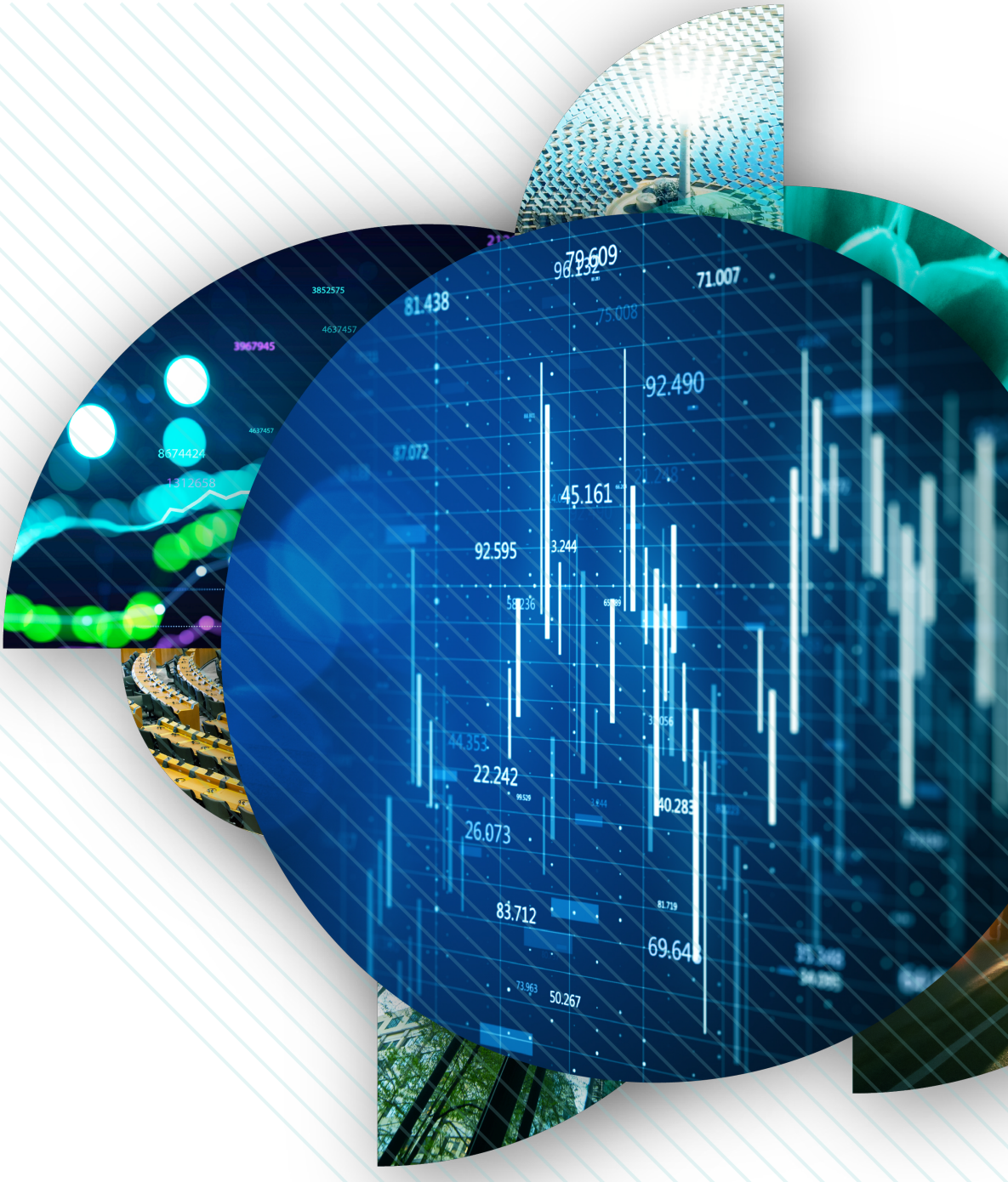
NORTON ROSE FULBRIGHT

ESG | Sustainability

Financial Services regulatory ESG updater

3 December 2025 – 3 January 2026



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 3 December 2025 – 3 January 2026, from the UK, France, EU, the Netherlands, the US, Australia as well as other key international regulators.

