



2025 ESG Wrap-Up and 2026 Outlook

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Executive Summary

- **What's new:** Key ESG developments in late 2025 include the EU's final proposals regarding corporate sustainability due diligence, simplified European sustainability reporting, delayed timing for the EU Deforestation Regulation, a landmark liability ruling and new UK legislation governing carbon border adjustments.
- **Why it matters:** The changes in the EU significantly reduce reporting burdens, narrow liability and compliance scope, and introduce new requirements, impacting EU and non-EU companies, financial institutions and businesses with global supply chains.
- **What to do next:** Companies should (i) review updated thresholds, reporting exemptions and compliance timelines; (ii) assess applicability to their operations; and (iii) prepare for new or revised ESG reporting, due diligence and carbon border adjustment requirements.

In this article, we reflect on key trends in environmental, social and governance (ESG) matters over the second half of 2025 and look ahead at what to watch in the first half of 2026. We analyse the following material developments:

- Agreed amendments to the EU CSRD Omnibus package.
- Simplified European Sustainability Reporting Standards.
- Agreed amendments to the EU CS3D.
- Delayed implementation of the EU Deforestation Regulation.
- The European Commission's proposal to overhaul the Sustainable Finance Disclosure Regulation.
- A UK court judgment holding BHP parent companies liable for the Fundão dam collapse in Brazil.
- The UK's latest Carbon Border Adjustment Mechanism legislation.

Lawmakers Reach Agreement on the EU's 'Omnibus 1' Simplification Package

On 16 December 2025, the European Parliament voted to adopt proposed changes to the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CS3D). The informal agreement reached between the European Parliament and the European Council on 9 December 2025 reconciled the amendments to the European Omnibus I package proposed by the European Commission (EC) and the European Parliament this year (see our 25 June 2025 [midyear review](#)).

CSRD

With this agreement, the EU has finalised amendments to the CSRD (after initiating the process at the end of 2024). The final changes to the CSRD are expected to significantly reduce the number of companies required to report in 2028 and 2029. Business in the EU and across the world will likely welcome these changes.

The final changes include the following:

- **Large EU undertakings (Second Wave):** The thresholds for large EU companies and undertakings reporting in 2028 will increase significantly. The new proposals apply to EU companies with over 1,000 employees and €450 million in net turnover, which exceeds what the European Commission originally proposed as the existing thresholds for these “second wave” companies (€50 million in net turnover or €25 million on the balance sheet). The EC’s original proposal for a reporting company to have at least 1,000 employees was adopted.
- **Non-EU companies with subsidiaries and branches operating in the EU (Fourth Wave):** The applicability threshold for 2029 global reporting for non-EU parent companies will increase to €450 million in net turnover earned in the EU, in line with the EC’s proposal to raise the threshold from the original €150 million. The second “limb” of the test — the threshold for EU subsidiaries and branches of such non-EU parent companies — will increase to €200 million in net turnover. (The EC’s proposed thresholds were originally €150 million and €50 million for subsidiaries and branches, respectively.)
- **Listed EU companies:** Companies listed in the EU that had to report in 2025 for the 2024 financial year (First Wave) are subject to transitional exemptions and do not need to report in 2026 or 2027.

- **Parent companies:** A parent company will be exempt from the CSRD where the company only acts as a financial holding company and is not involved in managing any of its subsidiaries.
- **Recently acquired subsidiaries:** If a company acquires subsidiaries that were not previously subject to the CSRD, the parent company will benefit from a 24-month transition period before it is required to integrate a new subsidiary's information into its consolidated sustainability report.

Simplified European Sustainability Reporting Standards

European Financial Reporting Advisory Group (EFRAG) published revised drafts of the European Sustainability Reporting Standards (ESRSs) on 3 December 2025. As next steps, the European Commission will prepare a delegated act to reflect this guidance within six months of the formal adoptions of the Omnibus proposals. The revised ESRSs are materially simplified compared to the previously published versions, which reflects the EU's overall approach to reducing burdens and costs associated with the CSRD.

