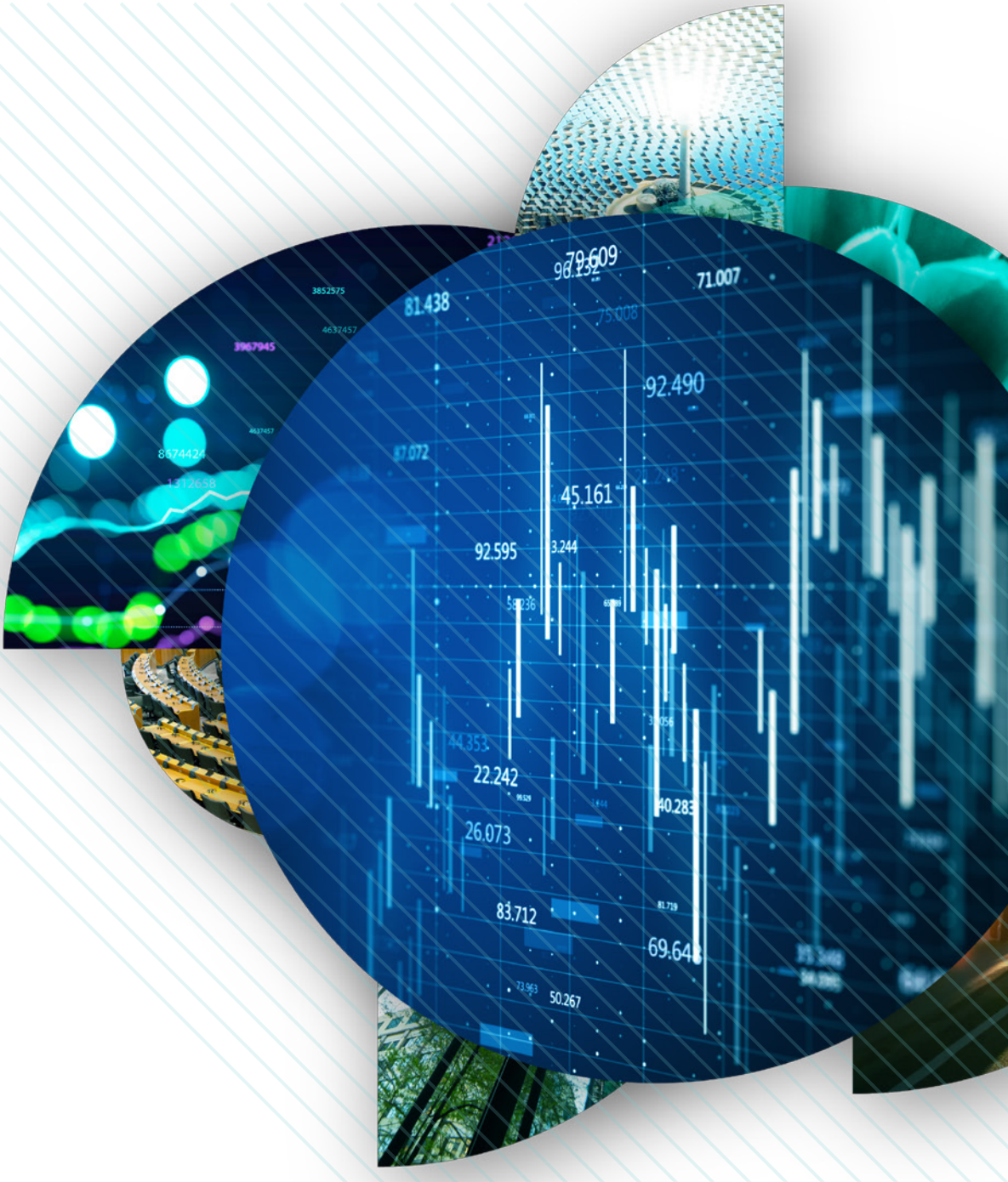
NORTON ROSE FULBRIGHT

ESG | Sustainability

Financial Services regulatory ESG updater

6 July – 6 August 2025



Introduction

ESG is changing the landscape for financial institutions as 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 greenwashing issues.