This month's highlights

Is it surprising that the FCA has opened no green-washing investigations since the new rules came into effect?

Even if the FCA has not opened any investigation under its anti-greenwashing rule to date, we are aware of other ESG-related cases in the pipeline - the FCA has previously confirmed that one climate-related investigation was opened in 2023 (see our blog), and an announcement last August confirmed that a further ESG-related investigation was opened in 2025 (see our briefing).

Whilst it remains to be seen whether either of these cases will result in penalties for the companies involved, it seems likely that other ESG-related cases are also underway and an ESG-related decision may soon emerge particularly given the FCA is trying to speed up investigations. We are also seeing the FCA continue to pursue an assertive supervision strategy in response to misconduct concerns, using tools to intervene at an earlier stage to prevent harm to consumers, whilst streamlining its enforcement portfolio, which may be resulting in fewer investigations being opened. However, the FCA's commitment to naming and shaming firms under investigation and the wider public interest in climate-related matters means firms should remain committed to regulatory compliance in this area, particularly given there are a number of regulators active in this space in addition to the FCA.

In our latest briefing we consider the litigation and regulatory threat level and what businesses can do to best protect themselves from adverse consequences.

United Kingdom

3 December 2025 – PRA PS25/25: Enhancing banks' and insurers' approaches to managing climate-related risks – Update to SS3/19

The Prudential Regulation Authority (PRA) published Policy Statement 25/25: Enhancing banks' and insurers' approaches to managing climate-related risks – Update to SS3/19 (PS25/25).

Background

In PS25/25 the PRA provides feedback to the responses it received to Consultation Paper 10/25: Enhancing banks' and insurers' approaches to managing climate-related risks – Update to SS3/19 (CP10/25). It also contains the PRA's final policy contained in Supervisory Statement 5/25 – Enhancing banks' and insurers' approaches to managing climate-related risks (SS5/25).

In CP10/25, the PRA proposed to:

- Strengthen governance arrangements by ensuring that firms' boards and senior management are actively engaged in overseeing climate-related risks. This includes embedding climate considerations into strategic decision-making and ensuring accountability for climate oversight.
- Enhance risk management frameworks to ensure that climate-related risks are integrated across all relevant risk types. Firms are expected to adopt robust, transparent methodologies and assumptions, with appropriate oversight, to assess and manage these risks proportionately to their business models and exposures.
- Advance the use of climate scenario analysis by requiring firms to demonstrate a strong understanding of how scenario outputs inform business decisions. The PRA emphasised the need for firms to move beyond compliance and use climate scenario analysis as a strategic tool to assess resilience under different climate pathways.
- Improve the quality and usage of climate-related data, recognising that effective risk management depends on reliable, granular and forward-looking data. Specifically, that firms should critically assess data sources and address gaps in coverage and quality to support decision-making.

- Maintain expectations around disclosures, encouraging firms to provide transparent, decision-useful information to stakeholders. This includes aligning disclosures with evolving international standards and ensuring consistency in reporting climate-related risks and opportunities.
- Outline banking-specific expectations, including the integration of climate-related risks into the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). The PRA also proposed that banks should have appropriate processes in place to ensure timely capture of climate-related risks for financial reporting purposes, subject to effective governance.
- Set out insurance-specific expectations, including incorporating climate-related risks into the Own Risk and Solvency Assessment and stress testing frameworks. The PRA also addressed the need for insurers to consider long-term trends in mortality, morbidity and public health, particularly for life and health insurers.
- Replace SS3/19 in its entirety at the time of publication of the new Supervisory Statement (SS5/25). Following publication of the final policy, firms would be expected to conduct an internal review of their current status in meeting the expectations set out in the final policy, and to develop plans for addressing these gaps. To allow firms time to transition to the updated expectations, the PRA proposed that supervisors would not ask firms to evidence their internal assessments or action plans until at least six months after the publication date.
- Provide guidance on the proportionate application of the expectations by firms.

Final policy

The PRA states that overall the responses to CP10/25 were supportive but it has made some changes to the final policy in several areas, including the proportionate application of the expectations and the role and application of scenario analysis and reverse stress testing.

