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ESG RISK **QUARTERLY**

ECOFACT's briefing for risk experts

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ECO:FACT



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Editorial

Communicating the danger of management inaction

In a [recent editorial](#), I explained that the “ESG backlash” will have its very own backlash. Softening and delaying sustainability regulations doesn't make sustainability challenges go away – quite the opposite. Less action today means more risk tomorrow.

The [Planetary Health Check](#) initiative starkly visualizes this in its recently published [2025 report](#) (high-level overview [here](#)): sustainability risks continue to build. Exceeding planetary boundaries means putting our habitable environment at risk. In other words, the Earth's physical and chemical conditions no longer *guarantee* that our world will remain a livable place for humans.

Here are my key takeaways from the 2025 Planetary Health Check report, with a few additional thoughts:

1. Seven out of nine boundaries have now been transgressed.¹ Ocean acidification is the latest – threatening marine ecosystems and several of the food industry's value chains.
2. We have moved beyond a safe space and tipping points are emerging.² Tipping points matter, as our natural environment may shift into a state in which humans have never had to live before – let alone in which our economy, including agriculture, has had to operate.
3. Financial supervisors and reporting standards also refer to planetary boundaries. Being in the red is an economic warning sign, not just a matter of opinion, so this doesn't come as a surprise.³
4. For policymakers, operating outside a safe zone justifies hard guardrails. Once citizens feel the pain, policy action may rapidly change the regulatory environment. This transition will benefit some companies, but be [disruptive](#) for many others.
5. Making senior managers aware that humanity is overshooting planetary boundaries isn't alarmism. It can help build consciousness of the need to better understand how sustainability challenges present physical, transition, and [liability](#) risks – in both the short-term and the future.⁴
6. Risk signals can also show the way toward new business opportunities.

Departing from the current path is the goal. That may be more vital than many of us have been hoping. When world-renowned conservationist, the late Jane Goodall, was asked what was important about hope, she answered [that it wasn't just wishful thinking](#). She spoke of a long, dark tunnel with a little star at the end representing hope. “There's no good sitting at the mouth of the tunnel and wishing that hope will come to us,” she said. It is up to us “to climb over, crawl under, work around all the obstacles that lie between us and the star.”

Olivier Jaeggi
ECOFACT Managing Director

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1. If you're looking for an analogy, try this one: “[It's like blood pressure](#). If your blood pressure is over 120 over 80, it's not a guarantee that you're going to have a heart attack, but it does raise the risk, and therefore we do what we can to bring it down.”
 2. For a good introduction to how humans have started to change the planet and terms such as stability, resilience, and tipping points, see section 2 of [Planetary Health Check 2025 - A Scientific Assessment of the State of the Planet](#). Scientific updates on the proximity to global climate tipping points and risks are available at [Global Tipping Point](#).
 3. The ECB estimated in [2023](#) “that almost 75% of corporate bank loans in the euro area are granted to non-financial companies with a high dependency on at least one ecosystem service.”
 4. According to the report “[The Cost of Inaction: A CEO Guide to Navigating Climate Risk](#)” published by the World Economic Forum (2024) in collaboration with the Boston Consulting Group, “climate inaction could severely harm the world economy. (...) Without urgent action global GDP could drop by up to 22% cumulatively by 2100.” For “unprepared businesses, individual physical risks alone could put 5% to 25% of their 2050 EBITDA at risk.”

International standards

Updates on cross-sector environmental and social standards that might be relevant as benchmarks for risk assessments.
 Scope: key developments related to the most important international environmental and social standards.

→ New HRDD tool for data providers

Human rights due diligence (HRDD) has never been more important. Yet assembling an accurate picture of companies' human rights commitments and actions, and their effects, can be challenging for data providers and investors. Investor Initiative on Human Rights Data (IIHRD) **guidance** outlines 21 principles for data providers and investors by which to evaluate companies' human rights performance. This includes how well companies implement international business and human rights standards, and whether they breach international norms described in the UN Guiding Principles on Business and Human Rights and other frameworks. The IIHRD principles guide providers in assessing the severity of adverse impacts and companies' responses, as well as the accuracy of reporting. September 30, 2025

[Read more](#) →


What we're watching

We present here a few **anticipated actions revealed by our Policy Outlook research**. ECOFACT's team of legal analysts monitors regulatory developments related to sustainable finance and corporate responsibility in more than 50 jurisdictions, including the EU, as well as those of financial sector regulators, stock market authorities, and multilateral organizations. Please **contact us** for more information on regulatory trends.

