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Navigating 2025: The Intersection of Sustainability and Pragmatism

How political trends could shape policy decisions and regulatory frameworks this year

In 2024, the world witnessed a significant wave of elections across more than 70 countries, including in major economies such as India, the United Kingdom, the United States and the European Union.

Recent elections have led to a more fragmented global political landscape. Notably, in over 80% of democracies that held elections, incumbent parties lost seats or vote share, potentially prompting some governments to reconsider their policy priorities.[1] While voters in some countries (e.g., the U.K.) empowered their governments to place sustainability at the forefront of their policy agendas, others (e.g., the EU) demanded a more balanced approach. Meanwhile, in the U.S., voters prioritized cost-of-living concerns.

In our publication last year, "Building Momentum: 2024 Outlook for ESG Regulation," we highlighted the impact of rapidly evolving regulatory frameworks on sustainable investing. While the regulatory landscape remains complex, the discourse around financing the transition has moved to a more "existential" level, with governments balancing sustainability with other priorities, including competitiveness, energy security/lower prices and defense.

Therefore, 2025 marks the beginning of a new era, one that will require pragmatism to fund the transition. In this *Insights*, we aim to capture the impact of these political shifts on sustainable finance frameworks and explore how the changes influence policy directions. As active managers, we diligently monitor the potential effects of such shifts on our investments, ensuring we are well prepared to support clients through policy and regulatory changes.

We have identified three trends that we believe could shape the sustainable finance policy and regulatory landscape in 2025:

1. **Policymakers juggle sustainability with competitiveness, energy security and defense**
2. **Transition finance takes the spotlight to drive genuine decarbonization efforts**
3. **Maturing regulations demand adaptability amid ongoing uncertainty**

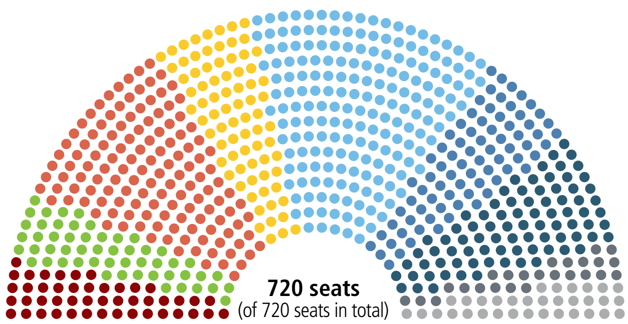
[1] Source: ABC News, November 18, 2024, https://abcnews.go.com/538/democrats-incumbent-parties-lost-elections-world/story?id=115972068.

1. Policymakers juggle sustainability with competitiveness, energy security and defense

European Union

Last July's European Parliament elections led to the center-right's European People's Party (EPP) Group gaining significant ground and left-wing and green parties losing influence. In our view, this shift suggests an emphasis on business-centric policies, focusing on competitiveness and regulatory simplification in coming years.

IN EU ELECTIONS, THE EPP RETAINED THE LARGEST NUMBER OF SEATS, BUT FAR-RIGHT PARTIES MADE THE BIGGEST GAINS



Group	Seats	Change	Seats %
European People's Party	188	+12 ▲	26.1%
Socialists and Democrats	136	-3 ▼	18.9%
Patriots for Europe	84	+35 ▲	11.7%
Conservatives and Reformists	78	+9 ▲	10.8%
Renew	77	-25 ▼	10.7%
Greens	53	-18 ▼	7.4%
Left	46	+9 ▲	6.4%
Europe of Sovereign Nations	25	0	3.5%
Nonaligned	33	-29 ▼	4.6%

Source: "Poll of Polls — European Election results, polls and election news", *POLITICO*.

Despite political shifts, we believe Ursula von der Leyen's leadership will maintain the Green Deal's momentum, with increased emphasis on industrial competitiveness as suggested by the Mario Draghi report.[2] Geopolitical instability and regional volatility underscore the need to reduce energy costs and bolster security, supporting energy transition efforts. However, funding decarbonization remains challenging, particularly amid political unrest in key EU budget contributors such as France and Germany, as member states are projected to collectively increase defense spending by €700 billion to €800 billion between 2022 and 2028.[3]

While we are unlikely to see a rollback of existing sustainability policies, it is likely that flexibility in the implementation of some of those policies, as seen with the delay of the Deforestation Regulation, will be introduced. Other compromises may have to occur on controversial rules, including the ban on sales of internal combustion engines by 2035, and the negotiation of the EU's current 2040 net-zero target.