The revised drafts provide further guidance on Double Materiality Assessments (DMAs) to enable companies to better prepare for audits and advise that companies will not need to undertake a DMA each year. A DMA will only need to be recast where significant changes have occurred since the company last conducted its DMA, e.g., changes to company operations, structure or business relationships. If such changes occur, companies will need to update their DMAs. EFRAG also stated that companies are not required to carry out extensive searches when preparing their DMAs; instead companies can rely on "reasonable and supportable information that is available without undue cost or effort". The meaning of "undue cost or effort" will vary depending on a company's financial situation balanced against the value of obtaining the information. Likewise, when assessing their value chains, companies may rely on available information rather than requesting information directly from value chain entities.

Additionally, EFRAG has introduced reliefs to reduce the administrative burden on companies when collecting data for the ESRSs sustainability statement. For example, where companies have no operational control over a joint enterprise, they may exclude it from their sustainability statements. Companies may also exclude activities that are not a significant driver of impacts, risks and opportunities. However, EFRAG emphasised that companies should exercise caution when using some of the reliefs introduced in the new guidance, as they are broader than the ISSB Standards.

CS3D

Regarding the CS3D, the provisional agreement increases the threshold for the CS3D to apply to undertakings with 1,000 employees and €450 million in net turnover to 5,000 employees and €1.5 billion in net turnover.

Other important changes include:

- Narrowing of the scope of the exercise required to identify and assess adverse impacts.
- Removal of the obligation for in-scope companies to adopt a transition plan for climate change mitigation.
- Postponement of the CS3D's transposition deadline by another year to 26 July 2028.

Finally, the provisional agreement removes the EU harmonised liability regime and the requirement for EU member states to ensure that the liability rules overridingly and mandatorily apply in cases where the applicable law is not the national law of the relevant EU member state. The co-legislators have also agreed to introduce a maximum cap on penalties of 3% of a company's net worldwide turnover, a decrease on the 5% cap initially proposed, and the European Commission plans to issue related guidelines.

Overall, businesses globally are likely to welcome these measures, as they significantly reduce businesses' continued obligations and potential liability in the EU. The next step is for the European Council to endorse the provisional agreement before it is formally adopted in 2026.

Implementation of Deforestation Regulation To Be Delayed

In December 2025, the European Council and the European Parliament formally delayed the implementation of the EU Deforestation Regulation (EUDR), in line with the EC's proposals. This followed an agreement between the European Council and the European Parliament earlier in December. Large and medium-sized companies will have until 30 December 2026 to comply (i.e., extending the deadline by a year) while small companies will have until 30 June 2027 to comply.

Large companies are those that exceed two of following thresholds: (i) a balance sheet asset value of €20 million, (ii) net turnover of €40 million and (iii) 250 employees. Medium-sized companies are those that fall below the thresholds for large companies and also exceed two of the following thresholds: (i) a balance sheet value of €4 million, (ii) net turnover of €8 million and (iii) 50 employees. These thresholds may vary depending on the implementation of Directive 2013/34/EU by member states.

The agreement also introduces simplified due diligence requirements and mandates a review by the European Commission of the law's impact and administrative burden by April 2026.

Additionally, the agreement narrowed the scope of the regulation, with printed products such as books excluded as relevant paper products subject to EUDR diligence requirements (following concerns raised by members of the European Parliament). The changes are intended to balance environmental objectives with the need to reduce unnecessary burdens on businesses and address concerns from trading partners. The European Parliament voted to adopt the agreement on 17 December 2025 and the European Council approved it on 18 December 2025.

Commission Proposes Overhauling the Sustainable Finance Disclosure Regulation

On 20 November 2025, the European Commission published a formal proposal for overhauling the Sustainable Finance Disclosure Regulation (SFDR 2.0). Proposed changes include:

- Introducing new product categories, which will replace the previous Articles 8 and 9 framework.
- Amendments to the rules on marketing communications and the naming of sustainability-related financial products.
- Introducing specific transparency requirements for products that do not fall under the newly proposed product categories.

SFDR 2.0 will apply starting 18 months after entry into force, at the earliest. Lawmakers envision the implementation period running from 2027 to 2028, with full-scale operation to follow.

