



The ESG Policy Landscape in 2026: Recalibration and Fragmentation

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Overview

The global policy framework for Responsible Investment – here understood as covering both corporate-level Responsible Business conduct and investor-level Environmental, Social, and Governance (ESG) investing – is undergoing a period of profound change. Following the 2010s, an era of rapid growth and expansion of the policy narrative and of the instruments underpinning that narrative, since 2023 the policy landscape is going through stagnation, at best, recalibration and retrenchment, at worst. Geopolitical tensions and politicization across jurisdictions have shifted the focus from deepening or creating new frameworks to simplifying and, in some regions, actively retrenching from existing policies.

Table of contents

Overview	1
A brief history.....	1
<i>The roaring 2000-2010s</i>	2
<i>The 2023 peak</i>	2
Backlash and Political Pushback.....	3
<i>United States: the Anti-ESG Offensive</i>	3
<i>Europe: Strategic Retrenchment</i>	4
Issues ahead.....	5
<i>The Single vs. Double Materiality Divide</i>	5
<i>Green- and Social-Washing</i>	5
<i>The AI Promise</i>	6
<i>The Geopolitical Challenge and the Energy Crisis</i>	6
Selected reading	7

A brief history

Arguably the global responsible investment agenda was first shaped in 1977 with the concurrent adoption of the OECD Guidelines for Multinational Enterprises and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. The 2010s

witnessed a dramatic expansion of the responsible investment policy agenda with several landmark initiatives.

The roaring 2000-2010s

Regarding corporate duties a significant acceleration occurred in 2011 with the adoption of the [UN Guiding Principles on Business and Human Rights](#) (UNGPs). Together with a revised version of the [OECD Guidelines for Multinational Enterprises on Responsible Business Conduct](#), the UNGPs cemented human rights due diligence as a core expectation for private sector operations across global supply chains. While no legally binding UN-level treaty holds corporations directly accountable for human rights violations, a [UN working group](#) has been active since 2014 with a mandate to explore such an international instrument.

Regarding corporate reporting and disclosure, the establishment of the [Global Reporting Initiative](#) (GRI) in 1997, supported by the UN Environment Programme, laid the initial groundwork for corporate sustainability reporting. In 2023 the IFRS Foundation's International Sustainability Standards Board (ISSB) issued its [Global Baseline](#) including its IFRS S1 (general requirements) and S2 (climate) which received endorsement from IOSCO and the G20.

Regarding asset owners and asset managers, 2006 was a watershed year. The launch of the [UN Principles for Responsible Investment](#) (PRI) that year catalyzed the growth of the modern ESG investment sector. The [2012 Kay Review](#) of UK asset management practices was pioneering in its analysis of the «lengthening of the investment chain»-the growing distance between capital owners and invested companies-and the resulting information asymmetries. A further milestone in reporting was the creation in 2015 of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD), which established a framework for investor-focused climate reporting. The TCFD was closed in 2023 and its work transferred to the IFRS Foundation.

The 2023 peak

The ESG agenda arguably reached its peak ambition around 2021-2023, with multiple global standard-setting processes unfolding simultaneously. With the Biden Administration in place, there was even some hope of a transatlantic convergence.

In 2021 the European Union adopted the [Sustainable Finance Disclosure Regulation](#) (SFDR) and launched its comprehensive [Sustainable Finance Package](#), encompassing the [Corporate Sustainability Reporting Directive](#) (CSRD), the [European Sustainability Reporting Standards](#) (ESRS), and the EU Taxonomy. In 2022 the Commission followed suit with a proposal of [Corporate Sustainability Due Diligence Directive](#) (CSDD).

In the US, the policy agenda was slower and less ambitious but was nevertheless notable. In 2022 the U.S. Securities and Exchange Commission (SEC) proposed rules to enhance and standardize climate-related disclosures. Regarding corporate duties, while federal mandatory human rights due diligence law is absent in the U.S., the [Uyghur Forced Labor Prevention Act](#) (UFLPA) adopted in 2021 provides for supply chain accountability persists through enforcement mechanisms.

Backlash and Political Pushback

Since 2023, the momentum has pivoted from framework creation toward implementation, simplification, and, in certain cases, outright retrenchment.

On the surface, the ESG agenda appears to be expanding. The UN PRI remains the primary voluntary network for ESG integration. The number of jurisdictions adopting ESG reporting standards continue to grow, thanks to the adoption of the IFRS S1 and S2. According to the [Carbon Disclosure Project](#), “Despite global headwinds, over 22,100 companies disclosed environmental data through CDP in 2025. These companies represent more than half of global market capitalization including some of the world’s largest and most impactful companies. Meanwhile, over 1,000 cities, states and regions – representing over one billion people – disclosed in 2025.”