Authority	What's on our radar	Date of next expected development
European Union (EU) 	Member states of the EU and the European Economic Area are required to transpose the "Stop the Clock" Directive into their national legal frameworks by the end of 2025. The Directive delays the dates that certain corporate sustainability reporting and due diligence requirements start to apply to companies. Read more (for Policy Outlook subscribers) and access a new resource: Policy Outlook's overview of the transposition status of the	December 31, 2025

Open consultations

Our **ECOFACT Policy Outlook database tracks open consultations** that are relevant to the wider financial and insurance industries, as well as corporate actors. Organizations and governments solicit structured feedback from stakeholders during these events, and interested parties comment on the materials that are issued. Please **contact us** for more information on open consultations.

Authority	Consultation topic	Deadline for input
International Sustainability Standards Board (ISSB) 	The ISSB has proposed amendments to its industry-based guidance on implementing the climate-focused IFRS S2 sustainability disclosure standard. The changes are being made to keep the guidance aligned with proposed enhancements to the climate-related content in the SASB standards . Read more (for Policy Outlook subscribers) →	November 30, 2025

Source: ECOFACT Policy Outlook, a database of in-depth analyses of sustainable finance and corporate responsibility regulatory initiatives across the globe. More information: <https://www.ecofact.com/policyoutlook/>

Spotlight: Global food systems and climate instability

→ As climate pressures intensify globally, the [OECD-FAO Agricultural Outlook 2025–2034](#) and the [2025 Global Report on Food Crises](#) assert that sustainable agricultural practices are needed to boost productivity and mitigate climate change. A European Environment Agency [report](#) calls climate change “a profound challenge for humanity,” and urges the transformation of consumption and production structures, including food systems.

Current food systems drive five [planetary boundary transgressions](#). The UN Food and Agriculture Organization states that a transformational [systems approach](#) is urgently needed. Its High Level Panel of Experts on Food Security and Nutrition [suggests](#) starting with reducing social, political, economic, and ecological vulnerabilities. From July to September, we've observed a media shift in focus to a couple of climate-related risks that affect global food systems:

A few other threats to food security that have been in the news:

- [Conflict](#)
- [Conversion of cropland](#)

[Increasing soil salinity](#)

insurers, prompting some to respond with [innovative products](#), like parametric insurance which is a non-traditional index-based insurance product.

New resources for investors

[FAO Data Visualization Catalogue](#): This UN Food and Agriculture Organization (FAO) web page provides access to over 50 dashboards and interactive tools that span agriculture, food security, and climate. Supports evidence-based decision-making.

[Cultivating Resilience: A Primer on Corporate Investment in Agricultural Supply Chains](#): Ceres presents models of collaborative



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High-risk sectors

News on risk factors and trends, regulations, and best practices associated with key high-risk sectors.

- Oil & Gas
- Mining
- Forestry
- Agriculture
- Utilities
- Chemicals
- Other

Risk factor

Forced labor risks arriving along "Air Silk Road"

Air freight routes are **proliferating** between the city of Ürümqi, in the Uighur region of China, and European cities. This raises concerns that goods produced with forced labor are being imported into the EU and UK. The Uyghur Human Rights Project (UHRP) said this surge in flights demonstrates a major gap between the EU Forced Labour Regulation – and other laws – and their enforcement for goods made with forced labor in the Uighur region. It is believed these goods include clothing, footwear, electronics, specialist agricultural products, and household items. The UHRP urged EU member states urgently to improve inspections of cargo flights coming from this area, and work to legislate for transparency of cargo manifests. Additionally, it says, air freight companies should reconsider carrying goods along these routes. July 30, 2025

[Read more](#) →

Risk factor

Regulation or litigation? Big tech in the crosshairs

The **Global Call for AI Red Lines** is a civil-society initiative that calls for international regulation to prevent AI from causing "universally unacceptable risks." The related uses include mass surveillance, human impersonation, and autonomous weapons control. As nations struggle to keep pace with AI, online gaming, and social media, litigation is filling the regulatory and ethical gaps. The US state of Louisiana is **suing** Roblox, alleging it exposed children to predators, while Google must pay USD 30 million to settle a California **lawsuit** for misusing children's personal data, and a Brazilian labor court **ruled** that Meta had not prevented the exploitation of child content providers. Most notably, Anthropic AI is finalizing an unprecedented USD 1.5 billion settlement with a group of US authors over "**fair use**" violations. September 5, 2024

