



Sustainability Watch

Monthly Regulatory Highlights

December 2025

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Happy New Year! As we welcome 2026, sustainability and ESG regulations continue to evolve at an unprecedented pace across all major regions. This edition provides a global snapshot of key developments during the month of December to help you stay ahead.

The European Union has introduced significant changes to streamline sustainability reporting. The CSRD thresholds have been raised to €450 million in turnover and over 1,000 employees, reducing the number of companies in scope. The CSDDD thresholds were also increased. Additionally, the European Commission's "quick-fix" amendments to ESRS allow phased relief for certain disclosures, including Scope 3 and biodiversity, through FY2026. EFRAG has proposed a simplified ESRS framework, reducing mandatory datapoints by nearly 70% and improving interoperability with ISSB standards. Meanwhile, the SFDR is undergoing a major overhaul, introducing three new product categories – sustainable, transition, and ESG Basics, thus replacing Articles 8 and 9. These changes aim to simplify compliance while maintaining transparency and investor confidence.

In the United States, the SEC's climate disclosure rule remains in legal limbo after the Commission withdrew its defense in 2025, leaving federal requirements uncertain. However, California is moving forward with its landmark climate laws: SB 253 mandates Scope 1 and 2 emissions reporting starting August 2026, while SB 261 on climate risk disclosure is currently pending litigation. In Canada, the CSSB has launched voluntary standards aligned with IFRS S1 and S2 effective January 2025, with discussions underway for mandatory adoption. Across the Atlantic, the UK's SDR and anti-greenwashing rules are now in effect, with entity-level disclosures phased in through December 2026. These developments underscore the growing importance of state-level and international frameworks for North American companies.

Brazil has taken a leadership role in the region by mandating sustainability reporting aligned with ISSB standards (IFRS S1 and S2) for publicly listed companies, funds, and securitizers starting FY2026, with early adoption permitted for FY2025.

This move positions Brazil as a regional benchmark for ESG transparency and signals growing investor expectations for standardized disclosures across South America.

Asia-Pacific jurisdictions are rapidly converging on the ISSB global baseline. Australia and New Zealand have advanced climate disclosure regimes, with Australia's Treasury-led bill and New Zealand's Part 7A framework setting strong precedents. Singapore is moving toward mandatory climate reporting for listed companies, while India continues to strengthen its BRSR Core requirements. Japan and Hong Kong SAR have announced functional alignment with ISSB standards, and Malaysia is progressing toward adoption. These developments highlight the region's commitment to harmonized sustainability reporting and improved comparability for global investors.

Momentum is building in the Middle East and Africa, with the UAE introducing Federal Decree-Law No. (11) of 2024 focused on climate impact reduction. Several African nations, including Ghana, Kenya, and Nigeria, are adopting or aligning with ISSB standards, signaling a broader regional shift toward standardized ESG disclosures. These changes reflect growing regulatory and investor pressure for transparency and climate risk management in emerging markets.

The ISSB global baseline continues to gain traction, with 36 jurisdictions adopting or moving toward IFRS S1 and S2. Interoperability between ISSB and ESRS remains a priority for multinational companies, ensuring consistency across diverse regulatory landscapes.



Europe

The European Parliament approved provisional amendments to simplify the **CSRD** and **CSDDD**. Based on the approval for a one-year delay to the **EUDR**, the enforcement for medium and large enterprises now begins from December 30, 2026, and for micro/small operators from June 30, 2027. A proposal for considering **Environmental Omnibus** is presented, aiming to streamline multiple environmental frameworks. The European Commission launched a public consultation on December 1, 2025, to support an **integrated climate resilience and risk management framework**, with adoption expected in late 2026. The UK government responded to its **CBAM consultation**, confirming a start date of January 1, 2027. Indirect emissions are excluded until 2029 at the earliest.

EU Streamlines Sustainability Rules for Businesses

The European Parliament approved changes to ease corporate sustainability obligations. CSRD will apply only to companies with over 1,000 employees and €450M turnover from 2027, while CSDDD covers firms with 5,000+ employees and €1.5B turnover, with compliance delayed to 2029. Climate transition plans were dropped, value-chain disclosures limited to Tier 1 suppliers, and fines capped at 3% of global turnover, reducing complexity for businesses.

EU Delays and Simplifies Deforestation Compliance

The European Parliament adopted changes to delay and ease compliance with the EU Deforestation Regulation. All businesses gain an extra year to comply, with large operators starting in 2026 and small ones in 2027. The amendments introduce simplified traceability within the EU, lighter due diligence for small and micro-operators, and



exclude printed products from the law's scope, reducing administrative burden for companies.

