

Corporate Sustainability Reporting in 2025: Navigating a Shifting Landscape

In the rapidly evolving domain of corporate sustainability, the year 2025 has been identified as a juncture regarding the development of reporting standards and practices. In the context of a growing regulatory complexity, it is imperative for businesses to comprehend the regulatory environment to ensure both **compliance** and **competitive advantage**.

The Changing Face of Global Reporting Standards

The sustainability reporting landscape has undergone significant transformation in recent years. The European Union continues to lead the way with stringent regulatory frameworks, although recent developments suggest a potential recalibration. The Bank for International Settlements' March 2025 report clearly shows that green bond markets have grown almost sixfold since 2018, reaching a market capitalization of \$2.9 trillion. This is partly due to stricter regulatory frameworks.

However, the much-discussed "Omnibus" proposal in the EU indicates a shift toward reducing the reporting burden. As the JPMorgan ESG Wire report dated 21 March 2025 clearly states, negotiations on the European Parliament's sustainability Omnibus proposal are set to begin in April 2025. This proposal aims to delay and modify the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD). The European Parliament is divided on the appropriate balance between regulatory oversight and business flexibility.

Meanwhile, in the United States, the regulatory environment continues to evolve under the Trump administration. The Securities and Exchange Commission has extended compliance dates for its amended fund-naming rule by six months to June 11, 2026 for larger fund groups, while the Environmental Protection Agency has terminated \$20 billion in grants from a green bank program established under the previous administration.

The Rise of Green Bonds: A Market Transformation

The green bond market has undergone remarkable growth and evolution, becoming a central pillar in sustainable finance. The BIS Quarterly Review from March 2025 provides precise data on both market growth and environmental impact.

Market Growth and Structure

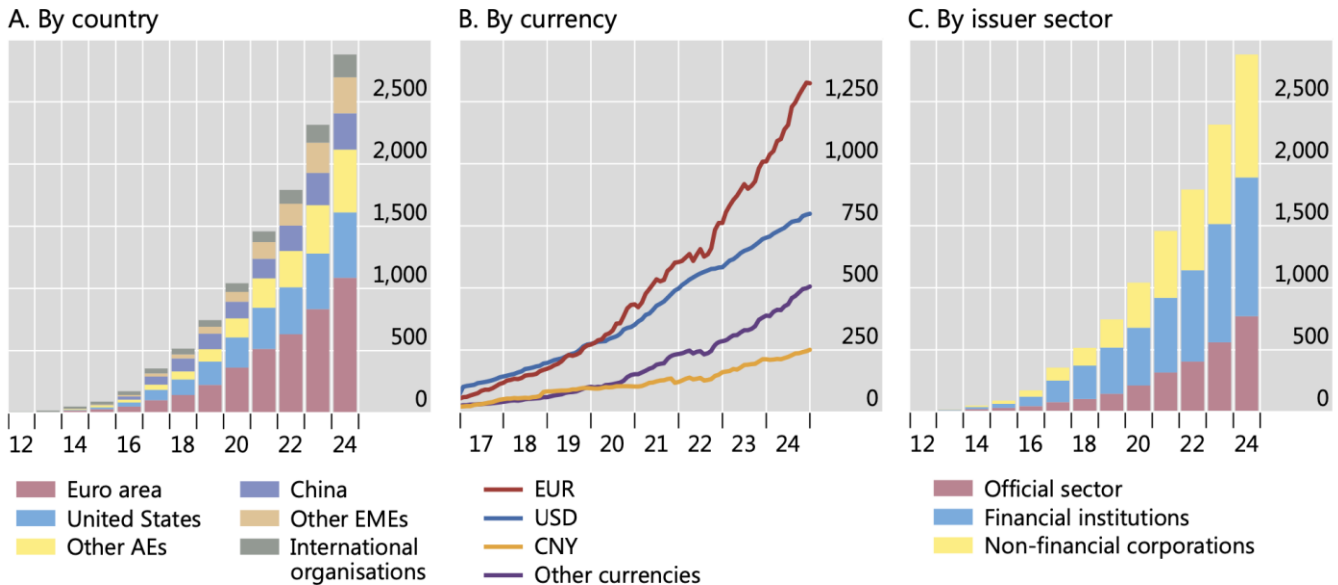
The total value of outstanding green bonds reached \$2.9 trillion in 2024, a significant increase from approximately \$500 billion in 2018. In 2024, the annual issuance of green bonds is estimated at \$700 billion, though the global investment required for climate change mitigation is closer to \$2 trillion per year.