Even shareholder activism, the ESG practice that might draw more criticism from the anti-ESG parties, still gathers steam. For [Allianz GI](#) “As long-term stewards of our clients’ capital, we remain committed to active ownership and strong governance. While regulatory shifts may reduce US shareholder resolutions in 2026, our focus on transparency, material ESG risks, and long-term value remains unchanged. We will continue to pursue the issues that matter most to our clients and adapt as the landscape evolves.” And the EU continue to issue new regulations, such as the new regulation taking effect in July 2026 imposing stricter transparency and conflict-of-interest rules on ESG rating agencies.

The political backlash is there however. In Europe, the legal framework for identifying human rights violations and for corporate reporting has been significantly weakened – thereby reducing the data available for informed investment decisions – fossil fuel exclusions is still not entirely mandated for ESG fund labels. In the United States, the political climate actively discourages ESG-based exclusions, framing them as a potential breach of fiduciary duty. The few advances obtained during the Biden administration have been wiped out. With federal rulemaking stalled, blue states like California and New York, are stepping in, and establishing de facto national standards.

United States: the Anti-ESG Offensive

The most visible case of retrenchment is in the United States, where the term “ESG” itself has become politically charged. The return of the Trump administration in 2024 triggered an aggressive federal rollback of ESG initiatives, prompting many major corporations and institutional investors to retreat from public climate advocacy and dilute or abandon ESG-linked executive compensation policies.

Republican lawmakers have launched formal anti-ESG working groups in Congress aimed at curbing climate considerations in financial regulation. This has created a chilling effect, making companies wary of disclosing too much about sustainability rather than too little. This anti-ESG movement has deep ties to the fossil fuel industry. According to NGOs fossil fuel interests and lobbyists were instrumental in crafting the first anti-ESG bills in states like West Virginia and Texas. The movement successfully broadened its appeal by linking ESG to broader cultural disputes, including firearms rights and diversity policies. [Adam Harmes](#) thereby makes a

distinction between the origins of the backlash with the fossil fuel industry and its subsequent acceleration among conservative politicians and activists.

In March 2025, the SEC formally rescinded its proposed climate disclosure rules, reverting to a principles-based materiality standard rooted in 2010 guidance. In January 2026, the U.S. House passed the Protecting Prudent Investment of Retirement Savings Act, which restricts fiduciaries of retirement plans from considering “non-pecuniary” ESG factors, effectively mandating a sole focus on maximizing financial returns. The Department of Labor is expected to rescind the Biden-era rule permitting ESG considerations in ERISA plans, reverting to guidance that directs fiduciaries to focus solely on maximizing returns.

Consequently, a sharp political divide has emerged at the state level: conservative states penalize financial institutions for perceived boycotts of energy companies, while progressive states – California and New York – enforce climate disclosure mandates.

Europe: Strategic Retrenchment

While not abandoning its long-term objectives, the European Union is scaling back and “simplifying” its policy agenda, driven by the growing influence of conservative and far-right political factions and heightened concerns over economic competitiveness. The Omnibus I Directive, adopted in [February 2026](#), represents a substantial dilution of two flagship laws:

- CSRD: The directive drastically narrows the scope to companies with over 1,000 employees and €450 million in net turnover, exempting approximately 90% of previously covered entities and delaying reporting requirements for many until 2028. The associated ESRS are streamlined to eliminate roughly 68% of required data points.
- CSDDD: The directive is also [significantly weakened](#), with the removal of mandatory climate transition plans, a higher threshold for application, and the elimination of a harmonized EU-wide civil liability regime.

Despite mobilisation by NGOs, and a [coalition of businesses and investors](#) the Omnibus I initiative was completed. This rollback, framed as a simplification exercise, was fundamentally a political shift. For the first time, the center-right European People’s Party formed a coalition with far-right groups to advance deregulation. This breaches the long-standing “cordon sanitaire” that previously marginalized far-right parties in EU policymaking, signaling a definitive pivot in the EU’s political center of gravity toward competitiveness and away from climate ambition as the primary policy driver. External pressure from the United States is exerted through different channels. At firm-level, there are important ramifications of anti-ESG backlash US politics for European firms exposed to the US regulatory environment and market ([Christiansen et al. 2025](#)). Pressure is also happening at the [highest political level](#) with joint trade statements suggesting European concessions on Green Deal laws to avoid “undue restrictions on transatlantic trade”.