The new Commission recognizes the reporting burden from inconsistencies in the sustainable finance framework and its potential impact on European companies. With a mandate to enhance competitiveness, the Commission will aim to streamline sustainability reporting and due diligence requirements. However, we believe there is insufficient focus on aligning the Corporate Sustainability Reporting Directive (CSRD) with the International Sustainability Standards Board (ISSB). Specifically, the forthcoming EU sector-specific standards should align with the Sustainability Accounting Standards Board (SASB) to reduce the reporting burden for globally operating companies.

Incoming EU policymakers will also have to tread carefully in their approach to trade policy, and leverage cooperation with other regions where it makes sense from sustainability and energy security perspectives. As suggested by the Draghi report, the EU is likely to focus on developing domestic capacity for technologies where there is a strategic case to do so (such as for batteries and wind turbines), and leverage other regions' existing technologies (like China's solar panels) to lower energy prices and achieve the transition to net zero. Clarity on how the EU expects to deal with these new dynamics is expected in its Clean Industrial Deal, to be published in the first quarter of this year.

[2] Source: "The future of European competitiveness", European Commission, September 2024.
[3] Source: "The future of European defense and security", McKinsey, February 15, 2024.

United Kingdom

In the absence of a likeminded partner in the U.S., we anticipate more cooperation on trade and sustainability with the U.K. under the new Labour government, which secured a strong mandate to drive the transition to net zero. The U.K. is positioning itself as a global climate leader through ambitious commitments made at the COP29 conference (read our *CIO Weekly Perspectives*, "COP29: Show Me the Money!"), and the launch of the National Wealth Fund to stimulate clean energy investment. More concrete actions will be announced with the U.K.'s 2035 Industrial Strategy Action Plan this year.

Asia-Pacific

While a number of elections took place in the Asia-Pacific region in 2024, including a snap election in Japan, we expect continued momentum on sustainability, as shown by the increase of sustainability reporting frameworks, green and transition taxonomies, industrial policies and carbon markets. Carbon pricing mechanisms, such as the EU's Carbon Border Adjustment Mechanism (CBAM), are reshaping trade dynamics and forcing Asian policymakers to enhance national carbon markets and align environmental standards to the EU's.

United States

In the U.S., the recent Republican sweep of federal elections has given President-elect Donald Trump the potential capability to reverse existing climate policies. The Inflation Reduction Act (IRA) faces possible repeals, especially in consumer clean energy credits, although initiatives with broad adoption, such as domestic manufacturing, carbon capture, hydrogen and nuclear power, may be approached with caution. No Republicans voted for the law, aimed at boosting clean technology investments in the United States. Yet clean technology developers and manufacturers are flocking to states that voted for Trump in 2020. These states have reaped over half of the $387.8 billion of announced investments in cleantech manufacturing and deployment since the IRA passed.[4]

As seen in his last term, President Trump's deregulatory effort will likely include rolling back many Environmental Protection Agency (EPA) regulations. While the two parties agree little on how to move forward with sustainability policies, one matter where agreement might be reached is the introduction of the "Prove It Act," which would help assess whether any carbon-pricing plans are needed to protect the competitiveness of U.S. industrial goods.

Global Momentum Continues

Despite these political shifts, we believe the economic reality of the energy transition, driven by decreasing costs of renewable technologies, achieving energy self-sufficiency and increasing global demand for sustainable energy solutions, supports the global momentum of climate policy, albeit with a more pragmatic tilt.

[4] Source: "Why cleantech is booming in GOP-led states", Cipher News, October 30 2024.

