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2024 sustainability trends and what we expect in 2025

Main developments and trends that emerged in 2024 in the EU and Iberia and how we anticipate these will evolve in 2025

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KEY ASPECTS

- The year 2024 marked significant progress in the EU's sustainable finance regulatory framework, with the adoption and implementation of numerous key legislations aimed to integrate sustainability into financial practices, enhance transparency, and combat greenwashing.

- We expect the year 2025 to be crucial for an initial assessment of the practical impact of the newly adopted legislation. The implementation of these measures will be closely monitored to understand their influence on business strategies, compliance, and overall market dynamics.

- One of the primary challenges Europe and Iberia face is balancing the burden of regulatory requirements aimed at achieving the Paris Agreement objectives and fostering competitive environment, especially for SMEs. In any event, companies should not perceive this regulation as a burden only or as a tick the box exercise. They should also try to see it as an opportunity to revisit and revise their business models, leveraging the regulations to drive sustainable growth.

Main developments and trends that emerged in 2024 in the EU and Iberia and how we anticipate these will evolve in 2025

Sustainability remained a central theme in 2024, with the European Union (the "**EU**") continuing to advance the European Green Deal through significant legislation. Key measures included the Empowering Consumer Directive, the Corporate Sustainability Due Diligence Directive (the "**CS3D**"), the ESG Rating Regulation, changes to the Prospectus Regulation disclosure requirements for ESG products, the EU Forced Labor Regulation, the EU Deforestation Regulation, the European Eco-design Regulation, and the Environmental Protection through Criminal Law Directive. Additionally, other critical legislation, such as the Corporate Sustainability Reporting Directive (the "**CSRD**") and ESRS Disclosure Standards Commission Delegated Regulation, the expansion of requirements under the EU Taxonomy Regulation, the European Single Access Point Regulation (the "**ESAP Regulation**"), the European Green Bond Regulation (the "**EUGB Regulation**"), and the revised Energy Performance of Buildings Directive (the "**EPBD**") came into force. Consultations on the usability of the Sustainability Financial Disclosure Regulation ("**SFDR**") were also opened. Trade groups and local legislators also made strides, with new and updated International Capital Markets Association ("**ICMA**") Guidance on sustainability products and the European Securities Market Association ("**ESMA**") Guidelines on funds' names and the Spain's Green Book on Sustainable Finance (*Libro Verde sobre Finanzas Sostenibles*), and the LGTBI Equality Law and the Parity Law respectively, being notable examples.

In this document, we analyze the main developments and trends that emerged in 2024 in Europe and in particular in the Iberia region and how we anticipate these will evolve in 2025. We do not purport to cover all legislation that has been passed and all initiatives.

We can conclude that while 2024 saw the adoption and implementation of significant European legislation, 2025 will be focused on fine-tuning and assessing its practical impact. For the framework to be effective, regulators must strike a balance between regulation and avoiding overburdening businesses, especially given Europe's competitiveness challenges on the global stage. Simultaneously, stakeholders should approach sustainability not as a mere checkbox exercise but as an opportunity to transform their vision and strategy for competitive advantage.

Finance

guidelines, driven by a legislative and institutional push to transition to a more sustainable model economy by integrating sustainability considerations into financial practices and combating greenwashing.

Structuring bonds offers as green, social, sustainable, or sustainability-linked ("**GSSS**") products remains, where possible, important for most issuers to demonstrate commitment to sustainability goals.

In the loan market, Spanish banks have continued and will continue to strengthen their sustainability teams, increasingly linking a larger portion of their portfolios to sustainability criteria. As a result, the sustainability paths and milestones set for their customers are expected to become more demanding, mitigating reputational risks and potential greenwashing complaints.