- [Read more \(1\)](#) →
- [Read more \(2\)](#) →
- [Read more \(3\)](#) →
- [Read more \(4\)](#) →
- [Read more \(5\)](#) →
- [Read more \(6\)](#) →

Risk factor

Climate litigation affects business borrowing costs

With climate litigation increasing, the European Central Bank (ECB) released a **report** examining whether banks consider such lawsuits to be a material financial risk, and if this risk affects their lending decisions and interest rates. It analyzed more than 5,000 loans granted from 2006 to 2021, and found that banks charged higher interest rates to companies exposed to climate litigation risks – four percent higher, on average. Loans to litigation-exposed companies were also smaller and had a shorter maturity period. This trend was particularly noteworthy with companies that demonstrated poor ESG performance or became involved in ESG controversies. The ECB said these findings highlight the role of banks in environmental accountability, and the need for regulatory frameworks that support transparency around ESG factors. August 5, 2025

[Read more](#) →

Risk factor

Texas fracking actually threatens oil and gas reserves, global markets

Problems with fracking wastewater have reached a tipping point in the Permian Basin, the largest oil field in the USA. Shale drilling produces up to five barrels of toxic wastewater for every barrel of crude oil extracted. This creates risks from its disposal. Producers can no longer pump the wastewater deep into the ground, where it causes earthquakes. When pushed into shallower rock, the toxic water can explode or leak from disposal wells, contaminating oil and gas reserves in nearby layers. While some producers want to add new disposal wells, there is opposition from industry and government over the risk of further contamination. As the problem threatens to increase legal disputes and the cost of drilling, some warn it signals a peaking of the oil industry in the USA. September 17, 2025



- [Read more \(1\)](#) →
- [Read more \(2\)](#) →

Attention tracker: High-risk sectors

ECOFACT analyzes the attention – both positive and negative – that certain high-risk sectors receive from the public and from regulators. We present some of our research here. It is based on a range of credible sources such as NGOs, academic institutions, regulatory authorities, governments, and reputable media outlets.

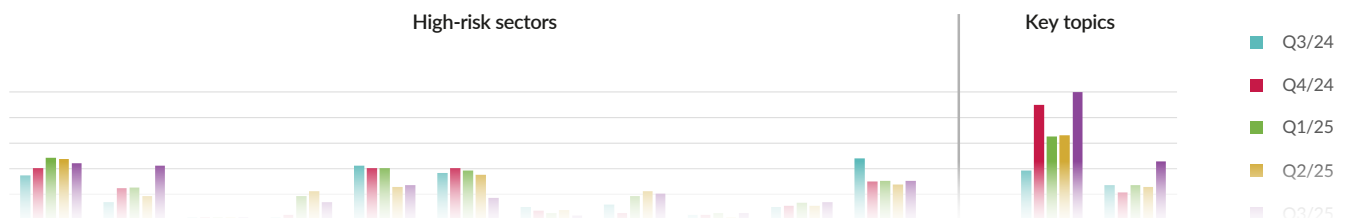
Highlights from the third quarter of 2025

There was a notable change in the attention these three sectors attracted during the past quarter. We define “attention” as the proportion of news coverage that a sector receives relative to the total volume of news that we track.

Level of attention over time	Noteworthy developments
Chemicals (e.g. plastic, pesticides, PFAS)	
	<ul style="list-style-type: none"> → Elevated PFAS levels found downstream of wastewater treatment and in biosolids spread on fields June 26, 2025 Read more → Study links prenatal exposure to common pesticide chlorpyrifos to brain
Oil and gas (e.g. fracking, pipelines, LNG)	
	<ul style="list-style-type: none"> → High Court in South Africa blocks offshore drilling project until new study assesses socio-enviro impacts August 20, 2025 Read more → New tool, the Methane Risk Map, tracks hazardous co-pollutants released with methane emissions across the USA August 26, 2025 Read more

Overview of trends

Level of attention given to some of the high-risk sectors and key topics that ECOFACT tracked between the third quarter of 2024 and the second quarter of 2025.



Emerging risks

Risks that could be relevant when looking into a company's business model. These issues may not yet be considered highly significant, but they have the potential to be.

