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Environmental Alert

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EU and US sustainability reporting and due diligence updates

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Global companies should reassess their sustainability strategies in response to evolving reporting and due diligence requirements.

What's the impact?

- EU and US sustainability reporting and due diligence rules are rapidly evolving, with key EU deadlines postponed and US rules in flux.
- California and New York are advancing state-level climate disclosure laws, affecting companies with market exposure in those states.
- Global companies must proactively assess regulatory exposure and legal challenges to update their sustainability strategies.

Global companies with operations, products, or services offered in the European Union (EU) and the United States (US) face rapidly changing legal landscapes related to sustainability reporting and due diligence. From postponed reporting timelines and shifting corporate disclosure obligations to patchwork state rules, regulators and stakeholders are reshaping expectations for reporting, due diligence, voluntary disclosures, and value chain engagement.

Companies with products, services, or value chains tied to EU or US markets should be aware of this changing landscape and carefully consider the impact of such developments on their sustainability strategies and reporting.

EU update: New timelines and obligations for sustainability reporting and due diligence

On April 3, 2025, Members of the European Parliament (MEPs) voted to postpone the implementation dates for corporate sustainability due diligence and reporting requirements. Postponing these implementation dates is the first step towards adopting the European Commission's (EC's) "Omnibus I" simplification package. The Omnibus I package proposes significant adjustments to the EU's pending sustainability reporting and corporate due diligence requirements to reduce compliance burdens and bolster the competitiveness of EU businesses. Following the vote, the implementation dates for the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD) are officially delayed.

DELAYED APPLICATION OF REPORTING REQUIREMENTS

- The CSRD compliance timeline has shifted for many businesses, with two-year compliance delays being given to companies that fall into the second and third compliance waves[1] under the legislation.
- Large companies with more than 250 employees— second-wave entities—will now be required to report on social and environmental measures starting in 2028, covering the 2027 financial year.
- Listed small-and medium-sized enterprises (SMEs) — third-wave entities—will follow one year later, in 2029.

CORPORATE DUE DILIGENCE DIRECTIVE: EXTENDED TIMELINE, BROADENED RESPONSIBILITY

- The CSDDD will also see postponed implementation, beginning with a one-year delay, until July 26, 2027, for EU Member states to transpose CSDDD rules into national law.
- Companies in the EU with over 5,000 employees and €1.5 billion turnover and non-EU companies with similar EU turnover must comply with CSDDD requirements by 2028.
- EU entities with over 3,000 employees and €900 million turnover and non-EU companies matching that threshold, also need to comply by 2028.

[1] First-wave companies are those that were already reporting under the NFRD (i.e., large, listed companies and public-interest entities with over 500 employees). These still need to report under CSRD as planned for FY2024 (in 2025).

More changes to CSRD and CSDDD are expected in the coming months as the European Parliament's Legal Affairs Committee considers the remaining recommendations in the EC's Omnibus I package, including proposals to redefine and dramatically simplify CSRD and CSDDD obligations. To expedite the process, the European Parliament is using an urgent procedure, which the EC endorsed on March 26, 2025.

U.S. update: Federal climate rule retreats, states press ahead

In the US, regulatory developments at federal, state, and local levels are impacting reporting, disclosure, and due diligence considerations.

SEC WITHDRAWS DEFENSE OF CLIMATE-RELATED DISCLOSURES RULE

In a major policy shift, the Securities and Exchange Commission (SEC) announced on March 27, 2025, that it will no longer defend its March 2024 climate disclosures rule, which required registrants to provide certain climate-related information in their registration statements and annual reports, including disclosures on climate-related risks and greenhouse gas (GHG) emissions. As an explanation for the agency's decision, Acting Chairman Mark T. Uyeda stated:

> *"The goal of today's Commission action and notification to the court is to cease the Commission's involvement in the defense of the costly and unnecessarily intrusive climate change disclosure rules."*

SEC's final climate disclosures rule has faced multiple legal challenges since its publication and is currently under consolidated review in *Iowa v. SEC*, No. 24-1522, before the Eighth Circuit. Following a vote and decision to withdraw its defense of the climate disclosures rule, the SEC notified the Eighth Circuit that the agency was relinquishing its opportunity for oral argument.