The EUGB Regulation, approved in November 2023, establishes a common framework for bond issuers inside and outside the EU wishing to use the "European Green Bond" designation. This regulation has been applicable since 21 December 2024, with practical application anticipated in 2025. Due to the stringent requirements for obtaining the "European Green Bond" label, we expect that initially only a limited number of regular green bond issuers will use the label. A segmentation will likely emerge between issuances that qualify for the "European Green Bond" label and those governed by the ICMA green bond principles. The European Commission is expected to adopt delegated legislation, including pre- and post-issuance disclosure templates for issuers opting into the voluntary EUGB Regulation disclosure regime for bonds marketed as environmentally sustainable (which we understand to include ICMA Principles-regulated bonds and sustainability-linked bonds). The evolution of this market in 2025, along with the differentiation or alignment of EU disclosure templates under the EUGB with ICMA requirements, will be closely watched. For further information on the EUGB Regulation please see Legal Flash | The EU Parliament and the Council approve the EU Green Bonds Regulation and EU Green Bond Regulation Level 2 Measures.

Another notable feature of the EUGB Regulation is the introduction of a registration and supervisory regime monitored by ESMA for external reviewers providing reports thereunder, fully in force by June 2026 with a transition regime applying in the interim. We would expect issuers of GSSS bonds to prefer using such registered and supervised external reviewers, even where not issuing European Green Bond-labelled products.

Furthermore, the Listing Act Regulation adopted in 2024 and, in this regard applicable from June 2026, introduces new environmental, social and governance ("**ESG**") disclosure requirements and empowers the Commission to adopt schedules specifying ESG-related information to be included in prospectuses for debt securities marketed as considering ESG factors or pursuing ESG objectives. This will lead to tightening and standardization of disclosure requirements for GSSS bond issuances in the coming years. The interaction between the schedules under the Prospectus Regulation and the EU Green Bond Regulation templates will be interesting. For further detail please see Legal Flash | Changes to the Prospectus Regulation made by the Listing Act.

At the same time, ICMA updated some of its guidance, enhancing transparency and comparability and introduced new documents, such as the Green Enabling Projects Guidance and the Sustainability-linked Loans Financing Bonds Guidelines ("**SLLFBG**"), to support the growth of the sustainable finance market. The SLLFBG create a new label for bonds whose proceeds finance a portfolio of green loans aligned with the Loan Market Association ("**LMA**") green loan principles. This instrument should play a crucial role in financing the transition and is expected to support the growth of the green loan market. For further detail please see: ICMA on the role of Commercial Paper in Sustainable Finance; How to report on the social impact of your social bond issuance; New ICMA Principles Guidance for sustainable bonds; Updates to the sustainability-linked bond principles and illustrative KPIs Registry; and ICMA and the Executive Committee of the Principles update the Guidance Handbook.

Further legislation adopted in 2024 at the EU level aims to reduce greenwashing, notably the ESG Rating Regulation, which standardizes ESG ratings to improve their reliability and comparability. This regulation mandates that ESG rating providers adhere to specific governance, procedures, and practices, with ESMA developing regulatory technical standards ("**RTS**") by 2025. This move is expected to boost investor confidence and promote sustainable investment practices. The ESG Rating Regulation will evolve in 2025 with ESMA working on draft RTSs in relation to registration requirements and procedures and regulating conflict of interests and methodologies of registered entities, setting the stage for a transition period until July 2026, during which ESG rating providers must apply for authorization to operate in the EU, leading to greater transparency and consistency in ESG ratings. For further information on the ESG Rating Regulation please see New EU Regulation on ESG Ratings.

In 2024, ESMA also published its final report on guidelines for funds using ESG or sustainability-related terms in their names (the "**Guidelines**"). On 22 October 2024, the Comisión Nacional Mercado de Valores ("**CNMV**") in Spain, notified ESMA of its intention to comply with the Guidelines, the CNMV will therefore consider these criteria in the procedures for authorization, registration and supervision of investment funds, in line with the obligations provided for in Law 35/2003 on collective investment institutions and Regulation 1082/2012 on collective investment institutions. While the Comissão do Mercado de Valores Mobiliários (the "**CMVM**") in Portugal did not make any announcement in this regard, the Guidelines have been translated to Portuguese and it is expected that the CMVM will comply with these. Fund managers will need to align their investment policies with these guidelines, and by 2025, funds not complying will need to change their names, enhancing transparency and accountability in the naming of ESG and sustainability-related funds and strengthening the integrity of the sustainable finance market. Consequently, we may see several funds no longer advertising themselves as promoting ESG or sustainability objectives in 2025. For further information on the ESMA Guidelines on funds´ names please see ESMA Guidelines on funds' names using ESG or sustainability-related terms in their names.