Geographically, the Euro area and the United States account for around 50% of the total outstanding green bonds. Among emerging market economies, China is the clear leader in green bond issuance.

Green bond volumes have increased exponentially¹

In billions of US dollars

Graph 1



¹ Amount outstanding is calculated using total cumulative issuance minus cumulative amount matured as of a given year.

Sources: Climate Bonds Initiative; Dealogic; Environmental Finance Bond Database; S&P Trucost; authors' calculations.

In terms of currency, green bonds are predominantly issued in euros and U.S. dollars, though renminbi-denominated bonds are gaining market share.

Non-financial corporations, including those in carbon-intensive sectors, dominate the green bond market, accounting for an impressive 43% of the total outstanding as of 2024. Financial institutions come next, holding 38%, while the official sector accounts for 19%.

The Green Bond Premium ("Greenium")

The BIS report clearly shows that there is a trading premium on green bonds compared to traditional bonds that share otherwise identical characteristics. This provides a cost benefit to issuers. This premium is most pronounced for bonds issued by investment-grade companies. The premium varies depending on the term structure of the bonds. Two main factors drive this premium: **preference channels**, where investors favor environmentally responsible firms, and **risk channels**, where carbon-intensive companies are seen as default risks.

Policy Correlation and Emissions Impact

The BIS research establishes two critical relationships through regression analysis:

- **Policy-Issuance Correlation:** A one standard deviation increase in aggregate climate policy stringency is associated with approximately 2.4% higher annual issuance of green bonds. Sectoral policies have the strongest correlation, with a one standard deviation increase in stringency linked to nearly 3% more green bond issuance.
- **Emissions Reduction Effect:** Using a panel data set of 736 green bond issuers (991 green bond issues) during 2011-2022, the research shows:

- Scope 1 emissions intensity decreased by approximately 21% on average one year after a firm's first green bond issuance.
- Reductions were statistically significant up to three or more years after issuance.
- Heavy emitters showed the most pronounced improvements, with firms in carbon-intensive sectors achieving significantly lower emissions intensity while firms in other sectors showed smaller reductions.
- Firms in the highest emissions intensity quintile before issuance reduced their emissions significantly, while those in the lowest intensity quintile did not.

It is clear that green bonds act as a credible indicator of broader corporate commitments to emissions reduction, particularly among the highest-impact emitters. By issuing green bonds, companies make it known to investors, regulators and the public that they are not only committed to sustainable practices, but are also actively working to reduce their carbon footprint. This is especially evident in sectors with the highest emissions intensity, where the issuance of green bonds is clearly driving significant improvements in emissions management. Green bonds are a tool for aligning financial incentives with environmental goals. It is hoped that a signaling effect will influence other companies in carbon-intensive industries to adopt similar practices, creating a ripple effect throughout the economy that will drive further reductions in global emissions.

Key Trends Shaping Corporate Sustainability in 2025

1. Regionalization of Standards and Regulatory Divergence

One of the most notable trends is the growing divergence in regulatory approaches across regions. As Deutsche Bank Research noted in their 20 March 2025 report, there has been an escalating politicization of the energy transition, with regulatory stringency showing significant variation across different jurisdictions. This creates a complex landscape for multinational corporations to navigate.

The JPMorgan ESG Wire highlights a notable example of regulatory divergence in digital assets, noting a contrast between the US, which is leading the way in innovation, and the UK, which is lagging behind, while the EU is making progress. This pattern is evident across multiple sustainability domains.

2. Evolution of Emissions Reporting Requirements

The Science Based Targets initiative (SBTi) is undergoing a substantial revision process that will significantly influence how companies approach emissions targets. According to a Kepler Cheuvreux analysis dated 18 March 2025, the SBTi's proposal includes the following elements:

- Alignment with maintaining a 1.5-degree temperature increase across all scopes.
- Different requirements for "Category A" firms (large companies in all countries and medium companies in high and upper-middle income countries) versus "Category B" firms (medium-sized companies in lower-middle and low-income countries and small companies in all countries).
- Tightened timeframes for near-term targets from 5-10 years to up to five years.
- Greater flexibility in scope 3 emissions reporting.

