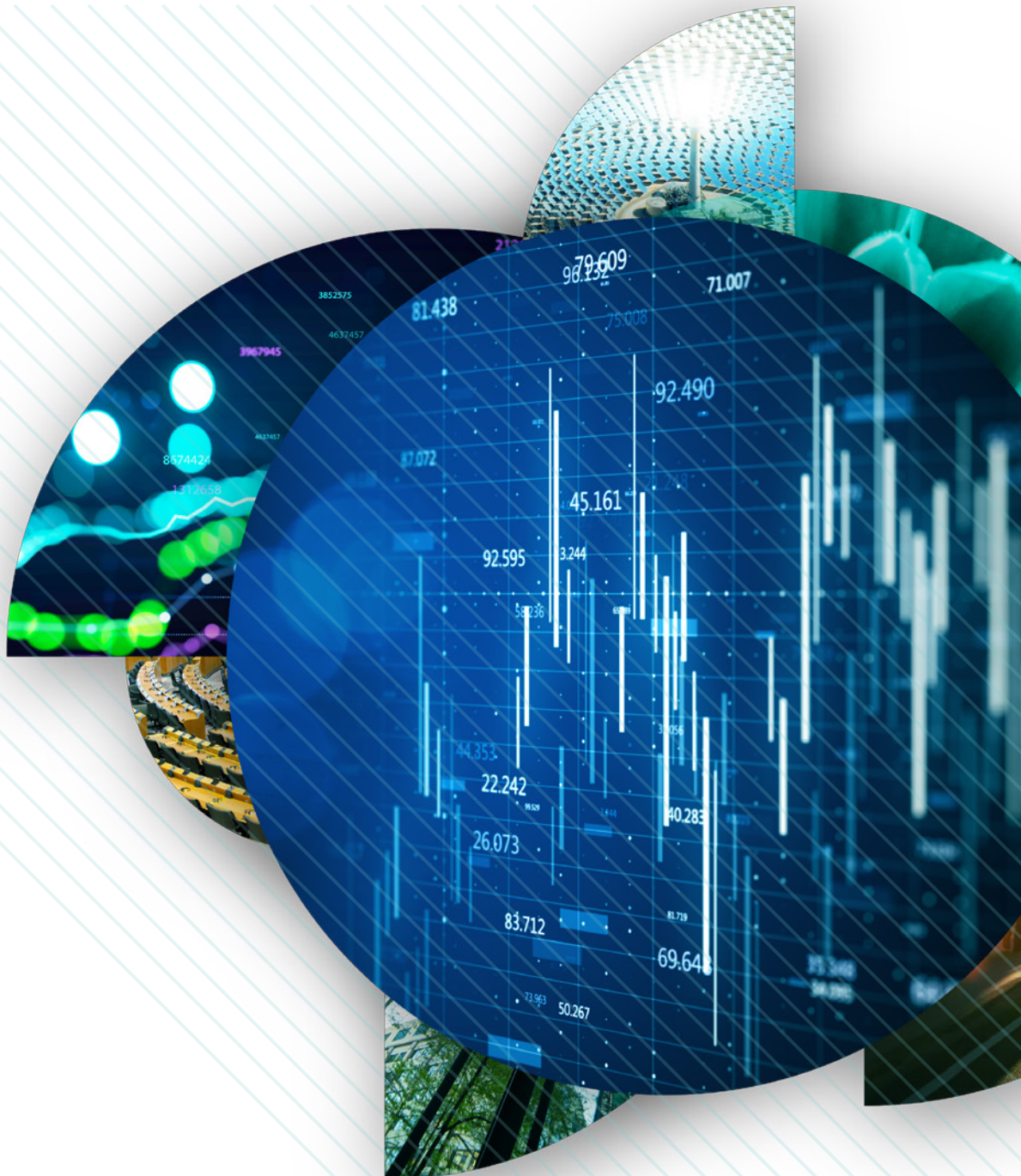


# Financial Services regulatory ESG updater

6 May – 6 June 2025



# Introduction

Environmental, Social and Governance (ESG) is changing the landscape for financial institutions as a wide range of stakeholders including investors increasingly expect them to make their operations more sustainable. Financial services regulators also view ESG as a priority, embedding the principles of climate-related financial risks into their supervisory frameworks and dealing with institutions that may be making exaggerated or unsubstantiated sustainability-related claims that do not stand up to closer scrutiny (so-called 'greenwashing'). However, the key problem for institutions, particularly those operating cross border, is that there is limited uniformity in regulation, financial services regulators are at different stages in developing their ESG regulatory framework particularly in relation to disclosures and taxonomy. It is therefore critical that institutions monitor the latest announcements from the regulators.

The purpose of this updater is to track ESG regulatory developments from the period 6 May 2025 to 6 June 2025, from the United Kingdom, France, Europe Union, the Netherlands United States, Australia, and certain international regulators.

# This month's highlights

## 7 May 2025 - ESG & Corporate Governance: a checklist for firms and their boards

The Prudential Regulation Authority's (PRA) recent Consultation Paper ([CP10/25](#)) on enhancing banks' and insurers approaches to managing climate-related risks provides clearer guidance on the PRA's expectations with regards to governance in this evolving area (with potential read-across for other types of risks and for a range of different firms). Set out below is a checklist of ten potential governance considerations for firms and their boards based on our takeaways from the PRA's observations and proposals in relation to managing climate-related risks:

- 1. Board ownership of risk appetite:** The PRA expects the board to set and own the overall business risk appetite for climate which should be based on analysis provided by risk and cascaded across the business. The PRA proposes that the board should agree climate-specific risk appetite statements for material climate related risks identified in the firm's risk register. Risk appetite and supporting metrics should be defined at both firm and business line level, informed by scenario analysis including reverse stress tests. Risk appetite statements can be categorised in different ways but the output should be structured and give a clear statement of how the firm intends to approach these risks.
