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IFRS SUSTAINABILITY DISCLOSURES: THE IMPACT OF IFRS S1 AND S2 ON CORPORATE REPORTING

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Abstract. This paper explores the introduction of IFRS S1 and IFRS S2 by the International Sustainability Standards Board (ISSB) and their implications for corporate sustainability reporting worldwide. These standards, released in June 2023 under the oversight of the IFRS Foundation, aim to enhance consistency, comparability, and reliability in sustainability disclosures. IFRS S1 sets general requirements for reporting sustainability-related risks and opportunities, while IFRS S2 focuses specifically on climate-related disclosures. Through a literature-based analysis, this paper examines how these standards are transforming the landscape of corporate reporting, the challenges faced during implementation, and their potential to harmonize global sustainability practices. The findings indicate that IFRS S1 and S2 mark a significant milestone toward integrating financial and non-financial information, yet widespread adoption depends on regulatory support, data quality, and organizational readiness.

Keywords: *ISSB, sustainability reporting, harmonization, climate disclosure, ESG*

JEL code: *M41, M14*

Introduction

Over the past two decades, the dynamics of corporate governance have been marked by a significant increase in expectations regarding transparency and public accountability, particularly in the field of environmental, social, and governance (ESG) reporting. This evolution reflects profound structural transformations in the way investors, regulators, financial institutions, and civil society conceptualize organizational performance. In a context defined by emerging systemic risks-most notably climatic, social, and technological risks-financial market actors increasingly demand information that goes beyond traditional financial indicators, aiming to assess the capacity of economic entities to generate sustainable long-term value and to manage the economic and ecological uncertainties associated with the global transition.

However, the rapid development of voluntary reporting frameworks such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD) has led to a notable fragmentation of the information landscape. Although these initiatives have contributed to strengthening the culture of non-financial reporting, the heterogeneity of requirements, methodological discrepancies, conceptual inconsistencies, and absence of standardized definitions have generated persistent challenges related to the comparability, consistency, and credibility of disclosed data (KPMG, 2024). As a result, users of information-particularly investors-have faced difficulties in conducting robust analyses and in evaluating the material risks associated with sustainability. [1-2]

Against this backdrop, the IFRS Foundation launched a major institutional initiative in 2021 by establishing the International Sustainability Standards Board (ISSB), a body complementary to the International Accounting Standards Board (IASB). The creation of the ISSB addresses the acute need for a unified, coherent, and rigorous global framework for sustainability-related disclosures. The Board's mission is centered on developing a conceptual system designed to provide a global baseline for sustainability reporting, thereby ensuring cross-market, cross-sector, and cross-jurisdictional alignment. The ISSB adopts an investor-focused approach grounded in the principle of financial materiality, emphasizing sustainability-related risks and opportunities that may influence an entity's value, future performance, or cash-flow structure.

A key milestone in this process was the publication, in June 2023, of the first two disclosure standards-IFRS S1 and IFRS S2-which represent a decisive step in the global convergence of sustainability reporting (IFRS Foundation, 2023a, 2023b). IFRS S1 establishes the general requirements for sustainability-related disclosures, while IFRS S2 focuses specifically on climate-related risks and opportunities, explicitly integrating the conceptual framework of the TCFD. These standards provide substantial clarification of reporting expectations, reduce information asymmetries, and advance the professionalization of the field, holding the potential to reshape the global architecture of corporate reporting.

By adopting these standards, the ISSB not only addresses the informational needs of investors but also establishes a regulatory framework capable of supporting the transition toward more resilient, transparent, and sustainability-oriented economies. Implicitly, this initiative contributes to the harmonization of the international reporting ecosystem, enhances market confidence, and strengthens corporate governance in an era in which financial performance can no longer be separated from environmental and social impact.

Literature review

Sustainability reporting originates in the realm of voluntary practices that emerged within early corporate social responsibility (CSR) initiatives. In its initial form, it was not mandated through formal regulations but represented a strategic endeavor by which organizations sought to respond to ethical, reputational, and social pressures exerted by communities, consumers, and investors. The practice evolved as part of a broader transformation in how companies understood their role in society, shifting from a view focused almost exclusively on financial performance toward a governance model that integrates environmental, social, and transparency considerations.

