

Sustainability reconfiguration in the EU and the UK— recent highlights

JULY 10, 2025

The sustainability regulatory landscape in Europe is reconfiguring at a rapid rate. Amid heightened anti-ESG sentiments emanating from some quarters, the UK and EU are each working to slash businesses' regulatory burdens by 25%, citing economic competitiveness and growth as urgent imperatives.

In this briefing, we analyze the significant ways in which the sustainability regulatory landscape is shifting in the UK and EU, which present opportunities for the growth ambitions and climate objectives of the public and private sectors to converge.

We address the following topics:

The UK's sustainability re-design – on a growth mission

- Consultation on sustainability reporting standards
- Consultation on transition plans and Call for Evidence on sector transition roadmaps
- Consultation on sustainability assurance

The EU's sustainability omnibus – on a bumpy road to simplification

- Five key implications anticipated from the sustainability omnibus re. the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CS3D)
- Beyond the sustainability omnibus

The UK's sustainability re-design – on a growth mission

The UK's sustainability regulatory landscape is on the cusp of further change, amidst a strengthening narrative that clean energy and the net zero transition is "the economic and industrial opportunity of the 21st century". With the recent launch of the ten-year modern industrial strategy and priority sector plans as well as the commencement of long-awaited government consultations on sustainability reporting, transition plans and voluntary carbon and nature markets, there continues to be momentum for the UK to achieve its Clean Energy Superpower and Growth Missions.

To lay the groundwork for an enhanced regime for sustainability-related financial disclosures, on June 25, 2025, the government kickstarted the first phase of modernising the sustainability reporting framework with three consultations (each closing on September 17, 2025). In this article, we refer to these consultations as: (1) the SRS Consultation; (2) the TP Consultation; and (3) the Sustainability Assurance Consultation.

In the context of these consultations, the government has emphasised that it will do whatever it can to ensure that any future regulation is "simple and easy to navigate". The government's work will be complemented by another

consultation planned later this year that will focus on streamlining the UK's current non-financial reporting framework under the Companies Act 2006. These efforts to reduce regulatory compliance burdens follow a previous announcement regarding plans for an ambitious regulation reform programme to simplify “overly onerous and disproportionate” reporting requirements in the UK.

The SRS Consultation

The government is consulting on the [exposure drafts of the UK sustainability reporting standards \(SRS\)](#), which are slated to serve as the foundation of the UK's future sustainability disclosures regime.

Listed companies and economically significant entities are particularly encouraged to shape the emerging regime through responding to the SRS Consultation. The SRS will require new areas of disclosure and greater depth of reporting, compared to Task Force for Climate-related Financial Disclosures (**TCFD**)-aligned disclosure requirements. Now is a good opportunity for businesses to critically assess the differences and additionalities in the exposure drafts, factoring in the experiences that they may already be gaining in preparing for TCFD-aligned and International Sustainability Standards Board (**ISSB**)-aligned reports in other jurisdictions.

The exposure drafts are based on the ISSB standards, the global baseline around which a growing number of jurisdictions are converging. In the interests of international comparability, the government's six proposed amendments are deliberately light touch to limit the UK's divergence from the ISSB standards.

Subject to the SRS Consultation's outcomes, the government aims to publish the final SRS in autumn 2025 for voluntary use initially. There will be further consultations focusing on the nature and scope of requirements to be introduced in due course to mandate reporting against the SRS. These consultations will be run by the government and the Financial Conduct Authority (**FCA**) in respect of, respectively, economically significant entities that are outside the regulatory perimeter and listed companies.

Businesses should look out for the government's roadmap of any future legal requirements, including details of when the first year of mandatory reporting against the SRS is likely to begin for particular entities.

The TP Consultation and Transition Finance Council Call for Evidence

Transition plans are a highly regarded instrument in the government's net zero transition toolbox and, as stated in the TP Consultation, “transition planning will be central to delivering our number one mission on economic growth”.

The government is now consulting on [implementation routes for transition plan requirements](#). UK-regulated financial institutions, FTSE100 companies and economically significant entities will be particularly interested in responding to the TP Consultation.