- 2. Management information and analysis:** The PRA has observed that climate-related risk analysis provided to boards is often unclear and insufficiently specific or targeted and that impact analysis with regards to strategy is limited. The PRA proposes that management bodies should provide their board with the relevant information and analysis on climate related risks to help the board understand the potential impacts in different scenarios using the outputs from the risk identification process. The board should be provided with performance analysis under a range of climate scenarios and management should demonstrate to the board the resilience of the firm's existing strategy.
- 3. Training:** The PRA proposes that firms should provide boards with appropriate training on climate-related risks including current methods and tools used by the firm to manage risks.
- 4. Challenge:** The PRA expects that the board will use this training and information to provide effective challenge with regards to climate-related risks.
- 5. Periodic review:** The PRA proposes that the board should ensure there is a periodic review of the firm's risk appetite, climate-related risk management practices and strategy. The board should look to the management body and particularly the relevant SMF to implement the review and to demonstrate to the board that the risk appetite and strategy are appropriate to any developments.
- 6. Record-keeping:** Evidencing the board's ownership, consideration and challenge relies on effective record-keeping such as appropriate minutes of discussion and follow up. Minute-takers need to be trained and provided with guidance on how best to meet the PRA's expectations in this area.
- 7. Aligning goals with actions:** The PRA proposes that a firm should be able to demonstrate how it has integrated its plan to meet any climate goals that it has voluntarily adopted or is required to meet in its jurisdictions and how any associated risks have been reflected in risk management frameworks. The aim is to ensure that any goals are underpinned by coherent actions including identifying and managing any risks.
- 8. Governance structures and responsibility:** Management responsibilities for identifying and managing climate-related risks, including providing appropriate information to the board, should be assigned at an appropriate level of responsibility such as SMF or board member with clear reporting lines. Climate-related risk should be incorporated into internal control frameworks across the three lines of defence.