There is limited uniformity in regulation as financial services regulators are at different stages in developing their ESG regulatory framework, particularly in relation to disclosures and taxonomy, which is a challenge for many institutions operating across borders. It is therefore critical to monitor the latest regulator updates.

To help you, we have tracked ESG regulatory developments from 6 July – 6 August 2025, from the UK, France, EU, the Netherlands, the US, Australia as well as other key international regulators.

This month's highlights

Mansion House and the Leeds Reforms – the ESG aspects

On 15 July 2025, the Chancellor of the Exchequer, Rachel Reeves MP, delivered her second Mansion House speech which set out the government's intentions for the financial services sector. At the same time the government announced the so-called 'Leeds Reforms' which consisted of a series of announcements and papers from HM Treasury (HMT), the Bank of England, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

In this article we discuss the ESG aspects of the Mansion House speech and the Leeds Reforms.

The speech

The Mansion House speeches are traditionally the moment where the Chancellor announces reforms to the financial sector. In this speech, the Chancellor said that regulation was acting as a "boot on the neck of businesses" and so the government is looking to rebalance risk in favour of growth. In particular, the Chancellor is looking at a number of regulatory initiatives introduced following the 2008 global financial crisis, including the certification regime and ring-fencing. For sustainable finance, the Chancellor said that she was determined to focus on policies that support investment in the transition to net zero and a key part of this was working with the financial services regulators through the Transition Finance Council. But perhaps the biggest piece of news in the speech was that the government had decided not to pursue the UK Taxonomy.

UK Taxonomy

The government's reasoning for not pursuing the UK Taxonomy was set out by HMT in a document issued in response to its November 2024 consultation. HMT said that the government had "*concluded that a UK Taxonomy would not be the most effective tool to deliver the green transition and should not be part of our sustainable finance framework*".

The document provided an interesting insight into views on both a possible UK Taxonomy and Taxonomies elsewhere, particularly in the EU. For example, HMT noted that 55 per cent of respondents to the consultation had mixed or negative sentiments towards the idea of a UK Taxonomy and these were mainly driven by around the real-world application of the policy, primarily driven out of experience of working with other taxonomies, and concerns on the extent to which taxonomies were delivering on desired objectives. Also, a third of respondents felt that other policies would be more impactful in channelling investment and tackling greenwashing. This included policies such as a UK Sustainable Reporting Standard, transition plans and sector roadmaps. HMT further added that the practical implementation of the EU Taxonomy clearly had "*a heavy influence on the responses*". Whilst two thirds of the responses asked that a UK Taxonomy align with the EU Taxonomy, a large number also cited significant concerns with the EU Taxonomy framework.

Call for Evidence Outcome on the UK's Financial Services Growth and Competitiveness Strategy

HMT also published the outcome of its Call for Evidence on the Financial Services Growth and Competitiveness Strategy, which forms a foundational component to the government's broader Invest 2035 Strategy originally launched in late 2024. In this document, the government reaffirmed its commitment to be a global leader in sustainable finance and this will include by the end of 2025:

- HMT publishing a consultation on Non-Financial Reporting, exploring how reporting requirements can be streamlined and simplified to support integration of UK Sustainability Reporting Standards.
- HMT publishing final versions of the UK sustainability reporting standards for voluntary use.
- The FCA consulting on updating its TCFD-aligned listing rules to refer to UK Sustainability Reporting Standards.

HMT also mentioned in this document that the government is prioritising the growth of the transition finance market to seize the opportunities for UK financial services firms, and support decarbonisation. Building on the Transition Finance Market Review, the government is taking certain steps that include supporting the FCA to spearhead a transition finance pilot and propose reforms to unlock defined contribution pension investment in transition assets, including following the Pensions Investment Review.

Climate transition plans

Whilst not issued at the time of Mansion House it is worth noting that about three weeks beforehand the government issued three consultations intended to support banks and large companies in developing climate transition plans. These consultations were previously announced by the government last November and are an important part of its commitment to mandate *"UK-regulated financial institutions (including banks, asset managers, pension funds and insurers) and FTSE 100 companies to develop and implement credible transition plans that align with the 1.5°C goal of the Paris Agreement"*.