The government's manifesto commitment was 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”. However, subject to the consultation outcomes and relevant developments across the UK and internationally, the government's approach to transition plan-related requirements could ultimately differ from its initial commitment.

At this consultative stage, it is not clear how the UK's transition plan disclosure regime will shape up. A wide range of issues are under consideration in the TP Consultation, for example:

- **In-scope entities:** The government is considering redefining the scope but is clear that the focus will include economically significant entities where there is likely a significant investor and public interest. In addition, the FCA has independent powers to set transition plan requirements for companies within its purview.

- **Transition plan content and format:** Issues under consideration include identifying the most important, decision-useful elements of a transition plan (e.g. within the Transition Plan Taskforce (**TPT**)’s disclosure framework) and assessing the sufficiency of transition plan-related requirements in the draft SRS S2 (i.e. the climate-related standard). The government is also interested in whether the benefits of disclosing a standalone transition plan document outweigh the risk of duplication alongside annual reports.
- **Voluntary or mandatory:** Apart from the option of mandating the development and disclosure of transition plans, the government is considering whether to let entities produce transition plans on a voluntary basis and compel those that have not published a plan (or related information) to explain why that is the case.
- **Implementation of transition plans:** The government is considering whether to require implementation of transition plans, and whether market mechanisms would be effective to ensure that companies are delivering on their plans.
- **Alignment to net zero by 2050:** The government is gathering views on designing alignment requirements, including by seeking to identify standards and methodologies that are or could be deployed for target setting and transition planning.
- **Legal risk:** The government is seeking views on the degree of legal risk associated with complying with any future requirements to apply the SRS or disclose transition plans (and related information).
- **Unique concerns:** The government is seeking to better understand the unique concerns arising for multinational businesses and hard-to-abate sectors in the context of transition planning.
- **Climate adaptation and nature:** Views are invited regarding how the government can improve entities’ climate adaptation and resilience planning, as well as their transition to nature positivity.

In terms of next steps, the FCA intends to consult on strengthening its expectations for listed companies’ transition plan disclosures, with reference to the TPT disclosure framework, as part of its planned consultation on proposals to require the use of the SRS by listed companies. At a later stage, the government will launch another consultation on the detail of any future obligations regarding transition plans, including in respect of accountability mechanisms and implications of disclosing commercially sensitive information.

To support effective entity-level transition planning, the government committed to continue to provide clarity on sectoral pathways and the direction of travel for climate policy over the coming years. As recommended by the UK Transition Finance Market Review (**TFMR**), the government is seeking to work with industry to develop more granular sectoral pathways to provide confidence and certainty to issuers and investors.

To that end, the Transition Finance Council (**TFC**) is seeking feedback from industry to inform the development of best practice for sector transition roadmaps (see [Call for Evidence](#) launched on June 25, 2025). Stakeholders who are directly involved in developing or implementing transition solutions within real-economy sectors are particularly encouraged to respond to the TFC’s call for evidence.¹

The Sustainability Assurance Consultation

The government is consulting on [proposals to develop an oversight regime for assurance of sustainability-related financial disclosures](#). The proposals include plans to create a new category of ‘sustainability assurance providers’ and establish a voluntary registration regime for appropriately qualified entities that offer third-party assurance services for sustainability-related disclosures. The government also welcomes early views on whether mandatory assurance requirements should be introduced in respect of company disclosures against SRS.

The proposed regime would recognise assurance providers that are capable of assuring information disclosed against the SRS, European Sustainability Reporting Standards, TCFD and other jurisdictional standards that are aligned to the ISSB standards. The regime is intended to be operated by the Audit, Reporting and Governance Authority (**ARGA**) (to be established), which will have power to take enforcement action particularly in instances of “egregious wrongdoing, strong public interest or suspected greenwashing”. Detailed elements of the regime will be the subject of a future consultation.

¹ Responses to the TFC’s Call for Evidence can be submitted to the TFC by midnight on July 17, 2025. A&O Shearman are pleased to have acted as advisor to the TFMR Secretariat in 2024 and to contribute on the Transition Finance Council. Our article on the TFMR’s report can be found here: <https://www.aoshearman.com/en/insights/inside-the-UKs-transition-finance-market-review>.