Policymakers Juggle Sustainability With Competitiveness, Energy Security and Defense

Key Events/Developments

Topic	Jurisdiction	Initiative	Timeline
Industrial Policy	EU	Clean Industrial Deal publication	• Q2 2025: First 100 days on new EU Commission
	Japan	Japan's Green Transformation Policy (GX)	• 2025: Ongoing implementation of fiscal and policy measures
	U.K.	2035 Industrial Strategy Action Plan publication	• Q1-Q2 2025: Following public consultation in 2024
	U.S.	Inflation Reduction Act (IRA) changes	• Q4 2025: Budget Reconciliation Process • TBC: New rules published in the Federal Register post-May 2024 can be excised under the Congressional Review Act
Carbon Market Adjustment Mechanisms (CBAMs)	Australia	Australia's Carbon Leakage Review	• 2025: Government to publish policy decisions following public consultations in 2023 and 2024
	China	Emissions Trading System (ETS)	• 2025: Implement work plan to include cement, steel and electrolytic aluminium industries
	EU	EU CBAM implementation	• Q4 2025: Commission report on expanding scope to indirect and transport • Present to Dec. 31, 2025: Transitional phase • Jan. 2026 and onward: Full implementation of CBAM
	Japan	Japan National emissions Trading System (ETS)	• 2026: ETS to become mandatory. It has already soft-launched as voluntary
	Taiwan	Taiwan Carbon Fee	• Mid-2025: Taiwan to finalise details of mechanism
	U.K.	UK CBAM adoption	• 2025: U.K. government to provide details on the proposal • Implementation by January 2027
	U.S.	Providing Reliable, Objective, Verifiable emissions Intensity and Transparency (Prove It) Act	• 2026: Department of Energy to publish carbon intensity study on U.S. products
Deregulation	EU	Review of 2035 Internal Combustion Engines (ICE) ban	• 2025: Policymakers to discuss potential delay or other changes in the context of the 2026 review clause
		Negotiation of 2040 Net Zero target	• 2025: New European Commission to publish legislative proposal
	U.S.	Rollbacks on Environmental Protection Agency (EPA) rules and potential revocation of state power to regulate car emissions (e.g. California)	• 2025: Next steps TBC

Source: Neuberger Berman.

2. Transition finance takes the spotlight to drive genuine decarbonization efforts

Policymakers are converging on the understanding that achieving real-world decarbonization necessitates directing capital toward companies in hard-to-abate sectors. This requires investors to employ a suite of forward-looking climate metrics to identify transition candidates—while actively engaging and exercising their voting power—to facilitate the companies' transition to net zero. This approach underscores the role of active management while revealing the limitations of passive investing strategies, particularly in the context of EU Climate Benchmarks index funds.

Despite efforts by the Glasgow Financial Alliance for Net Zero (GFANZ) to revamp passive climate transition funds with new "transition-informed funds," the complexities of investing in the transition demand a level of expertise and active involvement that passive vehicles are inherently ill-equipped to provide.[5]

This recognition of the role of active engagement is mirrored in recent regulatory initiatives designed to harness the potential of transition funds. In the U.K., the introduction of the SDR "Improvers" label aims to identify and support funds investing in companies with the potential to transition. Similarly, the EU's implementation of the European Securities and Markets Authority (ESMA) Names Rule establishes specific criteria for transition funds, attempting to ensure they make a genuine contribution to decarbonization efforts.

From Green to Transition Taxonomies

Taxonomies, initially designed to assess the "greenness" of investments, are now being repurposed to evaluate a company's current or future alignment with net zero. The Singapore-Asia Taxonomy, developed by the Monetary Authority of Singapore in 2023, pioneered the introduction of a transition category aimed at phasing out hard-to-abate sectors. Meanwhile, the EU Taxonomy is increasingly becoming a forward-looking tool for investors, focusing on capital expenditure alignment from climate adaptation and mitigation efforts rather than revenue alignment to identify companies that offer transition potential to net zero.

While approaches vary—principles-based versus prescriptive—and activities differ across taxonomies, efforts are underway to bridge these gaps. The China-EU Common Ground Taxonomy (CGT) facilitates comparability, and the recently introduced Multi-Jurisdiction Common Ground Taxonomy (M-CGT) extends this framework to include the Singapore-Asia Taxonomy. Within the ASEAN bloc, member countries have also developed national taxonomies based on the ASEAN Taxonomy, featuring a traffic light system to indicate different transition statuses.