Particularly noteworthy is the proposed shift from reduction requirements to "alignment" of scope 3 emissions-causing activities with net-zero trajectories. This could potentially allow companies to set targets on the share of low-carbon products rather than absolute emissions reductions.

3. Increased Scrutiny of Green Claims

As scrutiny of greenwashing intensifies, companies are under increasing pressure to substantiate their environmental claims, particularly in relation to their sustainability practices. The Science Based Targets Initiative (SBTi) has proposed changes to strengthen the credibility of zero-carbon electricity claims, particularly in the context of Scope 2 emissions. These proposed changes require that

- Zero or lower carbon energy claims must be substantiated by physical traceability of the energy source.
- Companies will be expected to use contractual instruments that ensure geographic and temporal matching "to the extent practicable" to ensure that the energy sourced is consistent with the claimed carbon reduction efforts.
- Companies will be required to report annually on the contractual instruments they use to procure energy, providing further transparency in their sustainability reporting.

In the context of green bonds, the BIS report raises concerns about the potential for "greenwashing" in the "use of proceeds" type of green bond. While this structure allows funds to be allocated to specific environmental projects, it risks undermining the authenticity of the green bond's impact if not carefully tracked. The report highlights that when proceeds are not specifically tied to a defined green project, it becomes difficult to determine whether the funds are truly supporting environmentally beneficial activities or simply being used for general corporate purposes. A loophole may open that could lead to misleading claims about a company's environmental efforts.

Given these concerns, there is a growing call for more rigorous verification processes and transparent impact reporting for both corporate claims and green bond issuance. Effective monitoring and clear, accurate reporting will be essential to restore confidence in corporate sustainability claims and ensure that green investments deliver the environmental benefits they promise

4. Integration of Carbon Dioxide Removal (CDR)

For the first time, the SBTi proposal introduces a role for carbon removal in addressing residual emissions between the target base year and the net zero target year. The proposal:

- Limits the use of CDR in the short term to Scope 1 emissions (which are a small minority for most companies outside of utilities, heavy industry and transport services)
- Proposes two potential approaches: either requiring companies to set specific short term carbon removal targets with increasing percentages each year, or allowing flexibility to address residual emissions through either abatement or removal without specific targets.

5. Focus on Physical Climate Risk

Insurance and risk modelling are increasingly incorporating climate-related impacts. According to the findings of Deutsche Bank's Climate, Security and Technology Day, climate change is "having a significant impact on risk modelling in the insurance industry", with specific impacts including

- Reassessment of risk profiles (extended tails or shifts in overall distributions)
- Increased prominence of secondary perils such as wildfires and floods - Insurance coverage gaps, with only about "20-40% of losses insured" in some recent catastrophes
- Challenges in pricing risk appropriately due to regulatory constraints (e.g. price caps).

Impact on Corporations and Investors

The evolving trends create both challenges and opportunities for businesses and investors.

Challenges

A key challenge is the complexity of compliance. Companies have to comply with different regulatory requirements depending on their size, location and sector. This creates a highly complex compliance landscape and requires the development of sustainability strategies and reporting mechanisms to meet regulatory requirements.

Another challenge is the increasing demand for more granular data, particularly on Scope 3 emissions and supply chain impacts. Companies need to improve their data collection and management systems to meet these demands. As outlined in the SBTi proposal, companies will be required to assess and improve the traceability of their emissions-intensive activities over time. To meet this requirement significant investment in a robust data infrastructure is needed to ensure accurate and transparent emissions reporting.

Uncertainty in long-term planning is also a significant challenge. Regulatory instability, such as the varying approaches to the Inflation Reduction Act (IRA) under the Trump administration, complicates long-term sustainability planning. The Deutsche Bank report highlights that concerns about potential cuts to IRA subsidies have slowed new investment, although existing projects continue to move forward.

Finally, the need for third-party verification and assurance of sustainability claims has increased, adding both financial and operational complexity. The SBTi's proposal to require Category A companies to obtain (limited) third-party assurance on their base-year GHG emissions inventory adds another layer of cost. As more companies face similar scrutiny, the cost and complexity of these verification processes is expected to increase, further straining resources.