**9. Accountability:** The responsible individual should be held appropriately to account (for example through the firm's appraisal and reward system) and so this will need to be built into the performance review process with appropriate criteria and consequences.

**10. Outsourcing and third parties:** When calibrating the firm's approach to climate-related risks, boards should ensure they cover risk appetite and tolerance levels for outsourced and third-party arrangements that may be exposed to or may introduce climate-related risks.

The consultation also covers other aspects of managing climate-related risks which need to be integrated within the overall governance framework, such as risk management and scenario analysis. It closes on 30 July 2025.

There is a range of support we can offer to clients in effectively building ESG considerations into their governance arrangements. For further information on this, as well as insights in this area, please see our [ESG hub](#) or contact the authors directly.



## United Kingdom

### 21 May 2025 - UK-EU Summit and ETS Linkage

The UK Prime Minister hosted the President of the European Council and the President of the European Commission in London for the first UK-EU summit since the UK's departure from the EU. Amongst the [various agreements](#), this included a new [common understanding](#) between the Commission and the UK, outlining conclusions from recent exploratory talks aimed at enhancing bilateral cooperation. Although primarily a political document, the common understanding affirms that both the UK government and the Commission will move forward swiftly on its commitments, adhering to their respective legal frameworks and procedures. This agreement spans multiple

areas of potential collaboration, including a proposed link between the UK Emissions Trading Scheme (UK ETS) and the EU Emissions Trading System (EU ETS).

For a UK-EU ETS linking agreement to be established, the Commission must propose a mandate and secure authorisation from the Council to initiate negotiations with the UK. The common understanding sets out some of the foundational elements of this potential agreement, including:

- **Carbon Border Adjustments:** The agreement aims to create conditions for goods to be mutually exempt from both the UK and EU Carbon Border Adjustment Mechanisms.
- **Sector Scope:** Industries covered would include electricity generation, industrial heat production (excluding individual home heating), industry, domestic and international maritime transport, and aviation. The framework would also allow for future expansion of the sector list.
- **Regulatory Alignment:** The UK would dynamically align with EU rules underpinning the ETS link and be involved in shaping relevant EU legal acts at an early stage—although such rights would not extend to participation in the work of the Council or its preparatory bodies.
- **Dispute Resolution:** The mechanism would include an independent arbitration panel, with the Court of Justice of the European Union remaining the final authority on all matters of EU law.

While further details remain to be clarified, this common understanding marks a significant development in post-Brexit climate policy relations, reinforcing the commitment to a more integrated carbon market.



## European Union

### 7 May 2025 – Commission calls for evidence on SFDR

The European Commission (Commission) issued a [call for evidence](#) for an impact assessment on the revision of the Sustainable Finance Disclosures Regulation (SFDR).

#### Next steps

The deadline for responding to the call for evidence is 30 May 2025.

The call for evidence notes that stakeholders have reported various challenges related to the implementation of the SFDR and suggested possible adjustments to improve the effectiveness of the framework and ease its implementation. These suggested adjustments will be examined in the revision of the SFDR planned in the Commission work programme for Q4 2025, in line with the objectives of the Commission's proposals to simplify sustainability reporting for companies.

### 22 May 2025 - EBA consults on draft ITS amending Commission Implementing Regulation (EU) 2024/3172

The European Banking Authority (EBA) issued a [consultation paper](#) on draft implementing technical standards (ITS) amending Commission Implementing Regulation (EU) 2024/3172. The proposals amend the Pillar 3 disclosures framework by incorporating the requirements set out in the Capital Requirements Regulation 3 (CRR 3) regarding ESG related risks, equity exposures and the aggregate exposure to shadow banking entities.

Specifically, the consultation paper covers:

- Revised disclosure requirements on ESG related risks as per Article 449a of the CRR 3 including the extension of its scope of application to small and non-complex institutions (listed/non-listed), other institutions (listed/non-listed), large non-listed institutions and large subsidiaries.
- The new disclosure requirements on the aggregate exposure to shadow banking entities as of Article 449b of the CRR 3.

