What do shifting sustainability regulations mean for business?

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Business leaders are navigating a rapidly evolving sustainability reporting landscape

As reporting policies are put in place and, in some cases, revised, these leaders should find the most cost-effective ways to meet the requirements and expectations of both policymakers and investors.

For their part, policymakers should strive to set policies that promote the wellbeing of both companies and individuals. Four key developments are shaping the evolution of the sustainability reporting landscape:*

1. The simplification of EU sustainability reporting requirements

2. The adoption of sustainability reporting standards by many jurisdictions based on the model standards developed by the International Sustainability Standards Board (ISSB)

3. A shifting regulatory environment in the US, where federal policymakers have opted against a national mandate for sustainability reporting while some states concurrently develop reporting obligations with extraterritorial impact

4. The release of a global sustainability assurance standard by the International Auditing and Assurance Standards Board (IAASB) and a global sustainability assurance ethics standard by the International Ethics Standards Board for Accountants (IESBA)

In this report, we examine these developments and their implications for business leaders and policymakers.

* Sustainability disclosures focus on specific data points and metrics that a company makes publicly available, often in response to regulatory requirements or stakeholder expectations. Sustainability reporting, on the other hand, is a broader process that includes disclosures but also provides context, analysis and narrative around a company's sustainability strategy, performance and long-term goals.

1. First EU Omnibus Simplification Package

In February 2025, the European Commission (EC) published a "First Omnibus Package" focused on simplifying the EU Taxonomy Regulation (Taxonomy Regulation), the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CS3D) and the Carbon Border Adjustment Mechanism.

These proposals align with the EC's aim to simplify EU rules, boost competitiveness and unlock investment, including a targeted 25% overall reduction in administrative burdens, with at least a 35% reduction for small- and medium-sized enterprises (SMEs), by the end of its mandate in 2029.[1]

The First Omnibus Package sets out several proposals to update sustainability reporting requirements. These include removing around 80% of companies from the scope of the CSRD (with the intent of focusing obligations on companies likely to have the most significant impact on people and the environment), limiting due diligence assessments under the CS3D to direct business partners and simplifying the Taxonomy Regulation to reduce required data points by 70%.[2] It also includes a "stop the clock" proposal to postpone:

- CSRD requirements by two years for large companies that have not yet started reporting, as well as for listed SMEs
- Transposition (incorporation into national law by EU member states) and the first phase of the application (covering the largest companies) of the CS3D by one year

In April 2025, these "stop the clock" proposals became law at the EU level but still must be transposed (adopted) into national law by each member state.

Meanwhile, the legislative process regarding the remaining proposals in the First Omnibus Package continues. The EU hopes to conclude this process in late 2025 or early 2026.[3]

For further insights:

How European boards can steer sustainability reporting

EU Council approves Corporate Sustainability Due Diligence Directive

How the EU Taxonomy impacts sustainability reporting

How to navigate the EU Omnibus Simplification Package

Insights and takeaways from the first wave of CSRD reporting

In EU member states where the CSRD had been transposed (legally adopted), large and listed companies formerly governed by the Non-Financial Reporting Directive (NFRD) formed a "Wave 1" of companies required to issue their first-year CSRD reports for the fiscal year 2024 in early 2025.* Even in countries that have not transposed the CSRD (Germany, Spain and the Netherlands), many large and listed companies chose to report voluntarily.

In supporting companies to prepare and report in this first wave, EY teams gained insights relevant for policymakers and business leaders, not only in relation to the CSRD specifically but also to sustainability reporting more broadly:

- The time and resource intensity of preparing and reporting suggests that even organizations whose CSRD compliance might be postponed by the Omnibus Package would benefit from starting early.
- In mandating CSRD reporting, EU policymakers prompted a shift from sustainability target-setting to the implementation of transition plans. As a result, companies within scope now have an increased awareness of their sustainability performance and progress on goals.
- The CSRD's double materiality assessment (DMA)** requirement has proven useful for determining necessary disclosures and identifying the key performance indicators (KPIs) that are truly material. Many companies found engaging with external stakeholders to explain decisions on KPIs to be beneficial to internal decision-making.
- Some companies found it challenging to collect the data needed to fulfill disclosure requirements within the required timelines. As a result, companies made estimates if they did not have the necessary data.
- Assurance providers encountered challenges because many companies lacked the experience of producing sustainability reporting information at the level required to be assurable. The evolving nature and timing of technical assurance guidance, and the lack of EU assurance standards, contributed to these challenges.
- While the CSRD provided an important baseline of common standards across the EU, stricter requirements or expanded reporting scopes implemented by some jurisdictions resulted in reduced comparability.
- Compliance created a wave of first movers who are viewed by stakeholders as providing rigorous and reliable sustainability disclosures, distinguishing them from other companies.