SFDR remains central to the EU regulatory framework on sustainability, with the European Commission's review expected in 2025 likely resulting in updated disclosure requirements and potentially including a new categorization system for financial products (which was also suggested by the Platform on Sustainable Finance). These changes aim to streamline and enhance the regulatory framework, making it more effective and user-friendly, and potentially leading to significant market impacts.

Other noteworthy initiatives include the European Banking Authority Guidelines on the management of ESG risks under the CRD IV Directive, published in January 2025. These guidelines provide banks with a clear framework for identifying, measuring, managing, and monitoring ESG risks, thereby promoting more sustainable banking practices and enhancing the resilience of the financial sector to ESG-related risks. The guidelines will apply from 11 January 2026 except for small and non-complex institutions for which the guidelines will apply at the latest from 11 January 2027.

Additionally, Spain's *Libro Verde sobre Finanzas Sostenibles*, approved in November 2024, aims to facilitate the transition to a sustainable economy through public-private collaboration and financial innovation. In 2025, initiatives such as the creation of a sustainability sandbox, the launch of a knowledge repository, and the publication of sectoral guides for small and medium enterprises ("**SMEs**") will further support the financial sector in developing green financial products (such as sustainable reverse factoring and green mortgages).

Transparency

Transparency is key to guide investment towards sustainable economic activities, in combating greenwashing and ensuring companies adopt sustainable practices. Over the years, the demand for the provision of consistent and reliable ESG data has grown significantly, as investors and other stakeholders seek information to support more sophisticated decision-making that is not just narrowly focused on financial return.

During 2024, the EU made significant progress in its sustainability transparency rules, even though some aspects, like sector-specific and third-country company reporting standards, were delayed until June 2026. Key approvals include regulations connected to the CSRD, the Empowering Consumers Directive, the ESG Rating Regulation, the ESAP Regulation, and the Listing Act amendments to the Prospectus Regulation.

From 2025 onwards, legislative activity is expected to slow down, with efforts concentrating on the gradual implementation of the measures adopted to date. On 8 November 2024, the European Commission President, Ursula von der Leyen, announced a plan for 2025 to consolidate EU sustainability reporting into one "omnibus" regulation in order to minimize overlapping reporting requirements under the CSRD, the EU Taxonomy Regulation, and the CS3D.

Spain has to date not incorporated the CSRD within the deadline imposed in the directive. The CNMV and the Spanish Institute of Accounting and Auditing have, however, encouraged large public interest companies, including listed companies, to prepare, if they are "in a position to do so reliably", their 2024 sustainability information in accordance with CSRD, adjusted to comply with existing Spanish regulations. This will ensure that their information is as comparable as possible with that published by other companies in the EU, where CSRD has been transposed in national legislation. Portugal as well has to date not incorporated the CSRD. The CMVM took a similar approach and recommends that relevant companies, to which the new obligations apply in 2025 when reporting on the 2024 financial year make their best efforts to comply with the requirements set out in the CSRD.

In 2026, CSRD reporting will further extend its scope applying to the 2025 sustainability reports of large companies meeting any two of the following criteria: 250 or more employees, over €50 million in net turnover; or over €25 million in assets.

The influence of the CSRD extends beyond large in-scope companies. Many SMEs and companies outside the EU are part of the supply chain of large corporations and are indirectly exposed to CSRD reporting obligations through a "cascade effect" and the "Brussels effect". Additionally, other companies seeking financing, involved in M&A deals, or participating in tenders for public or private contracts will need to consider and adopt some form of sustainability reporting or sustainability strategy to meet the requirements of their counterparties in such agreements or transactions. To assist non-listed SMEs outside the scope of CSRD to respond efficiently and proportionately to sustainability information requests from the companies for which they are suppliers, EFRAG published a voluntary EU sustainability reporting standard on 17 December 2024.