In its early stages, sustainability reporting functioned as a mechanism of institutional legitimation, through which companies aimed to demonstrate their commitment to CSR values, manage stakeholder expectations, and reduce informational asymmetries generated by their economic activities. The process was largely self-regulated, relying on companies' initiative to disclose information on their social and environmental impact in the absence of universally accepted standards. In this context, voluntary reporting gradually became a space for experimentation and innovation, where different organizations began to develop conceptual frameworks, indicators, and methodologies meant to provide a more comprehensive understanding of their contribution to sustainable development.

This preliminary phase, characterized by the absence of normative obligations and by diverse approaches, created the conditions for the emergence of more coherent standards capable of structuring and professionalizing non-financial reporting. Thus, the voluntary origins of sustainability reporting played a fundamental role in shaping the subsequent development of the field, facilitating the transition from fragmented CSR initiatives to a globally standardized framework with operational and strategic relevance for the corporate environment.

The emergence of the Global Reporting Initiative (GRI) in the late 1990s represented a turning point in the evolution of corporate reporting, as it introduced the first systematic and coherent framework for assessing organizational performance beyond the financial dimension. GRI appeared during a period marked by intensified international debate regarding corporate responsibility for environmental and social impacts, against the backdrop of global concerns such as climate change, biodiversity loss, and deteriorating labor conditions in supply chains. In this context, GRI not only filled an obvious normative gap but also redefined how non-financial information could be conceptualized, measured, and communicated in a structured and accessible manner.

Furthermore, GRI introduced a perspective grounded in transparency and stakeholder engagement, encouraging companies to adopt a reflective process of self-evaluation and to report in a manner that transcended unilateral communication. In this sense, GRI functioned not only as a set of technical standards but also as a catalyst for organizational change, stimulating the adoption of management practices more oriented toward sustainability. Its open, evolutionary, and adaptable nature facilitated widespread implementation, making GRI a fundamental benchmark in the global architecture of non-financial reporting.

Thus, GRI's pioneering role in the 1990s extended well beyond the development of a technical reporting framework, substantially influencing how organizational performance is defined and understood more broadly, contributing to the professionalization of the field and laying the groundwork for subsequent international standards.

The emergence of the Sustainability Accounting Standards Board (SASB) marked a critical stage in the evolution of sustainability reporting by introducing a set of indicators characterized by a high degree of industry specificity. This approach represented a significant methodological innovation, acknowledging that the risks and opportunities associated with sustainability do not manifest uniformly across economic sectors; instead, industries differ in the nature of their production processes, value chain structures, and resource intensity. As a result, SASB developed a differentiated framework grounded in a systematic analysis of financial materiality, enabling investors to more accurately assess the long-term implications of ESG risks on organizational performance.

In parallel, the Task Force on Climate-related Financial Disclosures (TCFD), launched under the auspices of the Financial Stability Board (FSB), significantly advanced the integration of climate-related risks into financial reporting. TCFD introduced a robust conceptual architecture structured around four pillars-governance, strategy, risk management, and metrics/targets—encouraging companies to transparently disclose how climate scenarios could affect their strategies and financial resilience. Its major innovation lay in its forward-looking orientation, treating climate risks not merely as historical or operational elements but as determinants of future financial stability. [3-4]

Through the combined contributions of SASB and TCFD, the landscape of corporate reporting shifted from a predominantly descriptive approach to one that is strategic and financially oriented, in which sustainability information is evaluated in terms of economic relevance, resilience, and long-term adaptive capacity.

Despite these significant developments, the simultaneous coexistence of numerous reporting frameworks and standards gradually generated a widely discussed phenomenon in the academic literature known as *reporting fatigue*. This "fatigue" emerged from companies' struggle to meet the increasingly complex and voluminous information requirements imposed by regulators, voluntary initiatives, ESG rating agencies, and institutional investors-each with its own indicators, methodologies, and expectations. In this context, reporting ceased to be solely an exercise in transparency and became an extremely resource-intensive activity, creating substantial operational pressures, particularly for medium-sized and smaller organizations.

Methodological divergences among frameworks-some centered on financial materiality, others on double materiality or broad societal responsibility - exacerbated this situation, producing a fragmented and difficult-to-navigate information environment. Companies often found themselves preparing parallel or overlapping reports to satisfy different stakeholder groups, leading to duplicated efforts and increased compliance costs. Simultaneously, the lack of conceptual alignment among frameworks contributed to inconsistencies in reporting content and significant variation in data quality.