The main changes to SS5/25 are:

- Clarification of proportionate application of expectations by firms: The PRA has introduced an additional 'Overarching aims' section to the 'Proportionate application of expectations' sub-section of Chapter 3: Implementation. This explains the policy intent behind the expectations, particularly regarding how firms should determine how a proportionate application of the final policy reflects their level of exposure to material climate-related risks, as well as the size and complexity of their business. It also notes the important role of the Climate Financial Risk Forum (CFRF) in supporting implementation of the expectations through guidance and case studies.
- Recognition of litigation risk: The PRA has decided that given the evolving nature of climate-related litigation risk, firms can apply judgement to categorise it in the way that best reflects their business and risk profile, and that in some cases this may include defining litigation risk as a distinct transmission channel.
- Clarification of review period: With respect to the six-month review period proposed in CP10/25, the PRA has clarified that this is not an implementation timeline, but a period during which firms would be expected to conduct an internal review of their current status in meeting the expectations set out in the final policy. As part of this internal review, firms should identify the expectations that require further work for them to meet and develop a credible and ambitious plan for how they will address any gaps. Supervisors would not ask for evidence of firms' internal reviews and action plans until at least after the end of the six-month review period.
- Cost-benefit analysis (CBA): The PRA has clarified the core assumptions underpinning its CBA. Specifically, the cost estimates reflect the incremental costs associated with implementing the updated expectations, rather than costs of meeting the expectations that were already in place.
- Governance: In light of responses from firms, the PRA has confirmed that firms may integrate climate-related responsibilities within existing governance frameworks rather than establishing new ones if risk identification remains robust.
- Risk management: The PRA has clarified that firms may integrate climate-related risks into existing risk registers or use supplementary sub-registers if that approach supports robust risk identification. The PRA also confirms that the 'accept, manage, avoid' language in the final policy is a suggestion, rather than an expected format. Other minor edits have been made in relation to the proposed Operational Resilience expectations, to

align them with SS1/21 – Operational resilience: Impact tolerances for important business services.

- Climate scenario analysis (CSA): In line with the flexibility for firms to select scenarios that best suit their risk profiles and the application of proportionality, the PRA has clarified that the number and type of CSA exercises should be commensurate with the firm's climate risk exposure. The PRA has also made a small change that firms can choose whether to use reverse stress and/or scenario-based sensitivity analysis and that analysis over longer-time horizons can rely more on narrative scenarios and less on precise quantification.
- Data: The PRA has made two changes to the final policy following responses from firms. The first reduces the expectation for firms to 'quantify' data uncertainty to an expectation for firms to understand it. The second is that firms do not need to use conservative proxies where data or models are inadequate; instead, they should select appropriate proxies and remain aware of their limitations.
- Banking-specific expectations: The PRA has confirmed that firms may align climate scenario horizons used in ICAAPs and ILAAPs with standard timeframes for those processes, while also considering longer-term scenarios for strategic planning. On financial reporting, the PRA has acknowledged challenges around data availability and maturity of firms' climate risk capabilities. However, it has reaffirmed that its expectations remain consistent with accounting standards and audit requirements.
- Insurance-specific expectations: The PRA has clarified that the existing Solvency Capital Requirement (SCR) Rules provide sufficient flexibility for an insurer to take account of climate-related risks in a way that it considers appropriate. For internal models, the PRA considers climate-related risks to be a risk driver in various components of the SCR. On credit ratings for the regulatory balance sheet, the PRA has clarified that where a firm considers that a CRA does not make sufficient allowance for risks when issuing a credit rating, including climate-related risks, it may make an appropriate adjustment. For market prices of climate-related risks, the PRA has clarified that if a firm considers these risks to be underpriced, it may reflect this in its ORSA and SCR.

Next steps

The final policy took effect on 3 December 2025.

12 December 2025 – FCA publishes final guidance on non-financial misconduct in financial services

The Financial Conduct Authority (FCA) published its final guidance on non financial misconduct (NFM) in financial services in Policy Statement PS25/23. In summary, the FCA is:

- Amending its Code of Conduct (COCON) sourcebook to explain how NFM can be a breach of the conduct rules and make it easier for SMCR firms to interpret and consistently apply the rules.
- Explaining how NFM forms part of the Fit and Proper test for Employees and Senior Personnel (FIT) sourcebook.