Efforts to Define Transition Finance and Set Guardrails Against Greenwashing

Establishing principle-based guardrails for what constitutes transition finance is essential for instilling investor confidence in effective capital allocation. Last year, the U.K. launched its Transition Finance Market Review (TFMR) to explore the financial instruments and tools available for funding the transition. By establishing a principles-based definition of transition finance, the U.K. aims to channel more funding toward transitioning companies while preventing greenwashing.

The Institutional Investors Group on Climate Change (IIGCC), with contributions from Neuberger Berman and peers, provided feedback to the TFMR and proposed two foundational principles for transition investments: intentionality and accountability. Throughout 2025, the U.K. government will announce concrete actions to implement the feedback gathered during the TFMR process, potentially building on the IIGCC's definition. As a first step, it will launch the Transition Finance Council to act as an accountability mechanism for the review's recommendations.

Focus on Transition Plans

Global investors recognize that effective transition plans should articulate a detailed vision and strategy for achieving long-term emission reduction goals. To bolster the credibility of these plans, policymakers are developing minimum standards for companies. The U.K.'s Transition Plan Taskforce has pioneered guidance, now incorporated into the ISSB framework, forming part of the global baseline for sustainability reporting. At COP29 we saw the launch of the International Transition Plan Network (ITPN) with the objective of advancing global norms for private sector transition plans. Beyond climate considerations, the Taskforce on Nature-related Financial Disclosures (TNFD) is crafting similar standards for nature-focused transition plans. It is anticipated that climate- and nature-focused guidance will ultimately converge, reflecting the nexus of these issues.

[5] For more information, see The Limitations of Passive Investing to Achieve a Net-Zero Outcome.

With the increasing likelihood of missing the 1.5°C Paris Agreement goal, raising awareness about climate adaptation and securing the necessary funding for these efforts has become critical. However, current adaptation efforts remain insufficient, highlighting the importance of the financial system in managing the associated physical climate risks, and mobilizing capital to support the necessary investment. Transition finance is essential for developing innovative technologies and infrastructure while enhancing resilience, especially in emerging economies. The Network for Greening the Financial System (NGFS), in its Conceptual Note on Climate Adaptation, emphasized the need for policymakers to integrate climate risks into macroeconomic policy and advance transition planning to boost adaptation flows.

Emphasis on Real-World Decarbonization

As active investors, we support the emphasis on forward-looking objectives, which, combined with investor stewardship, can drive real-world decarbonization. While traditional metrics like carbon footprint and intensity are useful, they have limitations for net-zero evaluations. To address this, we've developed the Neuberger Berman Net-Zero Alignment Indicator, which, building on the Net Zero Investment Framework by the IIGCC, integrates quantitative and qualitative insights.

Transition Finance Takes the Spotlight to Drive Genuine Decarbonization Efforts

Key Events/Developments

Topic	Jurisdiction	Initiative	Timeline
Taxonomies	Australia	Australia Sustainable Finance Taxonomy	• Q1-Q2 2025: Consideration of feedback from late 2024 public consultation and next steps
	China	Chinese Transition Finance Taxonomy	• TBC: Potential nationwide rollout of a Chinese transition finance taxonomy, following launch of local-level transition finance taxonomies
	EU	EU Taxonomy	• TBC: Further usability guidance and potential consideration to cover additional sectors and economic activities
		Green Bond Standard (GBS)	• Q1 2025: First issuances of GBS-aligned bonds • TBC: Publication of template for unlabelled debt
	Global	Multi-Jurisdiction Common Ground Taxonomy (M-CGT)	• Throughout 2025 M-CGT, which for now maps the EU and Chinese taxonomies to create interoperability, will be expanded to include the Singaporean Taxonomy
	U.K.	U.K. Green Taxonomy	• Feb. 6, 2025: Public consultation closes • TBC: Based on consultation feedback, U.K. government to determine whether there is merit for a U.K. Taxonomy
Defining Transition Finance	EU	European Commission Recommendation on Transition Finance	• TBC: European Commission to publish proposal on the SFDR Level 1 review, potentially including a transition fund category building on the 2023 recommendation
	Global	Conceptual Note from the Network for Greening the Financial System (NGFS) focusing on climate adaptation	• Throughout 2025: Central banks to implement recommendations of the NGFS Conceptual Note on Climate Adaptation.
	U.K.	Transition Finance Market Review (TFMR)	• TBC: Following publication of Review in October 2024, the U.K. government will launch Transition Finance Council with the City of London Corporation in 2025
Transition Plans	EU	European Financial Reporting Advisory Group (EFRAG) Implementation Guidance for Climate Transition Plans	• TBC: Following publication of draft in 2024, EFRAG will launch a public consultation finalize the guidance sometime in 2025
	Global	IOSCO Report on Transition Plans	• Throughout 2025: Following publication of IOSCO report in November 2024, national securities regulators to implement recommendations
		International Sustainability Standards Board (ISSB)	• TBC: ISSB to consider whether changes to IFRS S2 are needed to align with the Transition Plan Taskforce (TPT) recommendations for which it is now responsible
		Taskforce on Nature-related Financial Disclosures (TNFD)	• Q1-Q2 2025: TNFD to publish final guidance on nature transition planning
	U.K.	U.K. government introduction of mandatory transition plans	• TBC: U.K. government to publish consultation to consider the introduction of mandatory transition plans for companies and financial institutions