This fragmentation directly affected report users-especially investors-who struggled to conduct valid comparisons across companies and jurisdictions. The absence of common definitions, methodological differences, and varying levels of detail contributed to inconsistent disclosures, undermining the credibility and usefulness of non-financial information. In some instances, this led to perceptions that sustainability reporting was losing strategic relevance, becoming a formalistic exercise conducted more from obligation than conviction.

The announcement by the IFRS Foundation at COP26 in Glasgow in 2021 of the creation of the International Sustainability Standards Board (ISSB) marked a decisive step in reshaping the global architecture of sustainability reporting. The initiative emerged in an international environment characterized by growing pressure for standard harmonization and increasing recognition that normative fragmentation impeded markets' ability to assess sustainability-related risks and opportunities coherently. The announcement was thus perceived both as an institutional response to these challenges and as an attempt to align non-financial reporting with the rigor and credibility long associated with IFRS financial reporting standards. [5]

The creation of the ISSB was grounded in the premise that investors require a unified regulatory framework based on common principles and comparable indicators to integrate sustainability information into financial performance and risk assessments. Unlike previous voluntary initiatives, the ISSB was conceived as a global standard-setting body with strong institutional authority, capable of offering a “global baseline” for sustainability disclosures-an informational infrastructure intended to be adopted or adapted across jurisdictions. This approach not only sought to consolidate the most relevant existing frameworks, such as SASB and TCFD, but also aimed to create an integrated structure that ensured coherence between financial and sustainability reporting. Complementarily, the adoption of an investor-oriented perspective was essential for the initiative’s legitimacy, positioning sustainability disclosures at the heart of economic decision-making. By focusing on financial materiality and informational relevance, the ISSB sought to reduce informational asymmetries and enhance the quality of data underlying assessments of corporate performance. Consequently, the 2021 announcement represented not only a technical reform but also a strategic commitment to modernizing how companies communicate the impact of environmental, social, and governance factors on their economic value.

Thus, the establishment of the ISSB can be regarded as a defining moment in the evolution of global sustainability reporting governance, marking the transition from a plurality of unaligned frameworks to a consolidated normative system capable of supporting financial stability, market transparency, and the alignment of economies with international climate and sustainable development goals.

The announcement by the IFRS Foundation of the creation of the International Sustainability Standards Board (ISSB) at COP26 in 2021 also represented a major institutional response to the challenges highlighted in academic literature, including the influential analysis by Eccles and Klimenko (2019), who underscored the unsustainable nature of global reporting fragmentation. Their findings-pointing to investors’ difficulty in evaluating unaligned information and to the pressure on companies to simultaneously comply with multiple frameworks—highlighted the urgent need for a convergent global standard capable of reducing uncertainty and ensuring consistent disclosures. In this context, the IFRS Foundation’s decision to create the ISSB was perceived as a strategic reaction to such structural problems, aiming to consolidate existing standards and integrate the most robust initiatives, including SASB and TCFD, into a coherent, investor-oriented normative framework. Through its role, the ISSB seeks to provide a “global baseline” for sustainability reporting, facilitating international comparability and reducing the reporting fatigue noted by Eccles and Klimenko (2019). This initiative is grounded in the perspective of financial materiality, reinforcing the link between sustainability information and the assessment of economic performance-an aspect crucial for the effective functioning of capital markets.

Thus, the creation of the ISSB marks a defining moment in the reconfiguration of global corporate reporting governance, reflecting both the practical harmonization needs identified by Eccles and Klimenko and the institutional commitment to integrating sustainability at the core of financial decision-making. This development represents a decisive transition from a fragmented architecture to an integrated system designed to support market transparency, investor confidence, and the adaptation of global economies to the environmental and developmental challenges of the twenty-first century.