The new guidance will come into force on 1 September 2026.

Background

By way of background to PS25/23, in July 2025, in CP25/18, the FCA stated that it was expanding the scope of COCON in non-banks with effect from 1 September 2026 to more closely align the rules on NFM in banks and non-banks. At the same time, the FCA consulted on new guidance for banks and non-banks to assist in applying COCON and FIT in relation to NFM with responses due by 10 September 2025. The FCA stated that it would only publish the proposed guidance if there was clear support for it – recognising the increased costs of implementation and noting that guidance cannot cover every situation (for further detail on CP25/18, see our previous briefing here).

PS25/23 explains that feedback to the guidance consultation was extremely positive, with 95 percent of respondents requesting the FCA to make guidance in this area. The FCA is therefore publishing the guidance proposed in CP25/18 now, with minor amendments to reflect consultation feedback.

Changes from CP25/18

The amendments to the guidance to reflect consultation feedback include:

- New examples and flow diagrams to help apply COCON consistently.
- Clearer alignment with employment law.
- Clarifying that managers' accountability is relative to their knowledge and authority.
- Withdrawing or amending examples and factors that risked imposing disproportionate burdens.
- Clarifying that firms are not expected to investigate trivial or implausible allegations or breach privacy law when assessing fitness and propriety.

The FCA emphasises that no guidance can cover every scenario and that firms will always need to exercise judgement.

Next steps

In terms of next steps, all firms affected by these changes should familiarise themselves with the new guidance at Appendix 1 of PS25/23.

The FCA states that this publication brings its policy work on NFM to a close. It will now focus on how firms are tackling it in practice.

The paper also confirms that the PRA is not taking forward any of the proposals in its 2023 consultation (CP18/23), including those on staff fitness and propriety. Instead, it will expect dual-regulated firms to consider the FCA's guidance when assessing these.

18 December 2025 – The Financial Services and Markets Act 2000 (Regulated Activities) (ESG Ratings) Order 2025

There was published on legislation.gov.uk The Financial Services and Markets Act 2000 (Regulated Activities) (ESG Ratings) Order 2025 together with an explanatory memorandum.

This Order brings the provision of an ESG rating into regulation under the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (RAO), by making it a specified kind of activity, when that rating is likely to influence a decision to make an investment specified in Part 3 of the RAO. The Order inserts a new Chapter 15F into the RAO. This chapter defines the scope of the new regulated activity (article 63U) and sets out a number of exclusions (articles 63V to 63Z5), including exclusions for regulated products and services, unregulated benchmarks, unregulated credit ratings, intra-group ratings, private use, ancillary non-commercial provision, public authorities, central banks and international organisations, accreditation or certification, regulatory or legal requirements, and proxy advice.

The Order also includes transitional and savings provisions to allow persons who are within scope of the new regulated activity and have applied for the relevant permission (including variation of pre-existing permission) to continue providing ESG ratings during a limited period following commencement, subject to appropriate conditions and FCA supervision.



European Union

9 December 2025 – Council and Parliament strike a deal to simplify sustainability reporting and due diligence requirements

The European Parliament and the Council of the EU reached a provisional deal on the draft Omnibus Directive simplifying sustainability reporting and due diligence requirements for companies. The informal agreement simplifies the directives on corporate sustainability reporting and corporate sustainability due diligence by reducing the reporting burden and limiting the trickle-down effect of obligations on smaller companies.

Key points

The press release notes that according to the informal agreement:

- Social and environmental reporting will only be required for EU companies employing on average over 1,000 employees and with a net annual turnover of over €450 million. The net turnover threshold has also been increased for non-EU companies to €450 million generated in the EU for sustainability reporting.

- Reporting requirements have been further simplified and become more quantitative, while sector-specific reporting will become voluntary. Smaller companies with under 1,000 employees are protected from shifting responsibility for reporting, as the updated rules allow them to refuse reporting information beyond what is set out in the voluntary standards.
- Only large EU corporations with more than 5,000 employees and a net annual turnover of over €1.5 billion will need to carry out due diligence to minimise their negative impact on people and the planet. The rules will also apply to non-EU corporations with a turnover in the EU above the same threshold.
- Businesses within the scope of the revised due diligence rules will no longer need to prepare a transition plan to make their business model compatible with the Paris Agreement. They will remain liable at national rather than EU level for non-compliance and could face fines of up to three percent of the company's net worldwide turnover, the guidance on which will be provided by the Commission and member states.

