ESG in 2025: A Midyear Review

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In this article, we reflect on key trends in ESG over the first half of 2025 and look ahead at what to watch in the second half of 2025. We analyse developments, including the following major themes:

EU Omnibus Proposals – Continued Deferral in the Introduction of CSRD and CS3D

On 14 April 2025, the EU Council adopted resolutions to delay the implementation of the EU Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CS3D). This decision follows the European Parliament's endorsement on 3 April 2025. This postponement is mainly meant to simplify the EU's reporting regimes, reduce regulatory burdens for businesses operating in the EU and avoid overlaps between the two directives, thereby providing greater clarity for companies.

The proposals increase the minimum employee threshold for large EU-established undertakings to 1,000 employees and triple the net turnover threshold for non-EU undertakings with "substantial activity" in the EU. In addition, the proposals delay and suspend many reporting obligations under the CSRD and CS3D. Specifically, large enterprises, which were initially expected to start reporting, under the CSRD, in 2026 for the 2025 financial year, are now scheduled to begin their reporting in 2028. Similarly, small and medium-sized enterprises (SMEs) with securities listed in the EU, originally expected to start reporting, under the CSRD, in 2027 for the 2026 financial year, will now commence their reporting in 2029. However, the deadlines for public interest entities (such as EU listed companies) and non-EU companies remain unchanged and EU-listed companies must still prepare their CSRD reports in 2025 (see "A First Look at This Year's EU CSRD Reports" below for further information). Non-EU companies that conduct substantial activities in the EU are required to report in 2029 for the 2028 financial year. For further information, see our article "European Commission Publishes ESG Reporting Omnibus Package" and our alert "EU Parliament Votes to Delay Implementation of Sustainability Reporting and Due Diligence Obligations".

On 20 June 2025, the European Financial Reporting Advisory Group (EFRAG) published a draft progress report detailing its plans to revise the European Sustainability Reporting Standards. The proposed revisions are expected to introduce a range of burden-reduction measures, including modifications to the minimum disclosure requirements, as well as a simplification of the double materiality assessment to reduce complexity and administrative effort for companies. The revisions will also provide clearer guidance to ensure that assurance providers do not require companies to report beyond what is strictly required. A key focus of the revision is a substantial reduction in the number of mandatory disclosure datapoints; EFRAG is aiming for a reduction of over 50% by eliminating or reclassifying as guidance less relevant datapoints. EFRAG plans to finalise its technical advice for the European Commission by October 2025.

The rationale behind these proposals is to provide companies with additional time to prepare for the new reporting requirements and to raise the thresholds for CSRD so that fewer companies are required to undertake the burden of reporting under the Directive. The final rules for the amended forms of CSRD and CS3D remain uncertain. EU legislators are still in discussions about the extent to which the reporting and due diligence obligations should be simplified, with certain prominent political groups in the EU Parliament proposing even further simplification of the CSRD and CS3D and higher thresholds at which both directives would apply to EU businesses. Final rules are expected to be voted on by the end of July 2025. This ongoing uncertainty means that businesses must continue to monitor developments closely and remain prepared to comply with the directives once the final rules are established. We will continue to track these as the proposals develop.

A First Look at This Year's EU CSRD Reports

Despite the delays in the full implementation of CSRD and CS3D, listed companies in the EU are required to publish their first CSRD reports this year. Having reviewed many of these first CSRD reports, below we note the key trends, similarities and common themes observed in the market based on the initial CSRD reports published by such companies.

Overall, the CSRD reports published in the first half of 2025 reflect a significant shift towards more comprehensive, transparent and strategic sustainability reporting. Companies are meeting regulatory requirements as expected with some initial trends emerging around enhanced transparency, albeit with variability around how the double materiality standard has been applied. As the CSRD continues to evolve and be implemented across member states, it is expected that these trends will further mature.

Enhanced transparency and disclosure

One of the most notable trends in the 2025 CSRD reports is the increased level of transparency and detail in sustainability disclosures. Companies are now required to provide more comprehensive information on their ESG practices. This includes detailed data on carbon emissions, energy consumption, water usage, waste management and biodiversity impacts. Additionally, there is a greater emphasis on disclosing social metrics such as employee diversity, labour practices and community engagement.

Integration of sustainability into business strategy

Another common theme is the integration of sustainability into the core business strategy for EU listed companies. Many reports highlight how sustainability goals are being embedded into corporate strategies, with clear links to business objectives and long-term value creation. This integration is often supported by the establishment of dedicated sustainability committees and the appointment of chief sustainability officers to oversee and drive these initiatives.

