

CORPORATE & INSTITUTIONAL

Sustainability Markets Insights

Sustainability Regulations

What your business needs to know

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Sustainability Regulations

In this edition, we explore the evolving landscape of sustainability regulations and the ongoing conversations around its impact on reporting and disclosures.

We begin by exploring the UK before moving on

to Europe and the US. We also consider the risks and opportunities for companies, nature-related standards, data gaps and materiality considerations, as well as the role Artificial Intelligence (AI) can play in supporting disclosures.



Navigating the UK's evolving regulatory landscape

The UK Sustainability Reporting Standards (UK SRS) are set to be introduced in the first quarter of 2026,¹ marking a significant shift in the way companies are required to disclose climate and sustainability-related information.

The Government is preparing to implement the UK SRS, a set of guidelines aimed at standardising sustainability reporting for UK businesses. These are to be aligned to the International Sustainability Standards Board (ISSB), which is the standard setter for the International Financial Reporting Standards (IFRS).²

The overarching aim of these standards is to enhance the comparability, transparency and reliability of Environmental, Social, and Governance (ESG) data within the UK's capital markets. UK SRS will implement IFRS standard S1 and S2 and will require companies to disclose sustainability risks and opportunities.

The Financial Conduct Authority (FCA)³ has proposed that the adoption of UK SRS S2 – the standard focused on climate-related disclosures – be made mandatory. In parallel, a ‘comply or explain’ approach is proposed for the UK SRS S1 standard, which addresses general sustainability-related financial information.

This regulatory transition signals the growing maturity of climate reporting practices in the UK. It also reflects increasing demand from institutional investors for high-quality, decision-useful data to inform their investment decisions.

With ongoing debates over the UK's divergence from EU standards and the delayed implementation of certain frameworks (more on this in the next section covering Europe), companies and investors alike face ambiguity regarding future disclosure requirements and compliance expectations.

¹ UK Government - [UK Sustainability Reporting Standards - GOV.UK](#)

² IFRS - [IFRS - IFRS Foundation](#)

³ FCA - [Sustainability reporting requirements | FCA](#)

Although the initial focus of the UK SRS will be on large, 'economically significant' entities, the standards will have far-reaching consequences. Small and medium-sized enterprises (SMEs) should not assume they are outside the scope of these changes.

The ripple effects of the UK SRS will be felt throughout the supply chain, influencing the practices and reporting requirements of SMEs providing products and services to larger organisations.

For example, UK SRS requirements may include:

- **Scope 3 emissions:** Disclosures on the emissions generated by the suppliers of the goods and services provided by the SME
- **Climate risks:** Information on the climate risks associated with the supply chain of the larger organisation
- **Data consistency:** SMEs will need to provide credible, consistent data to demonstrate their climate resilience and be seen as low-risk partners.

Making sense of the EU corporate reporting landscape

The EU was the first region to introduce a package of sustainability regulations designed to drive investments in low carbon activities supporting Europe's transition to net zero. These included the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD). In late 2024, the EU Omnibus Package was tabled to lessen unnecessary administrative burdens that companies face, while at the same time safeguarding the core principles of transparency and accountability.⁴



Key EU proposals and implications

A central suggestion within the Omnibus Proposal is to reduce the number of data points required under the CSRD. The proposal prioritises quantitative disclosures over qualitative ones, with the intention of simplifying compliance obligations for companies.

However, this shift may come at the cost of narrative depth in sustainability reports, potentially changing the way organisations communicate their sustainability efforts and strategies to various stakeholders. The proposals also significantly reduce the number of in-scope entities (less than 10,000) required to disclose under CSRD.

Interaction between CSRD and CSDDD

CSRD does not function in isolation. In practice, companies must also adhere to the stipulations of the CSDDD, which requires companies to identify and address adverse human rights and environmental impacts across their operations and value chains.

The interaction between these two frameworks is significant, as both work together to shape how companies report on material risks and impacts linked to their business activities.

⁴EU Omnibus - [Omnibus I - European Commission](#)

Incorporating nature-related standards and the TNFD in the EU

The Taskforce on Nature-related Financial Disclosures (TNFD) has recommended that the European Sustainability Reporting Standards (ESRS)⁵ nature-related standards – specifically E2 to E5 – be consolidated into a single, integrated standard.

This consolidation aims to lessen the complexity of reporting requirements while maintaining the rigour and integrity of the standards, ensuring

that organisations can report effectively on nature-related matters without unnecessary duplication or confusion.

The five Environmental Standards (ESRS E1 to E5) cover **climate change, pollution, water and marine resources, biodiversity and circular economy**, helping companies understand and disclose their environmental impacts.

The ESRS are mandatory guidelines for companies in the EU to disclose their sustainability impacts, risks and opportunities as part of the CSRD.



Potential data gaps and investor confidence across multiple jurisdictions

Reliable ESG data has become a cornerstone of investment decision-making, as stakeholders seek transparency around environmental impact, social responsibility and governance practices.

While reducing the number of required data points may ease the compliance burden for companies, it introduces the risk of information gaps for investors and banks.

This is particularly relevant for those assessing environmental, social and governance risks in industries with significant environmental exposure.