Overall, the transition to CSRD reporting, whether mandatory or voluntary, plays a significant role in enhancing business transparency and accountability (see Legal Flash | Corporate sustainability reporting: CSRD). Although the CSRD builds on the foundations established by previous reporting frameworks and certain aspects may not be entirely new for some companies and stakeholders, the mandatory use of the European Sustainability

Reporting Standards ("**ESRS**"), the EU taxonomy (now covering all six environmental objectives, see Legal Flash | New developments in green taxonomy), the double materiality approach, the inclusion of forward-looking information, the digital format, and limited assurance auditing should facilitate access to higher quality, more standardized, and comparable information. This is further enhanced by the fact that the CSRD and the ESRS are aligned with other international reporting frameworks, helping to ensure data reliability and comparability across different jurisdictions. This is of great practical importance as the Draghi Report highlights that ensuring access to high-quality sustainability information is critical for EU companies to attract the necessary funding for the digital and green transition.

The CSRD also plays a pivotal role in steering businesses towards sustainable governance and is closely related to the CS3D (see below). While CSRD does not mandate a specific due diligence procedure for companies, it contributes to ensuring that they implement effective governance and due diligence measures in the environmental and human rights fields by requiring annual reporting on these aspects in their management report.

Finally, to combat greenwashing and protect consumers, the EU, in 2024, adopted the Empowering Consumers Directive and is progressing with the proposed EU Green Claims Directive. The former focuses on preventing misleading generic environmental claims, whereas the latter, which will continue its legislative process in 2025, sets detailed requirements for substantiating and communicating environmental claims and regulating environmental labelling schemes.

New Obligations at European level

In 2024, several significant regulatory changes were introduced at the European level and domestic level in Spain, creating new obligations for companies.

The CS3D mandates that companies conduct due diligence to identify, prevent, and mitigate adverse impacts on human rights and the environment within their operations, subsidiaries, and value chains. Additionally, companies must implement climate transition plans aligned with the Paris Agreement goals. This Directive will only start to gradually apply from July 2027 to companies based on their size, however it will have indirect effects on companies within the value chains of the companies in scope, both within and outside the EU market. For further information on CS3D see The CS3D in Perspective and Legal Flash The Due Diligence Directive enters the final stretch.

From 2025, minimum recycling efficiency, material recovery percentages, and measures related to electric vehicle (EV) batteries will apply, ensuring the availability of key information about batteries, such as their characteristics, carbon footprint, lifespan, and recycling under the EU Regulation on sustainability, safety, labelling, and isnformation requirements for batteries and battery waste. See New EU regulation on batteries.

The EU Regulation on Deforestation, adopted in 2023 and effective from 30 December, 2025, will ensure that products and raw materials traded in or exported from the EU are deforestation-free. See Implementation date for Deforestation Regulation extended.

From December 2027, the EU Regulation on Forced Labor prohibits the marketing or export of products made with forced labor within the EU. See EU bans products made with forced labor.

The revised EPBD which entered in to force in May 2024 and needs to be transposed by Member States into national law by May 2026 aims to achieve a highly energy-efficient and decarbonized building stock by 2050, with specific targets for harmonizing the scale of the energy performance certificates by 2026 and renovating the non-performing buildings.

The European Regulation on Eco-design for Sustainable Products, published in June 2024, introduces eco-design requirements to reduce the environmental impact of products throughout their life cycle, including the establishment of a digital product passport an essential tool for making information available throughout the entire value chain, prohibiting the destruction of unsold goods, and imposing specific obligations on manufacturers, importers, distributors, repairers, maintenance service providers, and operators of reuse and recycling, thereby reinforcing the commitment to the circular economy and environmental sustainability. See EU publishes ecodesign regulation

In Spain, the labor landscape is evolving to incorporate sustainability at its core. From promoting LGTBI equality and gender parity to adapting to climate change and reducing working hours.