Opportunities

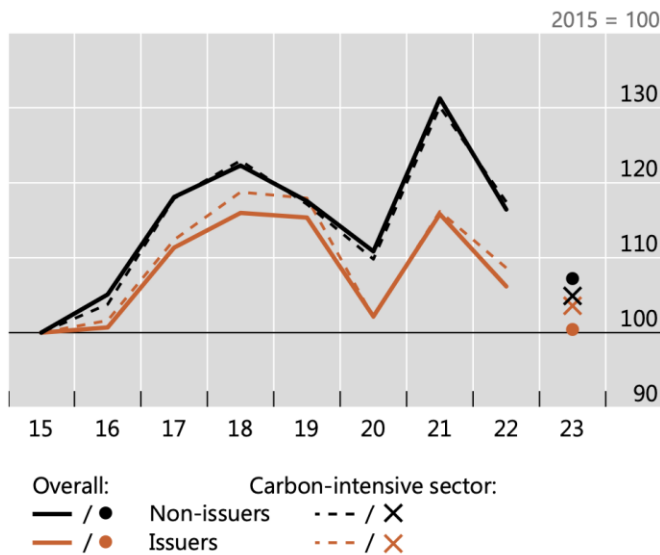
Despite changes in the regulatory landscape, green finance continues to offer significant advantages. The BIS report highlights the concept of the "greenium", a trading premium for green bonds relative to conventional bonds with otherwise identical characteristics. This premium provides a financial benefit to issuers, particularly large investment grade corporates. The report emphasizes that this greenium is most significant for issuers with higher credit ratings, allowing them to secure more favorable financing conditions in the market.

The BIS research also shows that the issuance of green bonds leads to measurable emission reductions, particularly for large emitters. Empirical evidence shows that for many companies, green bond issuance is followed by tangible progress in reducing emissions. This is particularly true in carbon-intensive sectors, where companies can use green bonds to signal their environmental commitment and demonstrate meaningful improvements in their sustainability performance.

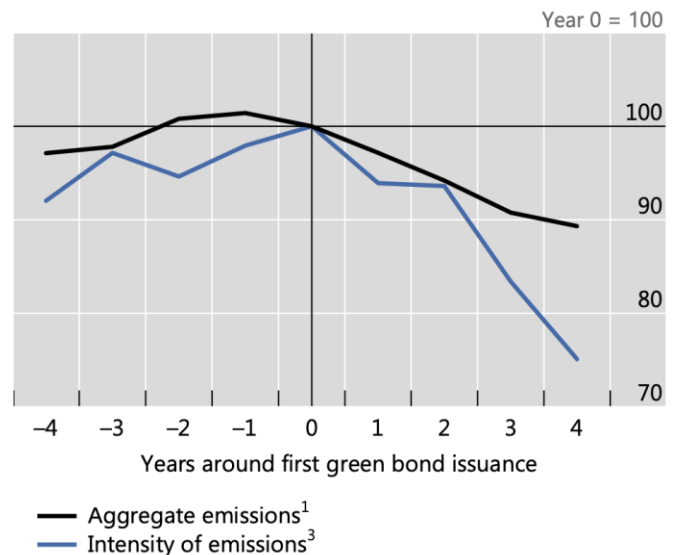
Corporate green bond issuance and greenhouse gas emissions

Graph 6

A. Aggregate emissions, by issuer type¹



B. Emissions following initial green bond issuance²



¹ Aggregate of scope 1 emissions of a consistent sample of firms. For 2023, data are extrapolated using the subset of firms whose emissions data are already available (dots and crosses). ² Evolution of the aggregate of scope 1 emissions of a consistent sample of firms around their first year of green bond issuance. ³ Intensity of emissions as measured by the ratio of total scope 1 emissions to total revenue of firms in the consistent sample.

Sources: Climate Bonds Initiative; Dealogic; Environmental Finance Bond Database; S&P Trucost; authors' calculations.

Understanding the different regulatory requirements in different jurisdictions can enable companies to manage compliance costs more effectively. The BIS research shows a positive correlation between policy stringency and green bond issuance volumes, providing an opportunity for companies to focus their green bond issuance efforts in jurisdictions with stricter climate policies. This strategic approach allows companies to maximize the impact of their green financing while minimizing compliance costs, and positions them to capitalize on the regulatory incentives available in regions with stronger sustainability mandates.