One consultation looked at how to take forward the government's commitment on transition planning whilst the other two looked at an exposure draft of new UK sustainability reporting standards and a proposal for the planned Audit, Reporting and Governance Authority which will be responsible for creating a voluntary registration regime for entities that offer third-party assurance services for sustainability-related disclosures. The deadline for comments on each consultation is 9 September 2025.

Conclusion

For many the decision to abandon the UK Taxonomy was disappointing although others will welcome the decision pointing in particular to the issues that they have had to navigate when dealing with the EU Taxonomy. Also, the decision comes as Europe undertakes a major overhaul of its own sustainability reporting rules for companies in a bid to reduce the compliance burden and bolster competitiveness. Whilst the door may be closed on the UK Taxonomy, the government appears to be moving forward on the delivery of its commitments on transition plans and the sustainability reporting standards and there are some key deadlines looming at the end of the year. Therefore it may be that only at the end of the year can we really answer how 'green' was Mansion House and the Leeds Reforms.



United Kingdom

26 June 2025 – ASA published guidance – Get the Green Light: four must do's for sustainability

The Advertising Standards Authority (ASA) published guidance, Get the Green Light: four must do's for sustainability. The guidance focuses on the following four key areas that firms should focus on when making environmental and sustainability claims:

1. Clearly a greener choice? Make clear the basis – Firms need to be clear about what their environmental claims are based on. If the claim is not immediately obvious, the firm will need to provide consumers information that explains this. Additionally, where industries may have a significant environmental footprint both directly or indirectly, through businesses they support, it is important that advertisements don't simply look at the positives and gloss over the negatives. Where advertisements provide suitable balancing information about the extent of their high carbon emitting activities or put environmental and sustainability claims in context against the backdrop of their wider business activities, there will be less risk of an unfavourable ASA ruling.
2. What on Earth do you mean? Be clear on the meaning of all terms – Firms need to ensure that the meaning of the terms they are using are clear so that consumers fully understand their them.
3. We're dead serious – make sure you can substantiate claims – Firms need to support claims with appropriate evidence.
4. Circle of life, cradle to grave. Take into consideration the full cycle – Firms need to have robust full lifecycle analysis to support the claims they wish to make. If firms wish to make general 'environmentally friendly' or 'sustainable' claims, this analysis will need to show that, from manufacturer to disposal, the product or service has no detrimental impact on the environment. Robust analysis will also be needed for any green disposal claims which prove to be a continual source of new rulings.

6 August 2025 – FCA multi-firm review of firms' climate reporting

The Financial Conduct Authority (FCA) published its findings following a multi-firm review of firms' climate reporting in line with its rules.

Background

In 2021, the FCA finalised its new environmental, social and governance (ESG) sourcebook, requiring asset managers, life insurers and FCA-regulated pension providers to disclose climate-related information in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. In 2023, the TCFD disbanded after fulfilling its mandate and the International Sustainability Standards Board (ISSB) assumed responsibility for monitoring climate-related disclosures. The TCFD's recommendations were incorporated into the ISSB's IFRS S1 and IFRS S2 standards.

The FCA have reviewed its rules and how they have been working with firms, reviewing a sample of ten TCFD entity reports and 77 TCFD product reports whilst engaging with trade associations and seven firms in-scope of the TCFD rules.

Findings

Overall, the FCA found that rules have helped firms consider climate change as a material risk, build their capabilities and integrate climate risks and opportunities into their strategies. The rules have also helped firms be more transparent with their clients and consumers about how they take into account climate risks when managing or administering assets on their behalf.

However, the FCA highlights certain challenges that firms encountered such as the availability of data specifically quantitative data to support forward looking disclosures such as scenario analysis and firms providing consistent well-developed methodologies. Firms also felt that while detailed disclosure information is helpful for institutional investors, it may be too complex for retail investors, particularly at the product level from a reporting and accessibility perspective. Firms, specifically asset managers

noted that they are required to report under multiple sustainability disclosure regimes and consider the TCFD rules to be too granular. Upon review, firms have asked the regulator to clarify the future of its TCFD rules and develop a proportionate and practical regime that is consistent with international standards whereby sustainability disclosures should be simplified and streamlined.