* The NFRD is a European Union directive that requires companies to disclose nonfinancial information in their annual reports, including environmental protection, social responsibility, employee treatment, human rights, anti-corruption efforts and diversity policies. The CSRD replaces the NFRD.

** DMA: European Sustainability Reporting Standards require companies to report on their impacts on people and the environment (impact materiality) and on how social and environmental issues create financial risks and opportunities for the company (financial materiality). See: https://www.ey.com/en_ie/insights/sustainability/csrd-how-to-manage-your-double-materiality-assessment

2. Continuing adoption of ISSB-based standards

More than 35 jurisdictions worldwide have adopted, or are in the process of adopting, sustainability reporting standards based on the IFRS Sustainability Disclosure Standards developed by the ISSB (ISSB Standards). While most jurisdictions that have chosen to utilize the ISSB Standards have fully adopted them, a few have opted to adopt only the climate requirements of the standards and have made jurisdictional modifications. For example, Australia does not require industry-specific disclosures related to climate risks and opportunities.

In May 2024, the ISSB and the European Financial Reporting Advisory Group (EFRAG) jointly published guidance on the interoperability between the ISSB Standards and the European Sustainability Reporting Standards (ESRS). The aim of this guidance is to reduce the costs and burdens of reporting for entities required to report under both sets of standards. While companies might be able to meet most requirements of both frameworks with a single set of disclosures, they should continue to monitor the impacts of some of the differences on their disclosures (e.g., the ISSB's financial materiality approach vs. the ESRS's double materiality approach).

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Figure 1. Jurisdictions that have adopted or are in the process of adopting sustainability reporting standards based on the ISSB Standards*

* Disclaimer: This map is based on publicly available information about a jurisdiction's current intentions and legal requirements as of August 2025. This information is for illustrative purposes only and is subject to change.

3. US reporting requirements

In the US, implementation of climate disclosure rules issued by the US Securities and Exchange Commission (SEC) in 2024 has been paused and is not expected to proceed in the near term. The rules would have required publicly listed companies to provide comprehensive disclosures of greenhouse gas emissions and other climate-related activities. At the state level, in 2023, California enacted climate disclosure laws that, among other things, require companies to report on their greenhouse gas emissions and other climate-related activities. These laws would apply to companies and organizations that conduct a substantial amount of business in California, regardless of where in the world they are headquartered. The laws are scheduled to take effect in 2026. However, they face legal challenges that could affect whether, when and to what extent they are implemented.

4. International sustainability assurance and ethics standards launched

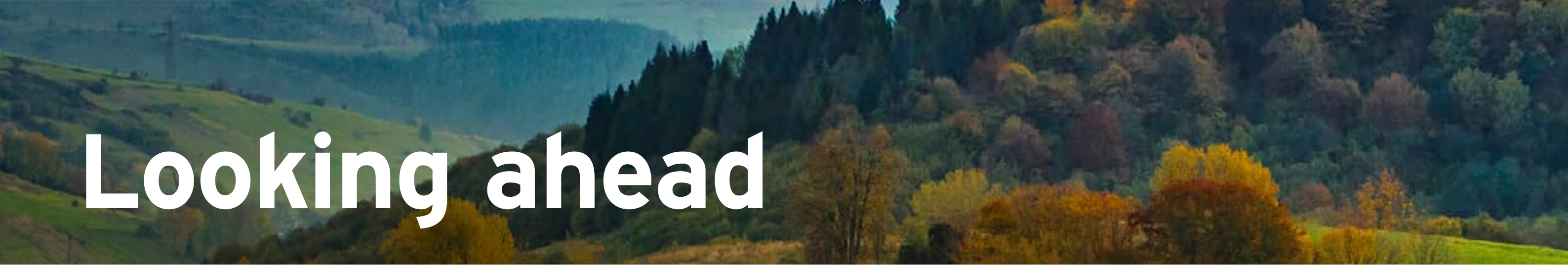
The International Standard on Sustainability Assurance 5000 (ISSA 5000), released by the IAASB in November 2024, is the first international standard for providing limited and reasonable assurance of sustainability-related disclosures.

