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A regulatory pause lets audit committees refine ESG priorities

Balancing "no regret" investments with rising climate concerns, market changes and talent needs.

In the evolving landscape of sustainability and climate disclosure, regulatory bodies across North America and Europe have hit pause on several key requirements. For Canadian audit committees, this is not a retreat from ESG, but a recalibration—a rare window to move beyond compliance and focus on building lasting business value and strong governance. The market's appetite for sustainability remains strong, and stakeholder expectations are rising, even as some mandatory reporting timelines shift. In our recent 2025 CEO Outlook survey, Canadian CEOs cited "executing ESG initiatives" as the second most important operational priority to achieve their three-year growth objectives.[1] This moment calls for a shift in mindset: from simply meeting regulatory demands to proactively shaping the organization's ESG strategy for long-term business resilience and growth.

> With the U.S. and E.U. deregulating sustainability reporting to some degree, organizations are taking the opportunity to strengthen the quality and governance of disclosures and making 'no regret' investments where they can make the most impact and prepare for future reporting requirements.

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The shift from compliance competitive advantage

The regulatory landscape is in flux, with regulators having postponed or simplified climate and sustainability reporting requirements in the European Union (E.U.) and certain parts of North America. While some U.S. federal rules are on hold, states like California are pushing forward, and global standards continue to advance. In Canada, the Office of the Superintendent of Financial Institutions (OSFI) postponed Guideline B-15's deadline for federally regulated financial institutions (FRFI) to disclose scope 3 greenhouse gas emissions until fiscal year 2028 in order to align with corresponding elements of the Canadian Sustainability Standards Board (CSSB)'s disclosures.

[1] KPMG in Canada. "Leadership in the breach". Accessed October 20, 2025.

These pauses are not a signal to slow down, but an invitation to strengthen governance, refine processes, and invest in "no regrets" initiatives—actions that will pay off regardless of future regulatory changes. For audit committees, these diverse regional reporting regimes and regulatory changes highlight the importance of ensuring management has a system for monitoring global regulations, determining when the organization is in scope, complying where necessary and keeping the committee informed. For instance, these substantial—albeit temporary—changes to the Canadian ESG regulatory landscape may alter how audit committees and organizations approach ESG strategy and reporting. E.g., Whether voluntary ESG reporting still meets market expectations or whether climate disclosures should be aligned with financial reporting.

With less pressure to meet immediate deadlines, organizations can focus on the quality and robustness of their ESG governance. This means clarifying ownership of disclosures, tightening controls over sustainability data, and ensuring that reporting processes are as rigorous as those applied to financial information. The pause also allows for a broader business perspective: organizations can invest in climate scenario analysis and transition planning, which are likely to be required in future regulations and deliver immediate business benefits. By directing resources to these initiatives, organizations will be well placed when these items are required to satisfy future regulations. Audit committees should question management about their investments and how they might serve future reporting requirements.

ESG oversight is expanding beyond the audit committee, with boards increasingly called to take a more active role in integrating sustainability into enterprise risk and strategy. The future of ESG demands hybrid skillsets; leaders who understand sustainability, finance, and legal risk. Organizations must invest in developing these capabilities across their teams.

Questions audit committees should be asking:

- Does management have a system for monitoring global regulatory changes, assessing whether the organization is in scope, complying with those changes, and reporting to the audit committee?
- Are we addressing investor and stakeholder expectations or simply addressing sustainability disclosure legislation?
- Beyond regulation, are we integrating climate risks into enterprise risk?
- Do we have robust systems and controls in place for collecting and reporting climate data?
- Does the organization have the hybrid skillset necessary for success and appropriate governance structure as ESG is integrated into the business?

Stakeholder scrutiny over climate reporting and transparency

As regulatory momentum around climate and sustainability reporting slows, stakeholders—investors, insurers, and consumers—are stepping in where regulators have paused. Their expectations for transparency and action on climate risk are driving market behavior and imposing real costs on organizations that lag behind. Audit committees must ensure management identifies these stakeholders and understands and addresses their concerns.

In Canada, Bill C-59's anti-greenwashing provisions increase legal risk for climate claims, prompting some organizations to eliminate voluntary reports and migrate only the most material climate metrics into annual reports—subject to the same controls as financial data. Audit committees should challenge management to ensure disclosed climate metrics are carefully selected and meet public reporting standards.

As organizations decide where climate disclosures will reside, they should clarify ownership and accountability, design appropriate governance and oversight, and build sustainable processes for climate data and metrics. Audit committees should question management on data governance and the infrastructure for collecting, controlling, and assuring climate information, using this period to make systems more robust.

In addition to specific climate metrics, some of the fundamental risks arising from changing weather patterns are influencing general financial disclosures. Changing weather patterns are affecting core financial disclosures through higher insurance premiums, potential cleanup costs, and operational disruptions. Audit committees should ask how climate risks are identified, integrated into enterprise risk management, and reflected in non-climate financial metrics.

> Although some reporting requirements are paused, elevated climate risks and stakeholder expectations around climate reporting persist. Audit committees need to ensure organizations continue to monitor regulatory developments and build robust and sustainable climate reporting.

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