- The amended disclosure requirements on equity exposures of Article 438(e) of the CRR 3.
- The amended disclosure requirements on credit quality loans and advances to non-financial corporations by industry, to reflect the new NACE classification code for economic activities set out in Commission Delegated Regulation (EU) 2023/137.

The EBA also proposes to clarify that guidelines EBA/GL/2018/10 as amended by EBA/GL/2022/13 have been replaced and therefore repealed since the related disclosure requirements are already included in Commission Implementing Regulation (EU) 2024/3172 repealing Commission Implementing Regulation (EU) 2021/637.

#### Next steps

The deadline for comments on the consultation paper is 22 August 2025.

The ITS are expected to be finalised and submitted to the Commission during Q4 2025.



## France

There have been no reported updates this month.





## The Netherlands

### 30 May 2025 – AFM response to Commission regarding revision of SFDR

In its [response](#) to the Call for Evidence by the Commission on the SFDR, the Dutch Authority for the Financial Markets (AFM) highlights the following main areas for revision:

- The revised framework should be easy to understand and easy to implement for all stakeholders. The creation of reliable, clear and enforceable regulatory product categories serves both these needs and would constitute a great improvement.
- The scope should focus on the following two main categories: 'Sustainable' and 'Transition'. These should have clear minimum quality requirements, accompanied by related disclosure requirements.
- The AFM sees risks for investors in the policy proposal of a third 'light' or 'ESG collection' category. In the case this becomes part of the review proposal, investors should clearly understand the limited ambition of such a product, through proper naming of the category and meaningful minimum requirements.
- A catch all category for products with only very limited ESG aspects and no clear sustainability characteristics should be avoided.



## United States- SEC and CFTC

There have been no reported updates this month.



## Australia

### 15 May 2025 - EnergyAustralia settles greenwashing case

EnergyAustralia has reached a settlement with the advocacy group Parents for Climate, which alleged the company misled consumers by marketing its carbon offset products as carbon neutral.

As part of the settlement, EnergyAustralia admitted its 'Go Neutral' products did not prevent or reverse the environmental harms caused by burning fossil fuels. In a statement, the company acknowledged that while offsets may support projects that reduce emissions elsewhere, they do not eliminate the damage from fossil fuel use.

EnergyAustralia apologised to customers who found its marketing unclear and has made a commercial decision to withdraw the 'Go Neutral' products from sale.

This case marked the first civil litigation in Australia targeting carbon neutrality claims in product marketing.

### 29 May 2025 - ASIC addresses financial system climate risks

Kate O'Rourke, Commissioner of the Australian Securities and Investment Commission (ASIC), delivered the keynote at ASIC's Responsible Investment Association Australasia Conference, emphasising the regulator's commitment to supporting compliance with the new mandatory [climate-related reporting framework](#).

Ms O'Rourke outlined two key components required in sustainability reports: the entity's climate statements for the year and a directors' declaration regarding those statements. These must include material disclosures about climate-related risks and opportunities that could reasonably impact the entity's future prospects.

Ms O'Rourke also noted that ASIC has begun receiving applications for relief from reporting obligations. These requests are highly specific, and ASIC will carefully assess them. The regulator plans to publish its general approach to such applications to enhance market understanding.

Finally, Ms O'Rourke said ASIC is investing in capacity building and will develop educational resources to help preparers better understand the reporting requirements.

#### 29 May 2025 - Paladin Energy faces competing shareholder class actions

The Uranium miner Paladin Energy (Paladin) is facing a second shareholder class action over alleged misleading disclosures to the market about expected production at its mine in Namibia.

The new action is expected to mirror claims in the existing Slater & Gordon proceedings, which focus on Paladin's market announcements projecting 4.0-4.5 million pounds of uranium concentrate from its Langer Heinrich mine in FY2024-25, at a cost of USD 28-31 per pound.