In 2024, the Spanish government approved regulations to implement measures ensuring real and effective equality for LGTBI individuals in the workplace, as mandated by Law 4/2023. Companies with more than 50 employees are now required to negotiate and implement comprehensive LGTBI measures, including protocols for preventing harassment and violence against LGTBI individuals, as well as measures to promote inclusivity and diversity. See How companies can meet LGBTI+ regulations.

Moreover, the Gender Parity Organic Law 2/2024, effective from August 2024, imposes new obligations, among others, on listed companies and certain public interest entities, impacting on the composition of their board of directors and senior management. The first to be affected will be the largest listed companies by market capitalization in June 2026, followed by all other listed companies in June 2027. See *Legal Flash /Paridad obligatoria en los consejos de las cotizadas* and Legal Flash | *Nuevas exigencias de paridad para entidades de interés público*.

In Portugal, during the year 2024, despite the lack of new legislation focused on social sustainability, there was a reinforcement of labor inspection activity aimed at ensuring compliance with existing legislation in the matter. The main inspection actions focused on ensuring safety and health at work (with particular attention to the need to address psychosocial risks), equal pay (forcing most Portuguese companies to conduct, for the first time, evaluations of job positions based on objective criteria common to both men and women), combating precarious work (service providers and fixed-term contracts), and compliance with quotas for employees with disabilities. There is still no specific labor legislation in Portugal aimed at protecting LGTBI individuals. The requirement for balanced representation between men and women on the boards of directors and supervisory bodies of companies was introduced in Portugal by Law No. 62/2017, of 1 August.

Need for Good Corporate Governance and Compliance Procedures

The introduction of these new obligations, the enhanced sustainability requirements, and the stricter requirements around sustainable financial products, underscores the critical need for robust sustainability strategies, sustainable financial products frameworks, and review of corporate governance and compliance procedures. In relation to the latter in particular, companies must adapt their internal policies and practices to ensure adherence to these regulations, thereby mitigating the risk of litigation. The CS3D, for instance, requires comprehensive and substantially regulated due diligence processes and climate transition plans, necessitating a review of commercial relationships in the chain of activities, the design, production and purchases policies, and appropriate coordination between different operational and responsibilities within the company; as well as thorough documentation and regular reporting to demonstrate compliance. Failure to comply can result in significant financial and non-financial sanctions, including public compliance control and judicial recourse for victims. Precedents of similar regulations in France and Germany indicate an increase in corporate litigation resulting from scrutiny of compliance with due diligence obligations, bolstered by the requirement for companies to report annually on their compliance and its relation to other sustainability reporting regulations, especially the CSRD. The regulations on deforestation and forced labor further emphasize the need for transparency and traceability within supply chains, compelling companies to establish stringent collaboration, monitoring and verification mechanisms. The energy performance and efficiency directives demand substantial investments in building upgrades and energy-saving measures, requiring strategic planning and resource allocation. The LGTBI Equality Law and the Parity Law in Spain necessitate the implementation of inclusive policies and diversity initiatives, fostering a workplace culture that promotes equality and prevents discrimination. In Portugal, the enforcement regarding pay equality and diversity and inclusion requires the implementation of serious evaluation processes and the adoption of action plans and transparent policies. Labor compliance, one of the aspects at stake when talking about sustainability today, particularly social sustainability, has never been more important. It is also foreseeable that companies will need to adapt their commercial relationships within their value chains to meet these requirements, potentially leading to contractual litigation within these chains. By proactively establishing comprehensive compliance frameworks, companies can navigate the complexities of these regulations, avoid potential legal disputes, and enhance their reputation as responsible and sustainable businesses.

The Expansion of Green Taxonomy and Broader Environmental Focus

As of January 1, 2024, the green taxonomy has been expanded by means of adding more economic activities for the objectives of climate change mitigation and climate change adaptation (Delegated Regulation 2023/2485/EU) and through a new classification of activities based on their contribution to non-climate environmental objectives with the adoption of Delegated Regulation 2023/2486/EU: sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems. See Legal Flash | New developments in green taxonomy. Consequently, we have observed a market expansion in the focus on sustainability considerations beyond climate, particularly protection and restoration of biodiversity and ecosystems, pollution prevention and the circular economy. We expect this trend to continue into 2025.