State-level momentum: California and New York move forward with required climate reporting

California is moving forward with implementing required climate-related reporting and disclosures through two major laws enacted in 2023:

- The Climate Corporate Data Accountability Act (SB 253): Requires large companies doing business in California to publicly disclose full GHG emissions, including Scopes 1, 2, and 3.
- The Climate-Related Financial Risk Act (SB 261): Mandates biennial reporting of climate-related financial risks aligned with the Task Force on Climate-related Financial Disclosures (TCFD).

As SB 253 and SB 261 apply to companies doing business in California, compliance obligations under these laws can extend to businesses with California market exposure. While SB 253 and 261 have been legally challenged, with the US Chamber of Commerce and other business groups arguing that these laws are unconstitutional, a California district court dismissed most of such claims and allowed their implementation despite ongoing litigation. The California Air Resources Board (CARB), the state agency tasked with implementing SB 253 and SB 261, is expected to issue finalized rules to implement the laws by **July 1, 2025**.

New York is also considering legislation that would impose disclosure and reporting requirements like California's on companies doing business in the state. In particular:

- Senate Bill 3456, the Climate Corporate Data Accountability Act: Pending before the state's Senate Finance Committee, would, if adopted, mandate business transparency in GHG emissions, requiring annual reporting and third-party verification of Scope 1, 2, and 3 emissions.
- Senate Bill 3697, Climate-Related Financial Risk Disclosures: A companion bill to Senate Bill 3456, pending before the state's Senate Environmental Conservation Committee, would, if adopted, require entities with revenues over $500 million to biennially report on climate-related financial risks aligned with the TCFD framework.

Key takeaways for global businesses

The evolving landscape underscores the need for companies offering products or services in the EU or US to proactively assess and update their sustainability strategies. Specifically, companies should:

- **Map Regulatory Requirements**: Determine jurisdictional exposure based on revenue thresholds, employee count, supply chain presence, and product placements .
- **Assess Reporting Strategy:** Consider whether data capture processes and sustainability reporting must align with any specific standards or frameworks, such as TCFD or the European Sustainability Reporting Standards.
- **Formalize and Enhance Sustainability Programs**: Implement governance structures, controls, and assurance practices for sustainability strategies that are well-defined for applicable reporting, especially processes for data collection, management, and verification.
- **Supply Chain Due Diligence**: Build or strengthen due diligence systems for human rights, labor laws and environmental impacts across operations.
- **Monitor Legal and Regulatory Developments**: Stay informed of the legal developments in jurisdictions where you have operations, products, services, or supply chains.

How we can help

Our multidisciplinary team works with global clients to navigate the expanding and varied landscape of sustainability and due diligence regulations and legal developments. We provide:

- Guidance on sustainability strategy setting, with full consideration of evolving or competing risks and stakeholder requirements.
- Compliance mapping across jurisdictions to clarify mandatory reporting requirements.
- Assistance with structuring sustainability governance, programs, and processes, including considerations for risk assessments, due diligence, and supply chain management.
- Governance, policy, and process support, with effective strategies for balancing regulatory requirements and stakeholder expectations.
- Support with stakeholder engagement, and guidance on voluntary reporting, customer and supplier agreements, and resolution of complex disputes.

Now is the perfect time to ensure that your sustainability strategy prepares you for upcoming regulatory requirements that may apply to your business and operations. An effective sustainability strategy will also help you maintain a positive brand reputation, navigate reputational and legal risks, and support business resiliency. Contact us to explore how we can assist your business with responding confidently and effectively to these developments.

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