Finally, the provisional agreement postpones the Corporate Sustainability Due Diligence Directive's transposition deadline by another year, to 26 July 2028. Companies will have to comply with the new measures by July 2029.

Next steps

The provisional agreement must be now endorsed by the Council and the European Parliament. before it is formally adopted by the two institutions.

18 December 2025 – ESMA TRV Risk Analysis: Impact of ESMA guidelines on the use of ESG or sustainability related terms in fund names

The European Securities and Markets Authority (ESMA) issued its latest TRV Risk Analysis covering the impact of its guidelines on the use of ESG or sustainability related terms in fund names.

Based on nearly 1,000 shareholder notifications from the 25 largest EU managers with assets under management of EUR 7.5 trillion, ESMA observes that two thirds of the funds reacting to the guidelines changed their name and more than half updated their investment policy – mainly by introducing fossil-fuel related exclusions. The majority of name changes involved removing all ESG terms, with half of these funds adopting alternative terminology in their name.

ESMA also focuses on the impact of the Paris-Aligned Benchmark criteria excluding companies involved in fossil-fuel related activities. Its portfolio analysis of 4,000 EU funds using ESG terms in their names with EUR 2 trillion in assets under management shows that funds with higher fossil fuel exposures were more likely to remove ESG terminology, highlighting the role of portfolio composition in compliance choices.

Since the publication of the guidelines, ESMA finds that funds retaining ESG terms in their names have reduced their portfolio share of fossil-fuel holdings more than all other funds, suggesting efforts to green their portfolios. These results indicate that ESMA's guidelines have driven convergence in the use of ESG terms by improving the alignment of fund names with their respective investment strategies.

19 December 2025 – Commission draft Notice on the interpretation and implementation of certain legal provisions of the Disclosures Delegated Act

The European Commission approved in principle a draft Commission Notice on the interpretation and implementation of certain legal provisions of the Disclosures Delegated Act (Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021) under Article 8 of the EU Taxonomy Regulation (Regulation (EU) 2020/852), as amended by the Omnibus Delegated Act (Commission Delegated Regulation (EU) C(2025)4568 of 4 July 2025), on the reporting of Taxonomy-eligible and Taxonomy-aligned economic activities and assets.

The draft Commission Notice will be formally adopted in all the official languages of the EU once all language versions are available. The draft Commission Notice sets out FAQs that provide interpretation and implementation guidance on the amendments to the Disclosures Delegated Act introduced by the Omnibus Delegated Act.



France

There have been no reported updates this month.



The Netherlands

10 December 2025 – AFM publishes results of survey of firms' compliance with the sustainability requirements for product oversight and governance, and the suitability assessment

The Autoriteit Financiele Markten (AFM) conducted a survey of compliance with the suitability requirements for product oversight and governance (POG), and the suitability assessment. The AFM highlights the following from the results:

- Investment firms have a key role in matching investors and investment products.
- Surveyed firms are on track in designing the customer journey in the execution-only channel and explaining sustainability.
- Additional steps are needed for assessment and collecting sustainability preferences.
- A good match requires sustained effort from investment firms – despite challenges.

The AFM has also published guidance and examples to help investment firms make further progress.



United States – SEC and CFTC

16 October 2025 – Rescission of Principles for Climate-Related Financial Risk Management for Large Financial Institutions

The Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency (the agencies) are jointly rescinding interagency Principles for Climate – Related Financial Risk Management for Large Financial Institutions (the Principles).

The Agency does not believe that the Principles, issued in October 2023, are necessary and are concerned that such principles could distract from the management of other potential risks identified and addressed by financial institutions' existing risk management processes and the agencies' other risk management riles and guidance.



Australia

3 December 2025 – Australia and Germany Welcome Investment in Australian-Led Lithium Project in Germany

Australian company Vulcan Energy has announced that it has finalised a financing agreement for its €2.193 billion (~AU$3.9 billion) Project.