Paladin reaffirmed this guidance in June 2024 but withdrew it in November 2024, triggering a 22% drop in its share price over two days.

The class action alleges that Paladin lacked a reasonable basis for its June forecast and was aware of material risks to its production targets prior to making the disclosures.

#### May 2025 - NSW Anti-Slavery Commissioner modern slavery risks in procurement of electronic vehicles report

The Office of NSW Anti-Slavery has released the first of three reports examining the risks in the procurement of electronic vehicles and EV charging infrastructure by NSW government agencies.

The [report](#) provides a baseline understanding of relevant legislation and principles regarding EV and charging infrastructure supply chains, particularly the [Modern Slavery Act 2018 \(NSW\)](#) and the [Government Sector Audit Act 1983 \(NSW\)](#).

Importantly, the main obligations for NSW government agencies are due diligence and reporting obligations. NSW government agencies must take reasonable steps to ensure that goods produced for the agency are not the product of modern slavery and the agency must report annually on the reasonable steps it has taken for the reporting period.

The report also flags the Commissioner's power to create codes of practice on managing modern slavery risks in the renewable sector. The Commissioner intends to release a draft code for public comment 'in the coming months.'

## International regulators – FSB, IOSCO, Basel Committee, NGFS, SASB, IFRS, ISSB

#### 7 May 2025 – NGFS short-term climate scenarios for central banks and supervisors

The Network of Central Banks and Supervisors for Greening the Financial System (NGFS) has published its [short-term scenarios](#), which are the first publicly available tool offering a dedicated framework to analyse the potential near-term impacts of climate policies and climate-change on financial stability and economic resilience.

Focused on a five year-term horizon, the short-term scenarios explore four sets of assumptions on the future evolution of climate policies and physical risks:

- A first, physical risk only scenario 'Disasters and Policy Stagnation', delves into the economic and financial consequences of extreme, but plausible, regional weather events.
- Two scenarios 'Highway to Paris' and 'Sudden Wake-up Call' focus on the effects of transition risks only.
- A fourth scenario 'Diverging Realities' combines transition and physical risks, assuming (i) large discrepancies across regions' climate ambitions, (ii) adverse weather events affecting some regions (Asia, South America and Africa), and (iii) the supply chain disruptions in critical raw materials.

The main takeaways of the short-term scenarios are:

- Regional extreme weather events generate temporary but material GDP losses, with effect on the global economy and could increase the cost of the transitions.
- Delaying transition efforts increases the economic costs of transitioning and could cause additional financial stress.

## Brochures and resources

ESG is high on the regulatory agenda.

To help our financial services clients navigate the complexities associated with embedding ESG considerations and compliance into their businesses, we have designed our ESG offering around the following [6 "Pillars"](#): (i) Governance (ii) Risk identification, assessment and mitigation (iii) Policies and procedures (iv) Product design, labelling, manufacturing and distribution (v) Disclosures and reporting (vi) Regulatory interventions, investigations and disputes.

We have also produced a number of resources, including articles, podcasts and newsletters, to help clients navigate this evolving, complex landscape:



### Global Regulation Tomorrow

Our blog, Global Regulation Tomorrow offers a convenient resource for those keeping track of the evolving and increasingly complex global financial services regulatory environment.



### Financial Services Regulatory Developments in ESG

Developed by our global financial services regulatory lawyers and integrated risk advisory group, our Financial Services Regulatory Developments in ESG Hub provides resources and insights to help clients stay informed of key regulatory developments in the sector.



### ESG and Sustainability Insights newsletter

Our ESG and Sustainability Insights newsletter brings together recent insights and resources on key topics affecting your business, including climate change and regulation, business and human rights, sustainable finance, energy transition and more.



### US Regulatory Intelligence

Written and edited by practicing lawyers, our newsletter goes out each business day to 20,000 market participants. The news covers all significant events in U.S federal financial regulation and regulatory enforcement.



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