→ Quantum-readiness essential for financial systems and services

Quantum technologies exploit the behavior of objects at the smallest, sub-atomic scale. They are still emerging but advancing rapidly. Quantum computers are faster, smarter, and more secure than any current system. It is predicted they will soon be used to detect fraud and forecast risk, and for encryption – and de-encryption. A [paper](#) by the Bank for International Settlements says the financial industry must prepare now, and provides a framework for transitioning to this next-gen technology effectively and securely. A World Economic Forum [white paper](#) also offers practical examples and key strategies to harness the full potential of quantum technologies – useful reading for both public and private financial sectors on their inevitable quantum future. July 16, 2025

[Read more \(1\)](#) → [Read more \(2\)](#) →

→ Social factors lag behind environmental factors in ESG reporting

The World Research Institute has issued a [white paper](#) showing that, although most companies set value chain ESG goals, those goals neglect the people producing that value, especially in small-to-medium sized businesses. Most of a company's ESG impact occurs in its supply chain, and the report details several ways that companies can improve their sustainability by setting people-centered ESG goals. These include creating transparency in their supply chain, helping suppliers buy renewable energy, and making investments for mutual benefit. Similarly, the Centre for Social Impact at UNSW Australia has issued a [report](#) noting that “S” reporting lags behind “E” reporting. It summarizes current trends in social reporting and highlights ways it could be improved, such as standardization and shared typology. August 26, 2025

[Read more \(1\)](#) → [Read more \(2\)](#) →

→ Stable sustainability rules are critical, financial sector says

As the USA moves to undo climate regulations and the EU considers toning down its regulations to cut costs, EU companies, investors, and financial institutions are calling for stability in sustainability rules. A [joint statement](#) with more than 475 signatories argues that a stable policy environment is critical to maintaining a competitive and sustainable economy. Amid regulatory uncertainty, climate risks remain real, as underlined by a [report](#) from the Dutch central bank. It indicates that financial institutions need more detailed information to assess flood and windstorm risks accurately. August 28, 2025

Why we think it matters: While regulatory uncertainty is challenging for investors and companies to navigate, climate and sustainability risks are not going away. Investors still need information to make good decisions.

[Read more \(1\)](#) → [Read more \(2\)](#) → [Read more \(3\)](#) →

Peer approach

A selection of new sector and issue policies that have recently been adopted or that are receiving attention. This section includes announcements of peer alliances and collaboration.

→ A science-based approach to net zero

The Science Based Targets initiative (SBTi) has released its **Financial Institutions Net-Zero Standard**. The standard provides clear, science-based tools for the financial sector to align its activities with the goal of net zero by 2050. The standard is intended to help institutions build resilience, minimize climate risk, and take leadership in the global net-zero transition. Key elements include an engagement-first approach, commitments to addressing deforestation exposure and to transitioning away from fossil fuel finance, as well as both near-term and long-term targets. In response, a 23-US-state coalition led by the Iowa attorney general wrote a **letter** expressing “grave concerns” that the SBTi and institutions that commit to its standard risk violating antitrust and state consumer protection laws. The letter stated that net-zero programs are unrealistic and harmful to American consumers. August 8, 2025

[Read more](#) →

→ FSB progress report highlights division on approaches to climate work

The Financial Stability Board (FSB) has published its third progress **report** for the G20. The new report follows on from the FSB's 2021 roadmap to address climate-related financial risks. The report details the actions undertaken across four categories: disclosures, data, vulnerabilities analysis, and regulatory and supervisory practices and tools. In describing its medium-term approach to potential climate-related financial risks, the FSB says it has paused the incorporation of new climate initiatives into its supervisory and regulatory work, citing “a wide range of views” on how to approach climate-related risks. The decision follows the USA's withdrawal from several climate initiatives, and subsequent division among member states. The report emphasizes that to properly assess climate-related financial risks, it is essential to have comprehensive, reliable, detailed, consistent, and comparable information. July 18, 2025

[Read more \(1\)](#) → [Read more \(2\)](#) →

→ Sector and issue policies adopted by insurers

This table presents the number of the **nine global systemically important insurers** that have a public policy or guideline for investing in or underwriting for the sectors listed in the left column.

Sector policy	Q4 2025	
	I	U
Agriculture	2	1
Agriculture commodities	2	0
Animal welfare	1	0
Palm oil	2	1
Climate change	9	5
Biodiversity	6	4

Sector policy	Q4 2025	
	I	U
Utilities	2	2
Nuclear power	2	1
Coal-fired power	8	5
Hydropower	2	1
Medical		
Clinical trials	1	0
Animal testing	1	1

I = sector-related investment activities have a public policy or guideline U = sector-related underwriting activities have a public policy or guideline

Policy sector in focus: Plastics

A discussion that highlights why some financial institutions have developed policies to guide their activities associated with a specific sector or concern.

