainability policy developments (cont'd)

Americas

On 7 January, the **United States (US)** announced its withdrawal from 66 multilateral organizations, including the **United Nations Framework Convention on Climate Change (UNFCCC), the Intergovernmental Panel on Climate Change** and **the International Renewable Energy Agency**. Such actions follow a February 2025 executive order mandating a review of all international treaty engagements. The decision marks the first time any country has exited from the UNFCCC, the treaty underpinning global climate governance and the **Paris Agreement**. Domestic and international stakeholders warned that the withdrawal may undermine US economic competitiveness, limit its influence over global energy transition standards and disrupt international climate finance obligations.

On 18 December 2025, the **Canadian Government** announced the selection of the **Canadian Climate Institute**, with support from **Business Future Pathways**, to lead the development of a **national sustainable investment taxonomy**. The taxonomy, intended for voluntary market use, will align with global science-based frameworks and provide criteria to identify "green" and "transition" investments. Immediate next steps include establishing an independent **Taxonomy Council** and technical working groups. The Council aims to finalize guidelines for three priority sectors by the end of 2026 and three additional sectors by fall 2027. The initiative forms part of Canada's broader strategy to accelerate capital flows to net-zero-aligned activities.

Europe, Middle East, India and Africa

On 16 January, the **European Central Bank (ECB)** announced new priority areas to advance its integration of climate- and nature-related risks into supervisory and monetary policy activities. The update follows the completion of the ECB's *Climate and Nature Plan 2024-25*, which embedded climate considerations into the Eurosystem collateral framework and bond portfolios. The ECB will now intensify assessments of banks' prudential transition plans, expand macroeconomic analysis of physical climate impacts and deepen work on nature-related risks, including water stress. These initiatives signal continued alignment with EU-wide supervisory expectations and reinforce ongoing efforts to strengthen financial system resilience to environmental risks.

On 8 January, the **European Banking Authority, European Insurance and Occupational Pensions Authority and European Securities and Markets Authority** published Joint Guidelines on integrating environmental, social and governance (ESG) risks into supervisory stress-testing frameworks. The Guidelines aim to establish consistent expectations for how competent authorities incorporate ESG risk drivers, either within existing stress-testing methodologies or as complementary scenario analyses, without creating new mandatory stress-testing requirements. They set governance, modeling and scenario-design principles to improve comparability and ensure long-term risk perspectives across EU financial oversight. The Guidelines will apply from 1 January 2027 following translation into EU official languages, with authorities required to notify compliance intentions within two months of publication.

On the horizon

Key ongoing and upcoming sustainability-related consultations and regulatory developments to watch for:

- Q1 2026:
  - The UK government is expected to publish final, endorsed versions of the UK SRS for voluntary use.
  - The UK government is expected to publish a consultation on modernizing corporate reporting in 2026, exploring how reporting requirements can be streamlined and simplified to support the integration of UK SRS among other matters.
- **H1 2026:** The New Zealand External Reporting Board is expected to issue its second request for information on the potential need for reduced disclosures for smaller Climate Reporting Entities (CRE) and differential reporting for specific classes of CRE.
- **H1 2026:** The ISSB is expected to make decisions on the future direction of its research project on human capital.
- **H2 2026:** The ISSB is expected to issue its Exposure Draft for its nature-related and biodiversity, ecosystems and ecosystem services standards.

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