Such gaps may hinder investors' ability to fully evaluate an organisation's sustainability performance, potentially affecting investment decisions and overall confidence in reported data.

⁵ ESRS - [Draft Simplified ESRS | EFRAG](#)

The materiality process in the UK and the EU reporting frameworks

Materiality plays a pivotal role within both the CSRD and the International Sustainability Standards Board (ISSB) frameworks. Companies are encouraged to use the materiality process to ensure that their disclosures meet stakeholder expectations and are grounded in robust risk management practices.

The ISSB framework being adopted by the UK (SRS) focuses on single materiality, where only

those sustainability matters directly influencing the company's financial performance are disclosed.

In contrast, the EU CSRD introduces a double materiality approach, requiring companies to assess and report on both financial materiality (how sustainability issues affect the company's financial position) and impact materiality (how the company's activities affect the environment and society).

Making sense of the US corporate reporting landscape

The US regulatory landscape is notably complex and fragmented. Businesses and investors must contend with a wide variety of state laws and federal guidelines, each impacting operations and decision-making in different ways.

One of the defining characteristics of the US sustainability regulatory environment is its lack of uniformity. Individual states have adopted their own measures, some supporting ESG initiatives and others opposing them. For example, California's climate disclosure requirements mandate large companies to disclose greenhouse gas emissions and climate-related financial risks.⁶

This divergence compels companies operating across state lines to develop a nuanced understanding of the specific compliance requirements applicable in each jurisdiction.

As a result, uncertainty is heightened for investors, who must assess risks and opportunities in an environment where the rules are neither standardised nor predictable.

Compliance challenges for companies in the US

Navigating the US patchwork of regulations presents significant challenges for businesses, especially for those with national or multi-state operations. The fragmented regulatory approach means organisations must establish comprehensive compliance programmes that account for the nuances of each state's laws, often requiring specialised legal counsel and compliance officers.

This inevitably increases operational costs, as processes and disclosures must be adapted, sometimes repeatedly, to stay in line with changing expectations.

To maintain effective governance and robust risk management, it is essential for companies to monitor regulatory developments at both the federal and state levels. Only by remaining vigilant and proactive can organisations avoid legal pitfalls, manage their reputational risk, and ensure their long-term viability in a complex and evolving commercial environment.

⁶California climate disclosure - [California Corporate Greenhouse Gas \(GHG\) Reporting and Climate Related Financial Risk Disclosure Programs](#)

Impact on ESG ratings

Securing and maintaining high-quality ESG ratings remains crucial for companies, especially in the context of bond issuance and inclusion in leading indices such as the Dow Jones Sustainability Index (DJSI)⁷ and MSCI Index.⁸

There is a real possibility that streamlined reporting requirements could impact ratings unless companies opt to provide voluntary additional disclosures that complement the mandated information.

Companies should therefore consider carefully how they balance regulatory simplification with the need for comprehensive communication.



Investor expectations

In this evolving landscape, the importance of data has grown exponentially for investors. Increasingly, investors rely on accurate, timely and consistent disclosures to assess a company's long-term value, resilience and risk profile.

Companies that fall short by failing to provide robust, accurate and consistent sustainability disclosures risk negative consequences.

Such shortcomings can erode investor confidence, damage a company's reputation and even lead to the withdrawal of capital. On the other hand, reliable sustainability reporting can strengthen stakeholder trust, enhance a company's public image and open the door to broader access to investment and partnership opportunities.



⁷S&P DJSI - [Sustainability - Indices | S&P Dow Jones Indices](#)

⁸MSCI ESG Index - [Sustainability Indexes | MSCI Indexes](#)

Utilising AI and digital tools in sustainability disclosures

The integration of AI and digital tools is expected to enhance sustainability reporting efforts significantly. Emerging AI frameworks are streamlining efficiency, optimising operations and improving data analysis and predictive modelling.

Why AI is a game changer

Speed and scale

AI can scrape, map and cross-reference environmental and climate data from multiple sources almost instantly.

Enhanced insights

Investors can now build a more holistic view of ESG risks and opportunities, improving decision-making.

Improved sustainability reporting

AI can clean, standardise and validate raw data, as well as identify errors and anomalies to ensure its accuracy. This reduces the need for data estimation.

The challenges

Actionable intelligence

Raw data needs context and interpretation to become meaningful for investment strategies.

Reliance on corporate disclosures

Despite AI's reach, some data such as internal emissions metrics or supply chain details still depends on company reporting.

AI hallucinations

Verification is crucial to ensure the accuracy, reliability and trustworthiness of output.



Conclusion

Sustainability reporting is rapidly evolving as jurisdictions integrate ISSB-aligned frameworks into regulation. The UK SRS reflects this shift, positioning sustainability as a core element of business strategy, risk management and financial performance.

Non-listed organisations also face growing expectations from stakeholders, financiers and supply chains to demonstrate credible sustainability practices. For SMEs, consistent disclosures can reduce costs, build trust and improve reputation supporting growth in a low carbon economy.

As frameworks continue to evolve, firms must strengthen materiality assessments and risk processes. AI-enabled tools and proactive stakeholder engagement can help address data gaps.

Overall, robust sustainability reporting can enhance credibility, competitiveness and access to capital.

Your Lloyds Team

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