Double materiality assessment and IROs

Overall, the CSRD reports reviewed demonstrated a variety of approaches in how companies comprehensively disclosed the implementation of double materiality assessment required in the CSRD and how their lists of IROs were finalised. Some companies had much more comprehensive disclosures than others.

In addition, the number of IROs disclosed in CSRD reports reviewed ranged from the low 20s to the low 50s, which is in line with general industry expectations as to the outcome of double materiality assessments, although at the lower end of the range than many companies considered as part of their reporting processes.

Focus on climate-related risks and opportunities

Climate change remains a central focus in the 2025 CSRD reports published so far and, not surprisingly, it was the most common topic across the CSRD reports reviewed. Companies are providing more detailed assessments of climate-related risks and opportunities. This includes scenario analysis to understand the potential impacts of different climate scenarios on business operations and financial performance. Additionally, there is a growing emphasis on setting science-based targets for reducing greenhouse gas emissions and achieving net-zero commitments.

Stakeholder engagement and materiality assessments

A prominent theme in the CSRD reports is the emphasis on effective stakeholder engagement. EU-listed companies that have reported are increasingly involving a diverse array of stakeholders, including employees, customers, investors, suppliers and local communities, in their sustainability initiatives.

The CSRD requires independent assurance of sustainability reports, starting at a limited assurance level. However, some companies have opted to exceed this baseline by seeking reasonable assurance on specific subsets of key performance indicators or information. This higher level of assurance typically focuses on more manageable areas such as greenhouse gas emissions or workforce metrics.

Digitalisation and data management

Companies are leveraging digital tools and technologies to collect, analyse and report ESG data more efficiently and accurately. This includes the use of sustainability management software, blockchain for supply chain transparency and artificial intelligence for predictive analytics. Enhanced data management capabilities are enabling companies to provide more reliable and real-time sustainability information.

Comprehensive Overhaul of the UK's 'Transparency in Supply Chains' Guidance

In March 2025, the UK Home Office updated its guidance on compliance with Section 54 of the Modern Slavery Act 2015 (MSA). That section of the MSA requires a modern slavery statement for each financial year from any commercial organisation, in any sector, that supplies goods or services, carries on a business or part of a business in the UK and has a turnover of £36 million or more.

The revised guidance is significantly more detailed than its predecessor, especially regarding the UK Home Office's expectations in relation to supply chain due diligence. The guidance outlines practical steps that organisations can take to tackle modern slavery within their own operations and supply chains, and contextualises that commentary by reference to the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidelines for Responsible Business Conduct.

The Home Office is clearly aiming to enhance the depth and quality of reporting while also recommending actions for in-scope companies, such as a new five-step risk assessment procedure. Important terms are defined and expanded, including "supply chain", which now covers all "physical assets and labour within all tiers of suppliers who contribute to a product or service".

The revised guidance can be seen as a partial answer to recent calls in the UK to increase the regulation of supply chains (see our article of December 12, 2024.) The UK government's recent decision, following considerable political pressure, to include in the Great British Energy Act 2025 a requirement for Great British Energy's objects to include measures for ensuring that slavery and human trafficking is not taking place in its business or supply chains, is also part of the movement to regulate further supply chains in the UK. Further developments in this area are likely in the medium term.

ESG in the Updated UK Stewardship Code

On 3 June 2025, the Financial Reporting Council published an updated version of the UK Stewardship Code (the Code). Notably, the Code introduces a refreshed definition of stewardship, which places greater emphasis on delivering long-term sustainable value for clients and beneficiaries. The Code also encourages a shift towards narrative-driven disclosures.

Investors are now expected to go beyond a checklist approach and provide detailed, meaningful explanations for their investment decisions. While the Code continues to highlight the importance of considering long-term environmental and societal risks and opportunities in investment decision-making, it has removed many explicit references to the environment and society from its text.

The UAE's New Climate Law

Following the UN Climate Change Conference held in Dubai in December 2023, the UAE introduced a new law aimed at tackling climate change. Published on 28 August 2024, the Federal Decree-Law on the Reduction of Climate Change Effects (the Climate Law), which took effect on 30 May 2025, establishes a comprehensive legal framework to reduce greenhouse gas emissions and achieve climate neutrality across all sectors, supporting the nation's goal of reaching net zero by 2050.

The Climate Law imposes new mandatory reporting obligations on both public and private companies throughout the UAE, including those operating in freezones. Under the law, companies are required to measure, report and maintain records of their emissions for a period of five years, and to submit this data to the relevant authorities.

Penalties for noncompliance with the Climate Law include fines of up to 2 million dirhams ($540,000), with even stricter consequences for repeat offences.

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