Staying Ahead: Strategies for Corporate Leadership

In today's rapidly evolving business landscape, forward-thinking companies must adopt proactive strategies to maintain their leadership in sustainability and environmental stewardship. One of the most effective approaches is the strategic use of green bonds. BIS research shows that green bonds not only offer potential financial benefits, but are also associated with tangible emissions reductions. Particularly relevant for organizations in carbon-intensive sectors, the issuance of green bonds can have a significant impact on both financial results and sustainability objectives. The integration green bonds into their financing strategies, signals commitment to sustainability while harvesting the associated financial benefits.

Another key strategy for maintaining leadership is to improve supply chain engagement, particularly in relation to Scope 3 emissions. With the growing emphasis on supply chain sustainability and the proposed changes to the SBTi, companies must now adopt a more robust approach to engaging their suppliers. The new proposal mandates net-zero alignment targets for Tier 1 suppliers, marking a shift from voluntary to mandatory engagement.

Investing in an advanced data infrastructure is also essential to maintaining sustainability leadership. As the demand for increasingly granular and accurate sustainability data grows, companies must prioritize investment in data collection, management and verification systems. These investments will enable companies to make more informed, data-driven decisions, while ensuring transparency and enhancing the credibility of their sustainability reporting.

It is also imperative that companies diversify their sustainability initiatives to avoid over-reliance on any single strategy. For example, the growing reliance on unbundled renewable energy certificates (RECs) poses certain risks, particularly as the regulatory framework evolves. Data from CDP and Kepler Cheuvreux shows that a significant proportion of renewable energy claims in 2023 will be attributed to unbundled RECs, highlighting the need for a more diversified approach. Companies should seek to complement RECs with additional strategies to achieve comprehensive and resilient sustainability outcomes.

Finally, maintaining a dynamic relationship with standard-setting bodies such as the SBTi is critical to staying ahead of regulatory trends and aligning corporate practices with emerging sustainability standards. Active participation in consultations and discussions with these organizations provides companies with valuable insight into upcoming changes, as well as the opportunity to influence the development of future requirements. With the current SBTi consultation running until 1 June 2025, companies have a unique opportunity to shape the trajectory of global sustainability standards and solidify their position as leaders in the transition to a low-carbon economy.

Call to Action: Leading in an Era of Transition

The core drivers of sustainability - climate change, resource scarcity and social inequality - remain urgent, regardless of the changing regulatory landscape.

First, companies need to maintain ambitious targets. Even as regulatory requirements evolve, the scientific imperatives behind climate targets remain unchanged. The WMO's State of the Global Climate 2024 report underscores the growing urgency of this challenge, confirming that 2024 is likely to be the first year to exceed 1.5°C above pre-industrial levels, with CO₂ concentrations reaching 420 parts per million - the highest in 800,000 years. Such data reinforce the need for continued progress towards ambitious environmental goals, regardless of external regulatory pressures.

Equally important is a commitment to transparency. In an environment where regulatory frameworks can fluctuate, clear and transparent reporting is essential. Transparency not only builds trust with investors, customers and other stakeholders, but also drives long-term market value. For example, the EU Platform on Sustainable Finance reports that taxonomy-aligned capital expenditure (CapEx) by large listed European companies will reach €250 billion in 2023, a 34% increase on the previous year, indicating a clear and growing market interest in sustainability investments rooted in transparency.

Companies should also integrate sustainability considerations into their governance structures. By embedding sustainability into board-level decision-making, companies can ensure that these critical issues receive consistent attention, regardless of the changing regulatory landscape. This governance shift ensures that sustainability is not just a regulatory checkbox, but a core element of corporate strategy and resilience.

Finally, cross-sector collaboration is essential. Industry-wide initiatives can establish common standards and best practices that transcend regulatory boundaries, providing companies with guidance and cohesion in an otherwise fragmented regulatory environment. Such collaborative efforts are critical to aligning diverse stakeholders around common sustainability goals and ensuring that progress remains steady despite regulatory changes.

The corporate sustainability leaders of tomorrow will be those who see the current transition as an opportunity to reaffirm, not diminish, their commitments. By continuing to focus on material sustainability issues, communicating transparently with stakeholders and innovating in sustainable practices, companies can navigate current uncertainties and emerge as long-term leaders. In a world of shifting standards, the ultimate goal remains clear: to create businesses that deliver sustainable value while addressing the pressing environmental and social challenges of our time.