Climate change as an element of Spanish labor law

Spanish Royal decree 8/2024, introduced in November 2024, addresses the increasing impact of climate change on the workplace, including a new paid leave for employees affected by adverse weather conditions, such as extreme temperatures or heavy rainfall, which prevent them from working. Signaling the changing times and the perception of climate change as an "economic risk", it is the first time that climate change is incorporated into labor law. See Spain: new labor measures for companies due to climate change.

Criminal Law

In 2024, one of the main innovations in sustainability and Criminal Law is the publication of the Directive on the protection of the environment through criminal law, which replaces Directives 2008/99/EC and 2009/123/EC. This Directive (i) strengthens the use of criminal law as a deterrent against harmful environmental conduct, (ii) harmonizes common definitions of environmental crimes, (iii) expands the range of behaviors classified as environmental crimes, and (iv) establishes effective, dissuasive, and proportionate criminal sanctions for both individuals and companies. Although Member States have until 21 May 2026to transpose the legislation into national law, and we do not expect Spain or Portugal to have the legislation in force before that date, companies can proactively draw inspiration from the Directive to design and implement an environmental compliance and due diligence policy. This would go beyond mere regulatory compliance, aiming to anticipate and prevent criminal risks, and position the company at the forefront of environmental performance. See *Nueva directiva penal: ¿una oportunidad de liderazgo ambiental?*

General Observations and conclusions

Sustainable finance is "*the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects*". If the economy fails to account for the resources and environments it depends on, the system will eventually collapse. The traditional economic model, which focuses solely on short-term returns, is no longer viable. Considering ESG elements when making investment decisions is not merely an altruistic choice; it is a prudent credit choice.

When sustainable finance first emerged, it was considered niche. However, the goal is for the sustainability of economic activities to become as integral to investment decisions as financial considerations. For capital to flow to sustainable economic activities, investors and consumers need clarity on what they are purchasing. The European sustainability finance regulatory framework aims to provide harmonized and comparable information through various regulatory measures to this end.

Initially, the increasing stringent requirements and demands placed on companies, financial advisers, and market participants will present a regulatory burden and cost (not different from the introduction of International Financial Reporting Standards). Uncertainty and litigation may arise concerning how these new requirements integrate with the traditional business model and related duties and obligations, such as the interaction with directors' duties.

Strict requirements for green financial products may lead to market contraction if participants struggle to comply. The fear of greenwashing accusations, coupled with stricter requirements, may result in participants opting out of voluntary disclosures, leading to "green hushing." This phenomenon is detrimental as it prioritizes perfection over progress, potentially stalling necessary sustainability actions. Excessive regulation might overburden European companies, hindering their ability to innovate and drive a more sustainable economy.

In 2025, we will begin to see how this new system operates in practice, along with its challenges and opportunities. With the completion of the EU Taxonomy, the discourse will likely expand beyond climate issues. With a clear definition of "green," albeit narrow, the focus should shift towards defining transitions and creating a system that supports not only green initiatives but also transitional efforts, given that this is the ultimate objective. While sustainability strategy plans have been prevalent in recent years, transition plans are expected to gain prominence in the coming years.

Regulators must remain aware and responsive to ensure that the new regulatory era does not stifle competitiveness, as identified in the Letta and Draghi Report, and that SMEs, a fundamental part of the European economy, are not excluded. However, with challenges come opportunities. There are opportunities for new types of businesses to flourish, for innovation, and for the development of technologies needed to achieve Europe's ambitious sustainability objectives. Existing players who pioneer sustainability in their strategies can also gain a competitive advantage.

Companies should not perceive this evolution as a burden only and view the new regulations as a mere box-ticking exercise but should see this as an opportunity to revisit and revise their business models, leveraging the regulations to drive sustainable growth.

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