The revision of the SFDR has been less politically charged, though similar tensions exist. In November 2025, the European Commission proposed a [simplified framework](#) to replace the current Article 6, 8, and 9 categories with three clearer labels: Sustainable, Transition and ESG Basics. This proposal simplifies product-level disclosures and removes entity-level Principal Adverse Impact statements. However, [a coalition of over 130 NGOs and experts](#) is advocating for the new categories to fully exclude any company involved in developing new fossil fuel

projects, arguing that allowing such inclusion would undermine the EU's climate commitments and contradict recent court rulings on greenwashing.

Issues ahead

After years of expansion and growing ambition, the ESG policy landscape has entered an uncertain phase characterized by polarization and retrenchment in a broader context of heightened geopolitical tensions. Moving ahead there are a number of “old” and “new” policy issues to take on board.

The Single vs. Double Materiality Divide

A fundamental, unresolved issue since the origins concerns the very definition of materiality in responsible investment. The investment community remains divided between two primary approaches:

- Single Materiality: Only ESG factors that impact a firm's financial performance (enterprise value) are considered material.
- Double Materiality: Materiality encompasses both a firm's financial impact from ESG factors and the firm's external impact on society and the environment, regardless of whether those impacts feedback into financial performance.

This divide has tangible consequences and contributes to overall incoherence within the ESG landscape. A single-materiality approach, for example, would not necessarily mandate reporting on Scope 3 emissions or adherence to international labor standards. The ISSB standards are grounded in single-materiality principles, contrasting with the double-materiality foundation of the European ESRS. Common law jurisdictions generally favor single materiality, while civil law countries, particularly in Europe, are more inclined toward double materiality.

Green- and Social-Washing

The risk of “washing” – making misleading claims about ESG credentials – remains a persistent and growing challenge, amplified by the increasing scale of ESG-dedicated funds and their influence on global capital flows. Supervisory authorities are increasingly concerned. In 2024, the [G20's Sustainable Finance Working Group](#) identified greenwashing as its primary challenge.

While greenwashing dominates public and media discourse, social-washing is equally concerning. ESG frameworks theoretically balance environmental, social, and governance pillars, but in practice, the “E” receives disproportionate attention. Social dimensions remain underdeveloped, often overly reliant on superficial metrics like employee satisfaction surveys while neglecting core International Labour Organization (ILO) labor standards.

On a positive note, regulatory scrutiny is intensifying. In January 2026, the European Securities and Markets Authority issued [new guidance on ESG integration and fund labeling](#), explicitly warning that a “lack of transparency poses a notable greenwashing risk to investors”. As previously noted, new EU regulations for ESG rating agencies will take effect in July 2026 to address these concerns.

The AI Promise

On a positive note, the rapid adoption and diffusion of artificial intelligence (AI) offer enormous potential for ESG integration, significantly enhancing precision, efficiency, and accountability. AI can overcome traditional barriers to transparency created by limited access to verifiable data and complex data processing requirements.

AI tools are automating the collection, analysis, and drafting of sustainability disclosures, while also simulating long-term financial scenarios to help investors anticipate market trends and ESG-related risks with greater confidence. Regarding supply chain monitoring, AI integrated with IoT sensors and blockchain can provide real-time visibility into supplier practices, identifying non-compliance with labor or sourcing standards. ([Abdelghafar & Samaa 2026](#) & [Khaddam & Alzghoul 2025](#))

As in other sectors, AI also introduces risks, including data bias leading to flawed insights, overreliance on algorithmic outputs without sufficient human judgment, and the considerable energy footprint of advanced AI models.

The Geopolitical Challenge and the Energy Crisis

As discussed above, if any the ESG sector is not insulated from escalating geopolitical tensions and the prospect of weakening multilateralism. For the [Business and Human Rights Centre](#) “Companies are shifting supply chains in response to tariffs, which creates new human rights risks, particularly when moves are made quickly in or towards high-risk sourcing environments”. Within Europe specifically, the emphasis has shifted from setting the highest possible environmental standards to simplifying regulations to bolster European competitiveness and secure strategic autonomy.

In principle, there is no inherent conflict between robust sustainability frameworks and the pursuit of economic growth or geopolitical stability. Well-designed frameworks based on double materiality can enhance risk management, improve transparency, and channel investment toward resilience and long-term competitiveness.

In practice, however, a trade-off is often perceived or enacted. The policy response to recurrent energy crises and inflationary pressures exemplifies this tension. Two competing viewpoints have emerged:

- The resilience view: ESG practices enhance corporate resilience and help mitigate the impact of energy market volatility by promoting renewable energy adoption and energy efficiency.
- The inflationary view: ESG practices, particularly negative screening (exclusions), are fundamentally inflationary as they artificially constrict the investment universe. Proponents of this view argue that «starving oil & gas producers of needed capital» could destabilize the global economy, potentially necessitating a relaxation of strict exclusionary investment policies.

Selected reading

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