Overview of IFRS S1 and IFRS S2

The publication of IFRS S1 and IFRS S2 in June 2023 marked a significant milestone in the global evolution of sustainability disclosure standards. A comparative overview of IFRS S1, IFRS S2, TCFD, and ESRS is presented in *Table 1*, providing contextual orientation for the analysis that follows., representing the first formal articulation of a unified, internationally recognized framework for reporting sustainability-related information. Developed by the International Sustainability Standards Board (ISSB), these standards reflect the IFRS Foundation’s strategic ambition to integrate sustainability information within the global financial reporting architecture and respond to long-standing calls from market participants for greater coherence, comparability, and decision-usefulness in sustainability-related disclosures.

1. IFRS S1: General Requirements for Sustainability-Related Financial Disclosures

IFRS S1 establishes the overarching principles and general disclosure requirements that entities must apply when reporting material sustainability-related information. The standard is intended to serve as a foundational framework — a conceptual baseline upon which more specific sustainability or climate-related standards can be layered. In essence, IFRS S1 positions sustainability disclosures not as a separate reporting exercise, but as an integral component of an entity's broader financial communication with capital markets.

A central feature of IFRS S1 is its emphasis on interoperability with existing financial reporting systems. The standard requires entities to present sustainability-related information in a manner consistent with the qualitative characteristics of financial reporting — relevance, faithful representation, comparability, verifiability, and understandability. This alignment reinforces the ISSB's vision that sustainability matters should be evaluated through the lens of financial materiality, focusing on risks and opportunities that could reasonably be expected to influence an entity's cash flows, access to capital, or cost of capital. [6]

Structurally, IFRS S1 obliges companies to disclose information across four thematic pillars:

- Governance - how oversight bodies monitor and manage sustainability-related risks and opportunities;
- Strategy - how these risks and opportunities influence the entity's business model, strategic decisions, and long-term orientation;
- Risk management - how the entity identifies, assesses, prioritizes, and mitigates sustainability-related risks;
- Metrics and targets - how the entity measures performance on sustainability issues, including progress against stated objectives.

This architecture reflects a conceptual continuity with the TCFD recommendations, while expanding the scope beyond climate to encompass the full spectrum of sustainability topics that may bear financial implications.

2. IFRS S2: Climate-related disclosures

IFRS S2 builds upon and operationalizes the TCFD framework by providing detailed requirements specific to climate-related risks and opportunities. Given the systemic nature of climate risks and their increasing significance for financial stability, IFRS S2 plays a pivotal role in ensuring that climate information is disclosed in a structured, comparable, and decision-useful manner across jurisdictions.

Like IFRS S1, IFRS S2 requires disclosures organized around the same four pillars - governance, strategy, risk management, and metrics/targets - thereby ensuring consistency and facilitating users' ability to interpret climate information alongside broader sustainability-related disclosures. However, IFRS S2 goes further by specifying the types of climate-related risks that must be considered, including physical risks (such as extreme weather events, chronic environmental shifts) and transition risks (such as policy changes, technological innovation, and shifts in market preferences).

A distinguishing feature of IFRS S2 is the requirement for climate scenario analysis. Entities must assess the resilience of their strategies under different climate futures, including scenarios consistent with the Paris Agreement. This requirement introduces a forward-looking dimension to climate reporting, enabling investors to evaluate not only a company's current exposure to climate risk, but also its capacity to adapt to evolving environmental, regulatory, and economic conditions. [7]

The key similarities and distinctions between IFRS S1, IFRS S2, TCFD, and the European ESRS framework-particularly regarding scope, materiality, and prescriptiveness-are synthesized in *Table 1*. This expectation reflects the growing consensus that climate-related financial risks cannot be fully assessed without comprehensive emissions data across the value chain. The inclusion of these metrics strengthens transparency and enhances comparability across entities and sectors, addressing long-standing concerns about inconsistent climate reporting practices.

The chronological development of IFRS S2 - from the release of prototype guidance to the publication of amendments and implementation dates - is summarized in **Figure 1**, which highlights the progressive refinement of the standard and its phased introduction across reporting periods.