Next steps

The FCA have updated its webpage to clarify how firms in scope of both its TCFD and Sustainability Disclosure Requirements (SDR) rules can report efficiently under both regimes.

The FCA in light of its findings are considering how to streamline and enhance its sustainability reporting framework which include SDR, the ISSB standards and its developments on transition plans. The regulator states it will continue to work closely with the Government and regulatory counterparties to support consistent outcomes along the investment chain. It also plans to engage further with industry to guide its next steps.



European Union

31 July 2025 – Commission adopts recommendation on voluntary sustainability reporting

The European Commission (Commission) adopted a recommendation on voluntary sustainability reporting for small and medium-sized companies (SMEs).

On 26 February 2025, the Commission adopted the Omnibus I simplification package which proposed to limit mandatory sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD) to large companies with more than 1,000 employees. For companies with up to 1,000 employees, the Commission proposed a voluntary reporting standard which will be adopted by the Commission, based on the recommendation which has now been adopted. This future voluntary reporting standard will also act as a "value-chain cap" to protect SMEs and other companies not subject to mandatory reporting under the CSRD from excessive information requests from their value chain partners.

The Commission has also published Q&As on the recommendation.



France

There have been no reported updates this month.



The Netherlands

There have been no reported updates this month.



United States- SEC and CFTC

There have been no reported updates this month.



Australia

10 July 2025 – The ACCC authorises AFSI to collaborate on sustainable finance initiatives

The Australian Competition and Consumer Commission (ACCC) has issued a final determination authorising the Australian Sustainable Finance Institute (AFSI) to collaborate with government and industry stakeholders for the purpose of developing sustainable finance initiatives.

In November 2024, AFSI applied to the ACCC for authorisation to exchange information and enter into limited contracts for the purposes of:

- Improving the integration of natural capital data into financial decision making.
- Testing and designing market appetite for sustainable financial solutions concerning energy transition and other environmental objectives.
- Proposing reforms to regulations to improve sustainable finance and investment.

Out of concern that the collaboration would adversely impact competition and the supply of sustainable financial products, the ACCC have placed several conditions upon the terms of AFSI's engagement with stakeholders. The authorisation will expire in 2030.

15 July 2025 – The Federal Court delivers a decision in landmark climate case *Pabai v Commonwealth of Australia*

The Federal Court has found that the Australian government does not owe a duty of care to Torres Strait Islanders to prevent or mitigate the adverse impacts of climate change upon the Torres Strait.

In 2021, Uncles Pabai Pabai and Guy Paul Kabai commenced class action proceedings against the Commonwealth on behalf of traditional owners of the Torres Strait. Both Applicants advanced separate claims that the Commonwealth's negligence resulted in the loss of fulfilment of *Ailan Kastom*, the traditional customs and beliefs of the Torres Strait. The first claim alleged the

government's Greenhouse Gas Emission Reduction Targets were insufficient and failed to give adequate consideration to available science. The second claim alleged the government was unreasonably delayed in constructing seawalls on islands succumbing to rising sea levels.

Justice Wigney made factual findings that the Torres Strait Islands are being "ravaged" by the adverse impacts of climate change and that Torres Strait Islanders are at high risk of becoming refugees. However, His Honour held that "on the current state of the law" it was not open to establish that the Commonwealth owed the alleged duty of care.

The Applicants are considering avenues for appeal.

18 July 2025 – Treasury commences consultation period for a sustainable financial product labelling framework

The Australian Treasury has commenced a consultation for the design of a sustainable investment product labelling framework as the next step in the Australian government's Sustainable Finance Roadmap initiative. In a consultation paper released 18 July 2025, the Treasury have invited feedback from investors, companies and other community stakeholders on a standardised approach to the use of phrases such as "sustainable", "responsible" and "green".

In the consultation paper, the Treasury note the key objective of the framework will be to combat greenwashing and align Australia's regulations in this space with international standards.

23 July 2025 – ICJ delivers historic judgement on obligation to protect the climate from greenhouse gas emissions

The ICJ delivered a historic judgement, finding that states have an obligation to protect the climate from greenhouse gas emissions and may be held responsible for the emissions of private companies. This finding is expected to impact the nature of future climate change proceedings commenced in Australian courts.

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

There have been no reported updates this month.

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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