The Sustainability Brief

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Sustainability at an Inflection Point: What Will Shape 2026

As companies enter 2026, sustainability is no longer defined by volume of disclosure or ambition alone. Instead, leading organizations are recalibrating toward regulatory resilience, decision-useful data, and business value creation. At ZMH Advisors, we have identified three key themes shaping the year ahead.

01. Regulatory Evolution and Global Divergence

Sustainability regulation continues to expand globally, but not uniformly. New and evolving requirements in the Philippines, Spain and Australia, alongside continued clarification of CSRD, CSDDD, and EUDR, are creating a more fragmented compliance landscape for multinational companies.

The practical challenge for executives is no longer whether to comply, but how to manage overlapping, sometimes inconsistent requirements across jurisdictions, while maintaining coherent governance, data integrity, and assurance readiness. In 2026, we expect more companies to centralize sustainability governance, align reporting architectures, and design controls that can flex across regimes rather than respond jurisdiction by jurisdiction.

Key Takeaway for Multinational Companies:

- **Spain** is embedding CSRD/ESRS and advancing mandatory carbon and emissions reporting with external assurance considerations.
- **Australia** has enacted climate-focused sustainability reporting through ASRS and is rolling it out in phases through 2028.
- The **Philippines** is transitioning toward mandatory sustainability disclosures aligned with ISSB standards, beginning in 2026 with a phased implementation.

EU’s Omnibus Package Practical Steps for 2026:

Re-assess Applicability under the new Omnibus thresholds.

Centralize Data & Controls to support ESRS alignment and assurance readiness.

Embed Due Diligence within procurement and risk systems focused on direct partners.

Monitor Delegated Standards and national transpositions for implementation nuances.

02. Recalibrating Sustainability Toward Business Value

Sustainability is being re-priced from a compliance exercise to a business discipline. Boards and executives are no longer asking what must we report, but how does this reduce risk, protect capital access, and strengthen long-term performance?

This shift is forcing a reset away from expansive ESG narratives and toward decision-useful insights tied to strategy, resiliency, and governance credibility. While companies are drowning in sustainability regulation, are they disclosing what investors actually care about?

According to ZMH’s Dashboard, which tracks engagement and disclosure priorities, investors are focused on AI governance disclosures, such as the board oversight of AI-related risks. Additionally, investors are pushing back on prescriptive shareholder proposals demanding greater climate-related disclosures. For instance, BlackRock, Vanguard, and State Street voted AGAINST proposals to ‘disclose material scope 3 emissions’ at Amazon and to ‘publish climate transition plan’ at Best Buy.

That said, companies need to closely evaluate investors’ policy guidelines and voting record to fully appreciate what disclosure truly matters. For instance, while State Street voted Against the scope 3 proposal at Amazon, it voted FOR a shareholder proposal requesting ‘report on the impact of data centers on climate commitments.

03. AI's Growing Role in Sustainability Functions

AI is beginning to materially influence sustainability teams: from data management and reporting efficiency, to regulatory monitoring, scenario analysis, and decision support. Used well, AI can significantly reduce manual effort and improve consistency across large, complex organizations.

At the same time, companies must remain cautious. Governance, environmental impact, data quality, explainability, and oversight remain critical particularly as AI intersects with assurance, risk, and regulatory scrutiny. In 2026, the leaders will be those who deploy AI thoughtfully as an enabler rather than a replacement for strong governance and controls.

California Climate Disclosure Laws: Regulatory & Litigation Status

SB 261: Climate-Related Financial Risk Disclosure

- Enforcement of SB 261's reporting requirements remains temporarily stayed by the U.S. Court of Appeals for the Ninth Circuit, pending resolution of ongoing litigation. A coalition led by the U.S. Chamber of Commerce challenged the law; oral arguments were heard on January 9, 2026, but the court has not yet issued a decision.
- The injunction issued in November 2025 paused enforcement of the law's statutory reporting deadline (originally January 1, 2026) while the appeal proceeds.
- CARB has clarified, in guidance, that it will not enforce SB 261's deadline while the injunction is in place, and has opened an optional reporting docket for voluntary submissions through mid-2026.
- No final ruling has been issued. The Ninth Circuit is expected to issue an opinion in the coming weeks or months.

SB 253: Climate Corporate Data Accountability Act

- The Ninth Circuit's injunction affecting SB 261 did not stay SB 253, meaning emissions reporting requirements remain in force.
- SB 253 requires covered entities to report greenhouse gas emissions. Initially Scope 1 and Scope 2 with deadlines anticipated in 2026 (CARB has discussed an August 10, 2026 reporting window), and Scope 3 reporting in subsequent years.
- CARB has continued to refine and clarify SB 253 guidance, including expectations around data and program structure in workshops and updated materials.

Where Things Stand for Companies Right Now

01. SB 261 enforcement is stayed pending appeal.
Covered entities are not currently subject to penalties for failing to post a climate-risk report by the original statutory deadline, but the law has not been overturned.

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02. SB 253 reporting obligations remain live and companies should advance emissions reporting readiness (data systems, assurance planning) ahead of expected 2026 deadlines.

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03. The Ninth Circuit's eventual decision could come months after oral argument, leaving regulatory clarity fluid in the near term.

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04. See ZMH's California Climate Disclosure Readiness Briefing for more information.

ZMH helps companies move from uncertainty to strategic clarity. By tracking what your investors actually prioritize—their voting patterns, engagement focus areas, and disclosure expectations—we help you align your ESG reporting with real investor needs instead of generic benchmarks. We invite you to connect with us today to discuss how our real-time investor intelligence can sharpen your disclosure strategy.