The regime should foster increased trust in the UK sustainability assurance market for high-quality engagements. If agreed, the timing of the regime will be subject to Parliamentary approvals and passage of legislative changes.

The EU's sustainability omnibus – on a bumpy road to simplification

The EU's swerve from its original regulatory agenda is palpable across several in-force and proposed legal instruments. The ongoing legislative amendment process initiated by the [European Commission's sustainability omnibus package](#) is a dominant example. The package features bold proposals to cut requirements under the Corporate Sustainability Reporting Directive (**CSRD**) and Corporate Sustainability Due Diligence Directive (**CS3D**), amongst other legislation, and to delay their application.

The legislative process has been, and will continue to be, a bumpy ride. Before the revisions to the CSRD and CS3D can be finalised in an amending directive (the “**Amending Directive**”), the inter-institutional negotiations between the Council and European Parliament need to run its course.

The [Council's negotiating position \(adopted on June 23, 2025\)](#) has proven to go even further than the Commission, while the Parliament is still in the process of forming its own position (which is not expected for another few months at least). Debates within the European Parliament over the coming weeks and months look to be challenging, with a range of views having emerged from across the political spectrum in view of lead Rapporteur Jörgen Warborn's report.

Meanwhile, the Commission's proposed timing delays were fast-tracked through the legislative process and entered into force on April 17, 2025, with a national transposition deadline of December 31, 2025 (the delays push the start of CSRD reporting obligations to 2028 and 2029 for in-scope entities, with notable exceptions, and push the national transposition of CS3D and the first wave of CS3D compliance by one year to July 2027 and July 2028 respectively).

However, further timing delays via the Amending Directive cannot be ruled out. Notably, the Council is seeking to postpone the national transposition of CS3D and the first wave of CS3D compliance by yet another year, to July 2028 and July 2029 respectively.

While the legislative process is far from over, the sustainability omnibus has already sparked a recalibration of businesses' approach to CSRD and CS3D compliance. Adjustments by businesses are also informed by broader factors, such as other regulatory and political developments, the needs and expectations of stakeholders and the adoption of the ISSB standards in a growing number of jurisdictions.

Five key implications anticipated from the sustainability omnibus

(1) Number of entities in scope apparently poised to fall drastically

The Commission proposed to reduce the CSRD's scope by 80%. Going further on the Commission's trajectory, the Council's negotiating position is to limit the CSRD's scope even more to target the very largest undertakings, groups and issuers. Conversely, some actors within and outside of the EU legislature (e.g. a joint statement endorsed by at least 194 organisations as of July 1, 2025) are calling for lower thresholds so as not to exclude large swathes of entities from scope. Evidently, the question of what the scoping criteria for each of CSRD and CS3D should be remains contentious.

Wave 1 entities continue to be subject to the CSRD and the first set of European Sustainability Reporting Standards (**ESRS**), even as those requirements are undergoing revision simultaneously.

(2) Reporting burdens to be significantly reduced under the ESRS

The Commission has emphasised that “the revised ESRS should result in reporting that is focused on strategically important information” and result in companies reporting “less information than they have [reported] when first applying the existing standards”.

Stakeholders should look out for the Exposure Drafts to amend the ESRS which are due to be published by EFRAG for public consultation at the end of July 2025. Lessons learnt from the first wave of CSRD compliance and stakeholder feedback are proving critical for producing the technical advice, which is currently expected by November 30, 2025. EFRAG’s work could, in due course, be modified to take into account changes stemming from the ongoing legislative process involving the Council and Parliament.

In the meantime, to reduce reporting burdens and uncertainty, the Commission intends to introduce a “quick-fix” to the ESRS which is expected to defer / allow omission of certain disclosure requirements for wave 1 entities.

(3) Rethink of approach warranted for value chain engagements

The Commission proposed to adopt a new set of voluntary sustainability reporting standards which will act as a “cap” on information requests: in general, an entity shall not obtain information from certain value chain actors and direct business partners that exceed those new standards. However, the Council’s negotiating position defines the “cap” differently in the context of the CS3D. Businesses that are due to comply with both CSRD and CS3D may need to grapple with the complications resulting from this difference.