ESMA Tightens ESG Fund Naming Rules for Transparency

ESMA's review confirms that guidelines limiting ESG or sustainability-related terms in fund names have reduced greenwashing risks and improved market transparency. Asset managers adjusted strategies and disclosures to meet minimum sustainability criteria, boosting investor confidence and comparability across the EU. While rebranding and compliance caused short-term costs, ESMA expects long-term benefits in credibility and clarity for sustainable finance.





North America

The **White House** issued an Executive Order directing the **SEC, FTC, and Labor Department** to reassess rules governing proxy advisory firms, focusing particularly on their influence through **DEI** and **ESG voting** recommendations. California Air Resources Board released proposed regulations and an Enforcement Advisory pausing **enforcement of climate-related financial disclosure** following a Ninth Circuit preliminary injunction. Canada finalized **regulations for its oil & gas sector** aimed at **reducing methane emissions** by 75% by 2035, with new rules effective 2028.

Canada Charts Path for Sustainable Investment Taxonomy

The Government of Canada announced next steps toward a “Made-in-Canada” sustainable investment taxonomy to guide capital toward green and transition activities. The Canadian Climate Institute and Business Future Pathways will lead development under an independent Taxonomy Council. The framework will be voluntary, science-based, and aligned with global best practices, with guidelines for three priority sectors by end-2026 and three more by fall 2027.

National Security Concerns Stall Offshore Wind Projects

The Trump administration has paused five major offshore wind leases along the East Coast-Vineyard Wind 1, Revolution Wind, CVOW, Sunrise Wind, and Empire Wind 1- due to national security concerns raised by the Department of Defense. Reports indicate wind turbines may interfere with radar systems, creating false or obscured targets near population centers. The pause allows federal agencies, states, and developers to assess and mitigate these risks before proceeding.

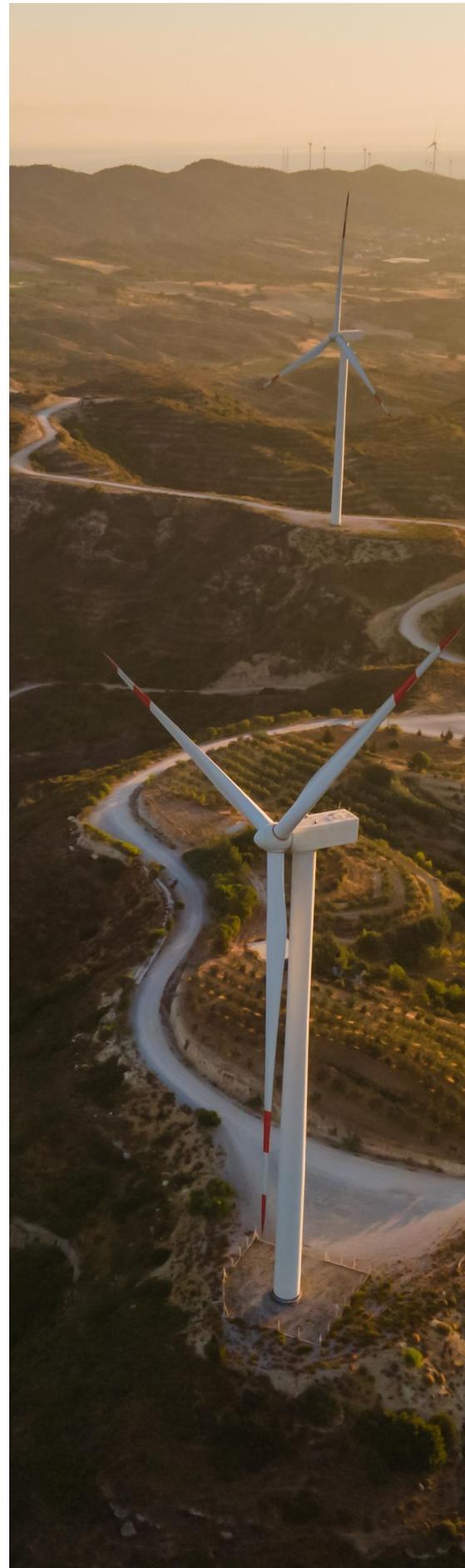


PCAF Unveils 2025 GHG Standard: Expanding Emissions Coverage

The Partnership for Carbon Accounting Financials (PCAF) has launched its 2025 update to the Global GHG Accounting and Reporting Standard, expanding financed and insurance associated emissions coverage. New methodologies now address structured finance, sub-sovereign debt, undrawn Loans, treaty reinsurance, and project insurance. It also introduces supplemental guidance on “financed avoided emissions” and forward-looking metrics. Developed by industry working groups and adopters, the enhancements aim to improve consistency, transparency, and decision-usefulness in financial-sector emissions reporting.