Source: Neuberger Berman.

3. Maturing regulations demand adaptability amid ongoing uncertainty

In the context of evolving political priorities, we believe further coherence and simplification are needed, particularly in the EU, where we have seen a push to improve the usability of the sustainable finance framework for investors. However, in pursuing this goal, policymakers may inadvertently create more uncertainty.

Fund Disclosure and Labelling Frameworks

The Sustainable Finance Disclosure Regulation (SFDR) has emerged as a prime candidate for simplification. Investors familiar with this regulation know that its implementation has been anything but straightforward. Just as the industry has begun to stabilize, a comprehensive review of the framework is now underway. The European Commission is expected to release a legislative proposal in the first half of 2025, with indications that current Article 6, 8 and 9 categorizations may be replaced with a new categorization system. In December 2024, the Platform for Sustainable Finance recommended three sustainability strategies—"Sustainable", "Transition" and "ESG Collection"—to the Commission.[6] The Commission will consider these, as well as whether a standalone category for impact funds is merited, as it prepares a legislative proposal for early this year.

The interaction between SFDR 2.0 and other disclosure regimes, such as those in Hong Kong and Singapore, remains to be seen. Nonetheless, global alignment is a top priority for investors involved in this review. Alignment with the U.K.'s Sustainable Disclosure Requirements (SDR) will be particularly critical given the volume of EU-domiciled funds marketed in the U.K. The forthcoming U.K. government consultation on extending SDR labels to overseas funds presents a valuable opportunity for both the EU and the U.K. to pursue harmonization. Moreover, Australia, which is anticipated to consult on labelling and disclosure requirements for products in early 2025, will closely monitor these developments.

Sustainability Reporting: Requirements Set to Bear Fruit

Sustainability reporting will likely maintain its prominence on the agenda of investors and policymakers alike. As jurisdictions increasingly adopt the ISSB standards, we anticipate improvements in financially material climate-related data—and other sustainability topics where relevant—in aligned regions. Over 15 jurisdictions have finalized decisions to adopt the standards, with 14 additional jurisdictions, including China, in the process of doing so.

Notably absent is the EU, which has opted for its own CSRD, applying the principle of double materiality. In 2025, companies currently under the Non-Financial Reporting Directive (NFRD) will publish their first reports under CSRD, followed by large private companies in 2026. Furthermore, companies will begin reporting on new EU Taxonomy objectives in addition to Climate Adaptation and Mitigation, providing new revenue and capital expenditure alignment data for investors. As the EU focuses on competitiveness and alleviating the reporting burden for companies, we see room for further interoperability between the CSRD and the ISSB's baseline. This could be facilitated by an "Omnibus Simplification Package" currently under discussion by the Commission, aimed at integrating, simplifying and streamlining the CSRD, Corporate Sustainability Due Diligence Directive (CSDDD) and the EU Taxonomy.

In the United States, the Climate Disclosure Rule, adopted by the Securities and Exchange Commission (SEC) in March last year and subsequently stalled due to ongoing litigation, is expected to be withdrawn under the new administration. However, the lack of federal support for climate disclosures is likely to be offset by state-level initiatives. For instance, California's Climate Corporate Disclosure Accountability Act (CCDAA) has been signed into law and is fully funded, with additional resources allocated for its legal defense. In the absence of federal mandatory requirements, we expect voluntary uptake of the ISSB standards to increase in the U.S.