Aside from seeking to introduce a statutory right to decline to provide information exceeding the “cap” in certain circumstances under the CSRD, it is notable that the Council is looking to replace the CS3D requirement for a full mapping exercise with a requirement for a risk-based scoping exercise. This change, if enacted, could see businesses exercise more discretion to tailor their compliance approach, informed by their risk appetites.

(4) Transition plan obligations pending clarification

While the CSRD does not require the adoption and implementation of a transition plan, the CS3D requirement is explicit. The Commission proposed light-touch edits to replace the CS3D’s requirement to “adopt and put into effect a transition plan” with a reworded requirement to “adopt a transition plan... including implementing actions”.

By contrast, the Council’s negotiating position involves bolder amendments, for example: introducing a transitional period of two years (July 26, 2029 – July 25, 2031) where the adoption of transition plans is optional; and requiring plans that aim for contributions to, rather than compatibility with, the Paris Agreement and the European Climate Law.

Clearly, the EU is not alone in grappling with the question of how transition plan requirements can be designed to yield widespread decision-useful, comparable disclosures while keeping regulatory burdens proportionate.

(5) Persistent regulatory inconsistencies foreseen across EU member states, including in civil liabilities and penalties

The extent of regulatory fragmentation will depend on various factors, for example how Member States will approach exempting entities from certain obligations. Businesses should also be aware of Member States’ varying approaches to implementation and enforcement, including where regulators may have provided assurances as regards limiting the extent of their supervision and enforcement while the legislative process to finalize the Amending Directive is underway.

In respect of the CS3D, the Commission’s proposal leaves important areas vulnerable to fragmented national transposition, including penalties, civil liabilities, termination as a last resort, stakeholder engagement and monitoring obligations. At present, the Council’s negotiating position affirms the Commission’s proposals to delete the CS3D’s provision for an EU-wide civil liability regime. However, while the Commission proposed to remove the EU-wide

maximum limit on pecuniary penalties, the Council is looking to impose an EU-wide harmonised penalty cap at 5% of worldwide turnover.

Whether these changes will ultimately be enacted in EU law remains an open question to be answered in the inter-institutional negotiation process which can only commence after the Parliament has formed its negotiating position.

Beyond the sustainability omnibus

At the time of writing, a total of six omnibus packages have already been launched, and further packages are in the Commission's pipeline.

In the sustainability sphere, initiatives are underway to revise the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy, the EU Deforestation Regulation (EUDR) and the EU Carbon Border Adjustment Mechanism (CBAM). Following the [EU-UK summit on May 19, 2025](#), the UK and EU have agreed to work towards relinking their Emissions Trading Schemes, which would create conditions for goods originating in the UK or the EU to benefit from mutual exemptions – hence reducing administrative burdens – from their respective CBAMs.

Alongside efforts to simplify the entire EU acquis where necessary, more regulations are set to be introduced with the aim of spurring growth and prosperity across key industries. The EU Clean Industrial Deal, launched in February 2025 alongside the sustainability omnibus, outlined a host of regulations, guidance, schemes and strategies intended to support energy-intensive and clean tech sectors in their growth and decarbonisation. Measures identified in the Deal include a new Circular Economy Act, new voluntary carbon intensity label for industrial products, as well as revisions to the Energy Taxation Directive, energy labelling rules and ecodesign rules.

Minimizing regulatory burdens on businesses is just one of a myriad of drivers for the reorientation of the EU and UK's respective approaches to the climate transition. What is clear is that regulatory levers will continue to be deployed in furtherance of growth, security, competitiveness and cost-cutting goals amidst changing geopolitical and economic realities.

Find out more

Should you have any questions regarding the matters discussed in this article, please reach out to the authors [Matt Townsend](#) (Partner, Global Co-Head Environmental and Climate Law Group) and [Ying-Peng Chin](#) (Senior Knowledge Lawyer) or other members of the Global Environmental and Climate Law Group at A&O Shearman.

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