California Sets Bold Climate Disclosure Rules for Big Businesses

The California Air Resources Board (CARB) is developing two new programs under SB 253 and SB 261: a mandatory annual Scope 1–3 greenhouse gas reporting regime for companies with over \$1 billion revenue; and a biennial climate-related financial risk disclosure for firms with \$500 million+ revenue doing business in California. Draft regulations, templates, FAQs, and workshops have been released, with compliance guidance issued and public hearings scheduled.





South America

Brazil's national **sustainable finance taxonomy** is **officially enforced and becomes mandatory** from January 2026 for disclosures and lending by regulated entities.

Brazil's Bold Revamp: Empowering State Firms with Financial Rebalance Plans

The Federal Government amended the regulatory framework for state-owned enterprises via Decree 12,774/2025, enhancing Decree 12,500. State-owned companies facing operational difficulties can now submit structured economic-financial rebalancing plans-including potential future funding without being immediately classified as dependent on the Treasury.





APAC and Oceania

Australia updated its climate disclosure standards to better align with **IFRS S2**. Singapore continued its **phased rollout of ISSB-aligned climate disclosures**, requiring SGX-listed companies to report Scope 1 and 2 GHG emissions from FY2025, with Scope 3 disclosures mandated by 2026 and assurance due by 2029. Japan's Financial Services Agency opened a public consultation to introduce **sustainability reporting for large cap** listed entities. The consultation proposes **mandating Sustainability Standards Board of Japan-aligned disclosures**. Malaysia convened its ESG Malaysia Summit and emphasized harmonizing **ESG reporting across ASEAN**, including **alignment with IFRS S1/S2** and supply-chain transparency efforts.

Japan Proposes Corporate Governance Reform for Unlisted Enterprises

Japan Association of Corporate Directors (JACD) announced a proposal to initiate corporate governance management for unlisted companies in three categories. It offers tailored governance enhancement strategies and advocates for transparency, external advisory involvement, and comprehensive support systems to ensure sustainable growth and social responsibility in addition to legal compliance.

Japan Updates GX League Framework to Include Supply Chains

The Ministry of Economy, Trade and Industry revised the Green Transition League (GX League) to highlight corporate competitiveness through emission reduction and promote initiatives to create GX demand. The new GX League from fiscal year 2026 onwards will allow companies of all sizes,



regardless of their current emission levels, to participate if they are working towards carbon neutrality.

China Released 2024 Greenhouse Gas Bulletin

The China Meteorological Administration released China Greenhouse Gas Bulletin (2024), reporting a significant narrowing in the increase of China's anthropogenic carbon emissions, now below the global growth rate. The Waliguan Global Atmospheric Background Station, however, recorded a rise in carbon dioxide concentration to 424.9 ppm, up by 3.5 ppm from 2023, aligning with the global average. This station is China's sole participant in the WMO Global Atmosphere Watch program, representing Eurasian atmospheric conditions.

China to Expand Coverage of Real Estate Investment Trust Schemes

The National Development and Reform Commission (NDRC) published the 2025 List of Industry Sectors for Infrastructure-Related Real Estate Investment Trust (REITs) Projects, featuring expanded pilot scheme coverage from new energy, water conservation to new infrastructure facilities, as part of China's efforts to ensure more infrastructure projects eligible for REIT financing.

China to Link Public Fund Manager Pay with Long-Term Performance

China Securities Regulatory Commission (CSRC) is soliciting opinions on the draft of new rules to link public mutual fund managers' pay to long-term performance, addressing concerns over high salaries despite investor losses. The draft proposes a cut of at least 30% of their performance-based pay if managers underperform by over 10 percentage points for three years and the fund posts a loss. Conversely, strong performers can receive pay increases. The rules also



mandate increased investment by managers and executives in their own funds.