Designed to strengthen trust and confidence in sustainability information among investors, regulators and other stakeholders, ISSA 5000 is intended to serve as a comprehensive, stand-alone framework suitable for any sustainability assurance engagement. It applies to sustainability disclosures across all topics and accommodates any suitable reporting framework, such as ISSB, ESRS and the Global Reporting Initiative. Additionally, it is profession-agnostic, enabling both professional accountants and non-accountant assurance practitioners to utilize it.

Many jurisdictions implementing sustainability-related standards are evaluating the adoption of ISSA 5000, with Australia being the first to formally approve its use.

In January 2025, the IESBA finalized its International Ethics Standards for Sustainability Assurance (IESSA). The IESSA aims to enhance the quality and reliability of sustainability-related information by providing a robust ethical framework that promotes high-quality, reliable information for decision-making by investors and other stakeholders. Like the ISSA 5000, the IESSA is framework-neutral and profession-agnostic.

The IAASB and the IESBA have launched a joint effort to support the effective implementation of their respective standards, both of which apply to assurance engagements on sustainability information reported for periods beginning on or after 15 December 2026 in jurisdictions adopting them, with early adoption permitted and encouraged.



Looking ahead

Considerations for business leaders

Whether they are operating in jurisdictions where sustainability reporting standards are mandatory, voluntary or both, business leaders may want to consider taking several steps to help them navigate the complex and dynamic sustainability reporting landscape. These steps include:

Starting early:

If business leaders determine that sustainability reporting is either required or advisable from a market perspective, they will likely want to consider the policies, processes and personnel needed to meet their regulatory and business objectives.

Incorporating sustainability reporting into the firm's overall business strategy:

Evidence suggests that firms are more likely to succeed in meeting their sustainability-related objectives when they view reporting as part of their overall business strategy rather than as a compliance exercise. CEO and board sponsorship of the sustainability agenda, along with collaboration between the Chief Sustainability Officer, Chief Financial Officer and the board, are essential.[4] Such an approach can further companies' goals of unlocking value, driving innovation and creating greater efficiencies.

For further insights:

How can boards bridge the gap between sustainability ambition and action?

Making sure that the audit committee has oversight over nonfinancial reporting:

Given the increasingly regulated nature of sustainability reporting, it is important that the audit committee has effective oversight of nonfinancial reporting processes and metrics. This oversight includes encouraging executive teams and boards to help ensure that the controls used for identifying, managing and reporting nonfinancial disclosures are material and necessary.

Where audit committees have oversight of sustainability reporting, they should assess whether the processes for data collection are robust and lead to reliable, quality reporting. Additionally, they should consider data provenance, the reasonability of underlying assumptions and whether all regulatory reporting requirements have been addressed.

Audit committees may also want to oversee integration between sustainability reporting and the financial statements, as well as external assurance, if and as appropriate.

Differentiating through rigorous reporting:

Fairly or not, some investors and other stakeholders may perceive companies that have already reported under Wave 1 of CSRD as a cohort of first-mover companies providing rigorous and reliable nonfinancial disclosures, distinguishing them from peer companies that did not report. As such, business leaders of companies that have not reported under Wave 1 may want to consider whether there is a market advantage to voluntarily reporting under Wave 1 or another standard viewed as comparable by investors and others.

For further insights:

A guide for high-performing audit committees

Easing the reporting burden with technology:

Firms may want to inventory existing data sources to understand where sustainability-related data currently exists, as well as its relative quality and completeness. They may also want to make high-quality data with inherent business value available in a centralized data hub for improved accessibility. A sustainability reporting solution – sometimes available as an add-on to financial reporting applications – can facilitate disclosures and support tracing and documenting data lineage.

Engaging with policymakers:

Establishing a regular dialogue with policymakers provides an opportunity to stay informed about regulatory developments, provide data and other information about market activities, and offer feedback on proposed regulations.