The German government's raw materials fund, managed by Kreditanstalt für Wiederaufbau (KfW), is investing up to €150 million in Vulcan to support the realisation of the Lionheart project and strengthening the resilience of European and German raw materials supplies.

The Project will produce battery-quality lithium hydroxide monohydrate (LHM) from geothermal brine and simultaneously generate renewable heat and power. The Project will substantially contribute to the climate goals and industrial decarbonisation efforts of Australia and Germany.

These investments demonstrate Germany and Australia's shared ambition to secure sustainable and diversified supply chains for critical minerals, broadening sources of supply and reducing strategic vulnerabilities essential to the global energy transition.

10 December 2025 – ARENA invests $21 million to accelerate Australia's electric vehicle transition

The Australian Renewable Energy Agency (ARENA) is providing grants totalling $21 million to expand EV charging infrastructure.

The biggest grant goes to FlowPower (a renewable electricity company), which will use its $18 million to develop and operate a network of ultrafast battery electric vehicle charging stations across Brisbane, Melbourne and Sydney. ARENA is also providing smaller grants to Essential Energy and the University of Technology Sydney.

The grants highlight ARENA's focus on decarbonising transport. The government's latest Transport and Infrastructure Sector Plan warns that as the economy grows, demand for transport modes is projected to rise across land, air and sea until at least 2050.

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

21 November 2025 – Highlights from COP 30

At COP 30, held between the 10 to 21 November 2025 in Belém Brazil, several notable announcements were made including:

- Central Banks and Finance Ministers Initiative: A new joint initiative was launched to strengthen cooperation between central banks and finance ministers on managing economic risks of climate change and accelerating the energy transition. The platform unites together the Network for Greening the Financial System (NGFS), a global group of 143 central banks and the Coalition of Finance Ministers for Climate Action. The initiative will organise a series of dialogues across 2026 on key macroeconomic topics related to climate change and a resilient low-carbon transition. The Initiative will also conduct regular high-level meetings.
- EIB Green Checker Tool: The European Investment Bank (EIB) announced the launch of its Green Checker tool. The free, publicly accessible tool assesses project eligibility, estimates climate impact and provides alignment assessments with the EU Taxonomy and EIB climate standards.

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.

Contacts

Global

Jonathan Herbst
Global Head of Financial Services, London
+44 20 7444 3166
jonathan.herbst@nortonrosefulbright.com

Haney Saadah
Managing Director of Risk Consulting, EMEA, London
+44 20 7444 2519
haney.saadah@nortonrosefulbright.com

Simon Lovegrove
Global Director of Financial Services Knowledge, Innovation and Product, London
+44 20 7444 3110
simon.lovegrove@nortonrosefulbright.com

Europe

Claire Guilbert
Partner, Luxembourg
+352 28 57 39 298
claire.guilbert@nortonrosefulbright.com

Sébastien Praicheux
Partner, Paris
+33 1 56 59 54 25
sebastien.praicheux@nortonrosefulbright.com

Roberto Cristofolini
Partner, Paris
+33 1 56 59 52 45
roberto.cristofolini@nortonrosefulbright.com

Salvatore Iannitti
Partner, Milan
+39 02 86359 429
salvatore.iannitti@nortonrosefulbright.com

Floortje Nagelkerke
Partner, Amsterdam
+31 20 462 9426
floortje.nagelkerke@nortonrosefulbright.com

Michael Born
Counsel, Frankfurt
+49 69 505096 421
michael.born@nortonrosefulbright.com

United States

Andrew Lom
Global Head of Private Wealth and Head of Financial Services, New York
+1 212 318 3119
andrew.lom@nortonrosefulbright.com

Steven Lofchie
Partner, New York
+1 212 318 3075
steven.lofchie@nortonrosefulbright.com

William Troutman
Partner, Los Angeles
+1 213 892 9208
william.troutman@nortonrosefulbright.com

Australia

Helen Taylor
Partner, Sydney
+61 2 9330 8218
helen.taylor@nortonrosefulbright.com

Kate Green
Partner, Sydney
+61 2 9330 8928
kate.green@nortonrosefulbright

Elisa de Wit
Partner, Melbourne
+61 3 8686 6266
elisa.dewit@nortonrosefulbright.com

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