English Court Holds BHP Parent Companies Liable for Fundão Dam Collapse

On 14 November 2025, the English High Court handed down its highly anticipated [judgment in the Fundão dam litigation](#), finding BHP's group parent companies liable for the collapse of the dam in 2015.

The judgment sits within a broader trend of class-action claims brought before the English courts that seek to hold UK-domiciled parent companies liable for social and environmental harm in foreign jurisdictions. This trend has been facilitated by the proliferation of third-party funding and After-The-Event (ATE) insurance in the UK legal market.

The Fundão dam was owned and operated by Samarco Mineração S.A. (Samarco), a Brazilian company jointly owned in 50% shares pursuant to a joint venture agreement by Vale S.A. and BHP Brasil Ltd. The claims were brought by over 600,000 claimants in Brazil against the BHP group's dual-parent entities in Australia and the UK (together, BHP).

The material findings of the judgment are as follows:

- BHP was held to be strictly liable as “polluters” for damage caused by the collapse, pursuant to Articles 3(IV) and 14 of the Brazilian Environmental Law. The Court held that a “polluter” under Brazilian law is a person who is “directly or indirectly responsible for the polluting activity” [379]. On this basis, even though Samarco operated the Fundão dam, the Court held that BHP was “directly and/or indirectly responsible for the activity of Samarco in owning and operating” the dam [523]. The Court cited (i) BHP’s role as “the ultimate owners, controlling shareholders and the directing mind of Samarco” [524] and (ii) the fact that BHP exercised control over and participated in Samarco’s operations (see [525]-[530]).
- The Court also held BHP liable by reason of fault for damage caused by the collapse, pursuant to Article 186 of the Brazilian Civil Code. The Court held that (i) BHP’s control of Samarco and (ii) BHP’s assumption of responsibility for risk assessment, management and control gave rise to a legal duty. On the facts, the Court held that the actions of BHP were “negligent, imprudent and/or lacking in skill” [806], and that these actions caused the collapse of the dam [807].
- The Court rejected the claimants’ claims against BHP based on Brazilian Corporate Law (see [636]-[639]).

BHP has indicated that it intends to appeal the judgment.

Subject to any appeal, the Court will next consider issues of causation and quantum, with a Stage 2 trial scheduled to begin in late 2026. Relevantly, BHP has identified that more than 200,000 of the claimants who seek relief in the UK action have already reached settlement and/or executed relevant release agreements in Brazil for compensation. The effect of these agreements is likely to be a key issue when the Court considers quantum.

UK Budget 2025 Introduces Latest Legislation on the Carbon Border Adjustment Mechanism

In the UK government’s Budget 2025, presented on 26 November 2025, the UK government announced that Finance Bill 2025-2026 (Finance (No 2) Bill 2024–2026) will introduce a Carbon Border Adjustment Mechanism (CBAM) starting 1 January 2027. The new law will levy this import tax on carbon-heavy products entering the UK.

The UK already subjects to tax the domestic production of certain goods through the Emissions Trading System (the UK ETS), adapted from the EU’s version following Brexit. As a cost applied to carbon emissions, this carbon pricing is intended to encourage emitters to reduce their pollution. The UK ETS currently applies to the heavy industry, power and aviation sectors, covering approximately 25% of the UK’s emissions.

The UK's CBAM will impose a price on emissions embodied in goods imported by specified sectors: aluminium, cement, fertiliser, hydrogen, and iron and steel. Unlike the EU's CBAM, the UK will not subject the electricity sector to CBAM.

UK lawmakers published draft legislation for the UK CBAM in April 2025 and sought public consultation. The most recent draft legislation confirmed that indirect emissions associated with the production of CBAM goods will not be included in the scope of CBAM on its implementation date. UK-produced precursor goods, imported to the UK as part of "complex" CBAM goods otherwise subject to tax, will be exempt, preventing double taxation on the same product.

HMRC plans to publish related guidance ahead of 2027 and to consult key stakeholders to ensure comprehensive instructions.