Figure 1. Timeline of IFRS S2 Climate-Related Disclosure Requirements

Source: IFRS Sustainability, Deloitte IAS Plus, Acuity Knowledge Partners

3. The combined role of IFRS S1 and IFRS S2

Together, IFRS S1 and IFRS S2 aim to establish a globally consistent, coherent, and investor-oriented sustainability reporting system. IFRS S1 provides the methodological backbone and cross-cutting disclosure principles, while IFRS S2 operationalizes these principles in the domain of climate-related information. Their combined effect is to ensure that sustainability information is reported within a structured framework aligned with financial relevance, enhancing the ability of investors, regulators, and other stakeholders to evaluate how sustainability issues shape long-term enterprise value. [8]

Importantly, the standards were designed to be interoperable with other major reporting initiatives, including the TCFD recommendations, the SASB standards, and - through ongoing coordination - the European Sustainability Reporting Standards (ESRS). This interoperability reduces the risk of duplication, alleviates reporting fatigue, and supports the broader objective of building a harmonized global sustainability disclosure environment.

In sum, IFRS S1 and IFRS S2 represent a decisive step toward standardizing the fragmented landscape of sustainability reporting. These harmonization dynamics, and the relationship of ISSB standards to other major frameworks such as TCFD and ESRS, are further illustrated in Table 1.

They advance transparency, strengthen investor confidence, and contribute to the global transition toward more resilient and accountable economic systems.

Table 1. Comparative overview of IFRS S1, IFRS S2, TCFD, and ESRS

Dimension	IFRS S1	IFRS S2	TCFD	ESRS (EU)
Primary objective	Establishes general principles for sustainability-related financial disclosures, creating a global baseline for investors.	Provides detailed requirements for climate-related disclosures, operationalizing climate-specific topics.	Offers a voluntary framework for climate-related financial disclosures aimed at improving transparency on climate risks.	Provides mandatory sustainability reporting standards covering double materiality and a full ESG scope for EU companies.
Scope	All sustainability topics with potential financial impacts (ESG broadly).	Climate-specific: physical and transition risks and opportunities.	Climate only.	Full ESG dimensions: environmental, social, and governance topics across 12 standards.

Materiality approach	Financial materiality: focuses on sustainability factors that affect enterprise value.	Same: financial impacts of climate risks/opportunities on enterprise value.	Financial materiality oriented.	Double materiality: financial + environmental/social impact on stakeholders and society.
Structure / Pillars	Governance, Strategy, Risk Management, Metrics & Targets (aligned with TCFD).	Same four-pillar structure as IFRS S1/TCFD.	Governance, Strategy, Risk Management, Metrics & Targets.	Thematic and sector-specific disclosure requirements across E, S, G, each with detailed subtopics.
Regulatory status	Mandatory where adopted by jurisdictions; designed as a global baseline.	Mandatory where adopted; climate-specific extension of S1.	Voluntary but widely adopted globally; forms basis for IFRS S2.	Mandatory under Corporate Sustainability Reporting Directive (CSRD).
Forward-Looking requirements	Requires disclosure of anticipated sustainability impacts on financial performance.	Requires climate scenario analysis and assessments of strategy resilience.	Requires scenario analysis (qualitative or quantitative).	Requires transition plans, climate resilience analysis, and forward-looking policies.
GHG emissions reporting	Not specific; refers to sustainability metrics if material.	Mandatory Scope 1, Scope 2, and (material) Scope 3 disclosures.	Encourages Scope 1–3 but less prescriptive.	Mandatory Scope 1, Scope 2, Scope 3, plus sector-specific climate indicators.
Level of prescriptiveness	High-level, principle-based standard.	More granular, climate-specific and prescriptive.	Guidance-based, not strictly prescriptive.	Highly prescriptive and detailed, with extensive disclosure requirements.
Alignment with other standards	Built to be interoperable with SASB, TCFD, and partially with ESRS.	Fully aligned with TCFD’s four-pillar structure.	Foundational basis for IFRS S2.	Interoperability guidance with ISSB; some conceptual differences due to double materiality.
Intended users	Primary users: investors, lenders, creditors.	Same: capital market participants and financial decision-makers.	Investors and financial institutions.	Broad stakeholders: investors, regulators, civil society, employees, customers.
Philosophical foundation	Enterprise value and capital market efficiency.	Enterprise value, financial resilience, climate risk integration.	Financial stability and systemic climate risk awareness.	Broader societal accountability and sustainability impact assessment.

4. Implications for corporate reporting

The adoption of IFRS S1 and IFRS S2 carries significant implications for the evolution of corporate reporting, representing a shift toward a more integrated, financially oriented approach to sustainability disclosures. By establishing standardized principles and climate-specific requirements, the ISSB framework strengthens the connection between sustainability issues and enterprise value, enabling non-financial information to be assessed with the same analytical rigor as traditional financial data.