China to Increase New Energy Supply Ratio in 2026

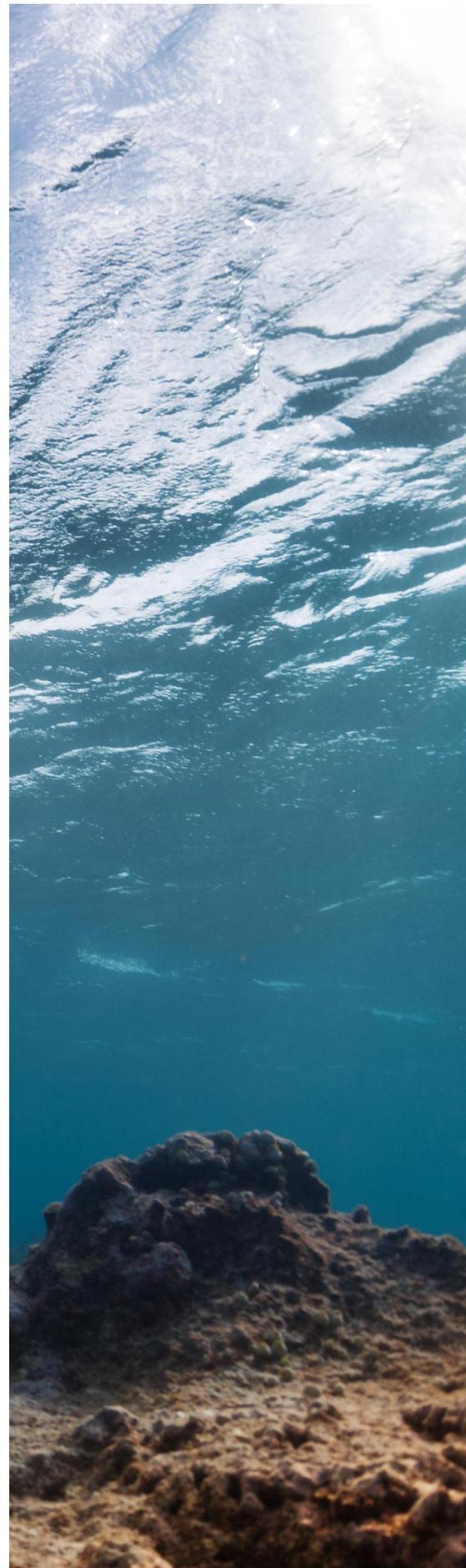
The 2026 National Energy Work Conference outlined energy-related goals for 2026. Major goals encompass the implementation of the “15th Five-Year” energy plan with high standards, the expansion of new energy supply including installation of 200 GW of wind and solar power, and the initiation of AI integration and standardization in energy sectors.

Taiwan to Propose Carbon Fee Cut for Heavy Industries

Taiwan proposed a carbon fee cut by up to 80% for heavy industries covering 17 sectors including steel and oil refining to maintain competitiveness as the carbon fee framework became effective in 2025. Large emitters will report emissions and make payments in 2026, with proceeds supporting decarbonization. High-risk sectors can apply for discounted rates, aiming to prevent carbon leakage.

ASIC Rolls Out ESG Reporting Modules to Empower Small Businesses

Australia’s ASIC and AASB have released the first three of eight educational modules to help smaller companies comply with new sustainability reporting obligations under the Corporations Act. The modules cover reporting basics, climate change fundamentals, and physical climate risks. Additional modules on emissions accounting and opportunities will follow soon, supported by interactive formats and workshops to build climate-reporting capability across supply chains.



Fiji Launches Green Finance Taxonomy to Boost Climate-Aligned Investment

Fiji's Ministry of Finance and Reserve Bank have launched a Green Finance Taxonomy, developed with IFC, Climate Bonds Initiative, and Australia's support. It provides a science-based classification of sustainable activities, initially focusing on energy and transport. The framework aligns with COP30 priorities - adaptation, resilience, climate finance and aims to mobilize private and public capital, reduce greenwashing, improve climate reporting, and strengthen Fiji's climate-resilient development pathway.

New Zealand's Climate Related Entities Gain Extended Climate Disclosure Exemption

Listed issuers and registered banks designated as Climate Related Entities (CREs) receive extended exemption under the new 2025 Notice. They no longer need to embed their full climate statements (or linked versions) in annual reports, provided they meet specific conditions. Instead, they can include a link and accessibility date. The relief applies for up to three reporting cycles, offering continued reporting flexibility and reducing compliance strain.





Middle East and Africa

Presidential Climate Commission of South Africa submitted its Legacy Review Report, underscoring the need for strengthened ambition under the new Climate Change Act.

QCB Mandates ISSB-Aligned ESG Reporting for Banks & Insurers

Qatar Central Bank (QCB) has mandated that banks and insurance firms disclose sustainability-related information aligned with IFRS S1 and S2 (ISSB standards), starting in 2026. The framework includes annual reporting and plans for assurance of ESG disclosures to meet the best global practices. These measures aim to enhance transparency, strengthen climate risk management, and position Qatar's financial sector as a leader in sustainable finance.



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