Monitoring jurisdictional differences and emerging reporting standards:

While some jurisdictions are moving away from requiring sustainability reporting, others are considering sector-specific, biodiversity and human capital-related reporting requirements. For example, the EU CSRD and the CS3D already include requirements related to nature, biodiversity and human capital. Additionally, the ISSB is researching areas for future standard-setting consideration, such as biodiversity, ecosystems, ecosystem services and human capital. Nature-related disclosures (via EY.com US) are also becoming increasingly important to investors and financial institutions. As a result, it is crucial to monitor these developments and build related organizational competencies.

Considerations for policymakers

Whether they take a voluntary, mandatory or hybrid approach to sustainability reporting, policymakers may want to consider the following questions in determining the preferred approach in their respective jurisdictions:

Is the reported information decision-useful?

Investors and other stakeholders generally seek information that is most relevant to their assessment of the activities of reporting entities.

Is information reported efficiently?

Policymakers will want to consider whether the benefits of reporting outweigh the burdens, including whether the information reported and the means of reporting it are as least burdensome as possible.

Are any reporting standards interoperable with or comparable to standards in other jurisdictions?

Differences in reporting requirements or standards across jurisdictions can create costly reporting challenges for global companies. Jurisdictions will always need to tailor their rules and standards to satisfy local needs. However, they may want to consider aligning, to the extent possible and practicable, their standards with those of other jurisdictions and with global model standards such as those issued by the ISSB. Such alignment can significantly reduce the regulatory burden on reporting entities. It can also decrease regulatory arbitrage and improve the comparability of information for investors.

Is assurance required or desired?

Where assurance of sustainability reports is required or otherwise used by reporting entities, policymakers may want to consider consulting with stakeholders regarding the value of assurance provided by firms that are qualified, independent and transparent to enhance confidence in the reliability of disclosures and limit the risk of "greenwashing."

Is any legal oversight appropriate?

Policymakers will want to consider whether legal oversight of reporting and assurance is appropriate. If they decide that it is, they will want to further consider oversight that is both effective in terms of meeting policy objectives and efficient in terms of minimizing financial burdens on taxpayers and any regulatory burdens on reporting entities. To this end, they may want to consider using existing regulatory structures, such as those that oversee financial reporting and assurance.

Is the scope and timeline for implementation of reporting and assurance standards appropriate?

Policymakers may want to consider reducing or eliminating any requirements for smaller entities with fewer resources and smaller sustainability-related impacts. For all companies, regardless of size, policymakers may want to use a timeline for reporting and assurance that gives covered entities ample time to develop needed internal policies and processes.

Should there be a liability safe harbor?

Policymakers may want to consider a liability safe harbor: tailored as appropriate in scope and duration — at the outset of any reporting period to encourage companies to focus their resources and attention on establishing their reporting systems rather than on avoiding potential litigation.

Should sector-specific disclosures be considered?

Sustainability topics vary by company and industry. Sector-specific disclosures may be a good starting point for companies to identify their most relevant sustainability-related risks and opportunities. If sector-specific disclosure frameworks are being considered, this should be done in close collaboration with preparers, investors and other key stakeholders in the relevant sectors to identify whether they would add value. Leveraging existing industry disclosure practices as a starting point may also be advisable.

Have policymakers established a robust consultation process?

Policymakers may want to provide ongoing opportunities for collaboration and meaningful input from key stakeholders, including in the private sector, for developing, implementing and improving sustainability standards and frameworks.

Conclusion

The sustainability reporting landscape remains dynamic and will continue to evolve. Business leaders and policymakers have critical roles to play in responding to the demands of investors and others for transparent, decision-useful, efficient, comparable and assurable reporting standards.

Endnotes

1 'Commission proposes to cut red tape and simplify business environment,' European Commission website, https://commission.europa.eu/news-and-media/news/commission-proposes-cut-red-tape-and-simplify-business-environment-2025-02-26_en, accessed 14 August 2025.

2 'Commission simplifies rules on sustainability and EU investments,' European Commission website, https://ec.europa.eu/commission/presscorner/detail/en/ip_25_614, accessed 27 June 2025.

3 'EFRAG proposes amended ESRS,' EFRAG website, Amended ESRS | EFRAG, accessed 20 August 2025.

4 Source: "How can we accelerate climate action," *EY website*, ey.com/en_gl/insights/sustainability/how-can-we-accelerate-climate-action.

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