For investors, these standards enhance decision-usefulness by providing more consistent, comparable, and forward-looking insights into how sustainability-related risks and opportunities may influence cash flows and long-term corporate performance. Regulators benefit from a harmonized global baseline, reducing fragmentation and facilitating convergence between jurisdictions. For reporting entities, IFRS S1 and S2 support a more structured approach to strategic risk management, encouraging firms to integrate sustainability considerations into governance, planning, and capital allocation decisions.

However, despite these advances, several challenges persist. Ensuring the reliability and auditability of sustainability data remains a major concern, particularly for metrics such as Scope 3 greenhouse gas emissions. Furthermore, differences between global and regional regulatory regimes - notably the EU’s CSRD and ESRS, which apply a double materiality perspective - create areas of potential misalignment that companies operating internationally must navigate carefully (EFRAG, 2023). These tensions highlight the ongoing need for interoperability, capacity building, and methodological refinement as sustainability reporting continues to mature. [9]

5. Discussion

The introduction of IFRS S1 and IFRS S2 represents a critical step toward global convergence in sustainability reporting, signaling a broader institutional shift toward harmonized disclosure practices. Several jurisdictions - including the UK, Canada, and Australia - have already announced plans to incorporate or align their national reporting requirements with the ISSB framework, indicating growing international support for a unified baseline (IFRS Foundation, 2024).

A central point of ongoing debate concerns the conceptual distinction between financial materiality and double materiality. While the ISSB standards adopt a financial materiality perspective focused on enterprise value, the European Union’s CSRD/ESRS framework expands the scope to include an entity’s outward impacts on society and the environment. This divergence continues to shape academic and policy discussions regarding the appropriate purpose and boundaries of sustainability reporting (Adams & Mueller, 2024).

At the same time, the move toward digital reporting, particularly through the development of XBRL taxonomies for sustainability disclosures, is expected to enhance the usability, accessibility, and cross-jurisdiction comparability of reported data (IFRS Foundation, 2024). These digital tools have the potential to reduce reporting burdens, improve data analytics, and support more effective regulatory oversight.

Overall, the ISSB standards represent both a major advancement and a point of tension within the global reporting landscape, balancing aspirations for convergence with the practical realities of divergent regulatory philosophies. [10-11]

6. Conclusion

IFRS S1 and IFRS S2 constitute a transformative advancement in the integration of sustainability and financial reporting, establishing a coherent, investor-oriented framework that strengthens transparency, comparability, and accountability across global markets. By anchoring sustainability disclosures in financial materiality and aligning them with established reporting structures, the ISSB standards contribute to a more consistent understanding of how environmental and social factors influence enterprise value and long-term performance.

Nevertheless, the effectiveness of these standards will depend on coordinated implementation efforts. Regulators, standard setters, and reporting entities must work collectively to ensure the reliability and auditability of sustainability data, develop the technical and organizational capacities needed for high-quality reporting, and navigate areas of divergence between global and regional regulatory approaches. Achieving these objectives will be essential for realizing the full potential of the ISSB framework and advancing a more resilient, transparent, and sustainable global reporting ecosystem.

7. Recommendations

Building on the analysis presented, several targeted recommendations can support the effective implementation and further development of the ISSB standards. First, companies should strengthen their sustainability data systems and internal control environments to ensure the accuracy, completeness, and auditability of disclosures. This includes investments in digital data infrastructure, cross-functional reporting processes, and staff training.

Second, regulators are encouraged to pursue greater alignment between national reporting frameworks and IFRS S1 and IFRS S2. Such convergence would help reduce compliance burdens, enhance interoperability, and promote the emergence of a coherent global reporting landscape.

Third, assurance providers must advance standardized and rigorous methodologies for sustainability assurance, addressing current gaps in consistency and reliability across jurisdictions.

Finally, researchers should continue examining the long-term implications of IFRS S1 and S2 adoption, particularly regarding firm valuation, capital allocation, and investor decision-making. Such empirical evidence will be crucial for evaluating the effectiveness of the ISSB framework and informing future refinements to sustainability reporting standards.

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