Investor Due Diligence and Stewardship

In certain regions, policymakers are increasingly focusing on the role of investors in managing sustainability-related risks and impacts within their value chains. In Europe, the CSDDD will require investors to address adverse human rights and environmental impacts in their investment operations and upstream activities, effective from 2027. Anticipated discussions on investor implementation and clarity on whether downstream activities (i.e. investments) will come into scope will occur throughout the year.

[6] Source: "Categorisation of Products under the SFDR: Proposal of the Platform on Sustainable Finance". EU Platform on Sustainable Finance, December 2024.

Additionally, the upcoming review of the Shareholders Rights Directive (SRD) is expected to spark debates on investors' roles in corporate climate strategies, with calls for "say on climate" votes and greater transparency in how asset managers and owners align engagement plans and voting records with their transition plans. In the meantime, with the U.K. Stewardship Code now in operation for five years, the Financial Reporting Council (FRC) will be introducing key changes with the intention to reduce the reporting burden for investors.

Having Better Data Leads to More Informed Investment Decisions

This year will continue to challenge investors from a regulatory standpoint, but it also marks the emergence of the first sustainability-related reports under new reporting frameworks. This represents a valuable opportunity to gain a deeper understanding of financially material risks and opportunities, enabling more informed capital allocation decisions. As the vice-chair of the ISSB's Investor Advisory Group (IIAG), we will continue collaborating with peers and companies to advocate for a global baseline in financially material sustainability reporting.

Maturing Regulations Demand Adaptability Amid Ongoing Uncertainty

Key Events/Developments

Topic	Jurisdiction	Initiative	Timeline
Fund Disclosure and Labelling Frameworks	Australia	Introduction for Labelling and Disclosure Requirements for ESG products	• Q1 2025: Treasury to launch consultation on disclosure and labelling requirements for ESG funds
	EU	Review of the Sustainable Finance Disclosure Regulation (SFDR) framework	• Q2-Q3 2025: European Commission legislative proposal
		Implementation of ESMA Guidelines for Funds with ESG Names	• May 2025: Rule applies for existing funds
	U.K.	Extension of Sustainability Disclosure Requirements (SDR) rule to overseas funds	• Q1-Q2 2025: U.K. government to launch public consultation
Sustainability Reporting	China	Sustainability Reporting Standards	• Q1 2025: Publication of implementation guidance for listed companies on the Shanghai, Shenzhen and Beijing stock exchanges. First companies to report in 2026 on FY 2025 • TBC: Publication of final ISSB-aligned standard, including clarity on timeline
	EU	Corporate Sustainability Reporting Directive (CSRD)	• Q1 2025: Publication of first CSRD reports • TBC: Potential publication of omnibus proposal to simplify CSRD, CSDDD and the EU Taxonomy • TBC: Draft sector-specific and non-EU company standards
	Global	International Sustainability Standards Board (ISSB) making progress	• Jurisdictional adoption: >14 jurisdictions working on adopting standards • Throughout the year: First voluntary reports
	U.K.	U.K. Sustainability Reporting Standards	• Q1 2025: FCA consultation on standards and endorsement by government • Q2 2025: Consultation for standards for ex-FCA companies
	U.S.	California Climate Disclosure Rules	• July 2025: Publication of implementing regulations
Investor Due Diligence and Stewardship	EU	Corporate Sustainability Due Diligence Directive (CSDDD)	• TBC: Potential discussions on bringing investments into scope
		Shareholder Rights Directive (SRD)	• 2025: Review of the SRD kicks off
	U.K.	U.K. Stewardship Code	• Feb. 19, 2025: Consultation on review closes

Source: Neuberger Berman.

The year 2025 ushers in a new era for sustainability policy, marked by less coordinated global action. We believe that the focus on competitiveness and cost of living does not mean sustainability is being sidelined; rather, it signals a pragmatic approach where the energy transition is vital for reducing energy prices and staying competitive. These changes will significantly impact regulatory and policy landscapes. As active investors, we are committed to closely watching these shifts and their effects on our investments, ensuring we can effectively guide our clients through this evolving environment.

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