- In August, UN Global Plastics Treaty negotiators **failed to finalize** the treaty's text. No deal is better than a weak deal, but the stalemate remains unresolved. Plastic production is **predicted** to triple by 2060 without intervention. The **impasse stems** from a deep division between states that **want** to cap plastic production and **those** that do not. As **electric vehicle sales** shrink traditional markets for oil, it's been suggested that oil companies view plastics and their constituents, petrochemicals, as a "Plan B."

Prevalence of plastics-related provisions in selected financial institutions' responsible investment policies



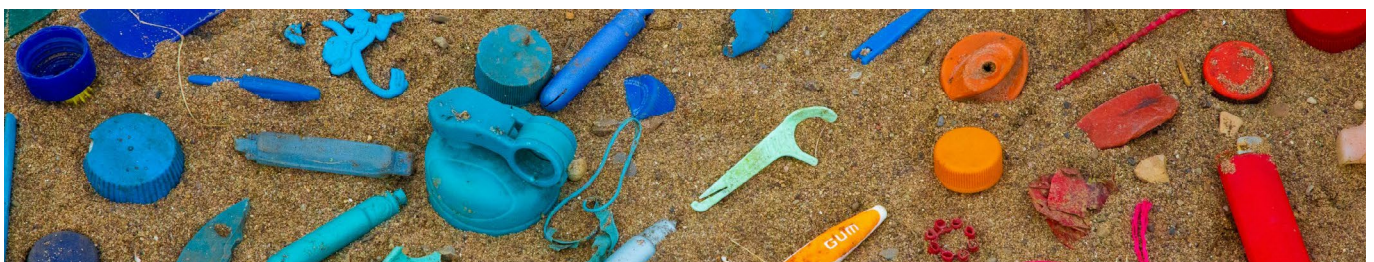
■ No chemicals policy or no mention of plastics in policy

have been mitigated, such as mercury and chlorofluorocarbons, and offer lessons on how to tackle plastics-associated harms, which are "not inevitable."

Is reputational risk brewing?

There are concerns about the **petrochemical industry's efforts** to influence public opinion in favor of using more disposable products and producing more plastics, despite the health risks and lack of recycling facilities. Similarities with the tobacco industry's tactics raise reputational risks for investors in plastics companies.

Financial institutions are increasingly **criticized** for financing companies that are part of the global plastics life cycle. Yet, **ECOFACT**



New resources

This section highlights tools, databases, and other information that can help you to identify, manage, disclose, and mitigate ESG risks.

→ More money for the oceans

The International Finance Corporation has published the second version of its blue finance **guidelines**. The new guidelines include an updated eligibility framework for blue finance activities. They also offer practical advice for designing blue finance instruments to help financial institutions provide capital for sustainable ocean and freshwater economies. The **Blue Carbon Cost Tool** from The Nature Conservancy also seeks to align financing with ocean conservation. Blue carbon ecosystems – mangroves, salt marshes, and seagrasses – make up only two percent of the planet but deliver outsize carbon capture benefits compared to terrestrial areas. Both initiatives are part of a growing blue finance sector. In 2025 blue bonds were the **fastest growing** of all sustainable bonds, suggesting ocean sustainability is becoming more important to investors. September 17, 2025

[Read more \(1\)](#) → [Read more \(2\)](#) →

→ New tool supports faster, more informed decisions and reporting on low-carbon investments

A **case study** by Climate Risk Services (CRS) shows how open-source data can easily and reliably be used by banks, in particular those in emerging markets and developing economies, to get information on climate-related impacts and risks. Using its new Financed Emissions Tool and the **inventory** of asset-level emissions data provided freely by Climate Trace, CRS estimated fossil fuel assets for more than 80 percent of an Egyptian bank's corporate loan book. As CRS works to fine tune and deploy the tool, it says it will help more banks assess Scope 3 financed emissions with confidence, and improve their data quality scores under the Partnership for Carbon Accounting Financials framework. June 30, 2025

[Read more](#) →

→ Helping banks prepare for the credit implications of climate change

Financial institutions must grapple with the reality that climate change will impact their balance sheets. A Bank for International Settlements **paper** sets out a methodology for banks to integrate physical climate risks into credit risk modeling. It may help banks allocate capital and develop hedging strategies to address climate-related credit losses. The UN Environment Programme Finance Initiative **evaluated** the status of climate-related risk assessments in the banking sector. It found banks are making progress with incorporating climate-related risks into credit risk modeling. However, key challenges include poor data availability, mapping climate risk drivers to financial risk drivers, and insufficient guidance from supervisory agencies. July 7, 2025

[Read more \(1\)](#) → [Read more \(2\)](#) →

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