Updated: 24/02/26
Version: 1

Building a sustainability reporting ecosystem: How IFRS S1 and S2 are reshaping emerging market finance

Authors:

Namita Vikas, Founder & Managing Director, auctusESG and

Nikhitha Gurijala, Assistant Vice President, auctusESG

Sustainability reporting is no longer evolving parallel to financial reporting — it is becoming embedded within it. The issuance of IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 – Climate-related Disclosures issued in June 2023 marked a decisive shift. Sustainability and climate risks are now treated as core to enterprise value, capital allocation, and long-term financial performance.

For emerging markets, this transition is not merely about enhanced disclosure. It represents a structural reshaping of financial architecture.

From voluntary transparency to financial architecture

Over the two decades, sustainability reporting has evolved parallelly with financial reporting, accelerating significantly in the last decade. Early frameworks like the Global Reporting Initiative (GRI) boosted transparency and stakeholder communication across broad non-financial standards. Alongside it, Carbon Disclosure Project (CDP), Integrated Reporting (IR), and Sustainability Accountability Standards Board (SASB) standards, deepened the reporting space sectorally and thematically. CDP targeted climate, water, and forests for investor-driven emissions cuts through data. IR blended financial/non-financial narratives across six capitals, that later evolved into ISSB's core. SASB linked industry-specific ESG metrics to financial materiality, strengthening investor decision-making. Together, they sharpened GRI's foundation with greater precision and investor focus.

The inflection point was in 2015, with the Task Force on Climate-related Financial Disclosures (TCFD), which reframed climate change as financial stability and enterprise risk issue. By structuring disclosures around governance, strategy, risk management, and metrics and targets, it introduced forward-looking, investor-lender-aligned reporting. Voluntary adoption, however, remained uneven across jurisdictions and sectors.

The launch of International Sustainability Standards Board (ISSB) under the IFRS Foundation in 2021 institutionalised this trajectory. With IFRS S1 and S2, sustainability reporting moved firmly into the global financial reporting system, treating climate and sustainability risk as core to enterprise value, capital allocation, and long-term financial performance.

A global baseline and regulatory convergence

IFRS S1 and S2 create a global, investor-focused baseline requiring companies to explain how sustainability and climate-related risks and opportunities, impact performance, cash flows, and strategy.

Meanwhile, global regulatory regimes are rallying around this framework. The European Union's Corporate Sustainability Reporting Directive (CSRD), with its "double materiality" approach, nails both financial risk and societal impact, while syncing seamlessly with IFRS, providing interoperability. The payoff is a unified ecosystem where investor-focused and impact-centric disclosures fuse into a powerful single system.

Several jurisdictions are operationalising this baseline nationally:

- **United Kingdom** has ISSB-aligned sustainability and climate disclosures, mandated for listed and large companies, embedding ESG into core reporting
- **Singapore** has phased mandatory climate-related disclosures for listed entities, that is ISSB-anchored and enforced by financial regulators
- **Japan** incorporates ISSB standards into national sustainability disclosure roadmap via Financial Services Agency

This regulatory convergence strengthens global comparability while embedding sustainability within financial market discipline.

Implications for emerging markets

By 2026, emerging economies are shifting from voluntary disclosure towards integrated financial reporting, unleashing challenges beyond compliance.

Nationally, regulations remain fragmented across securities bodies, regulators, corporate ministries, central banks, and environmental authorities, stalling global standards rollout into unified domestic frameworks, leading amid overlapping rules and weak supervisory oversight.

IFRS S1 and S2 demand tight integration between finance, risk, operations, and strategy functions. IFRS S2's assessment on value chain exposure and Scope 3 emissions pushes boundaries across supply chains, often revealing that up to 70% of risks sit beyond direct operations. While this increases data demands and audit complexity, it also exposes hidden transition risks and unlocks visibility into multi-trillion-dollar transition opportunities.

Recognising these benefits, multiple emerging markets are embracing "baseline-plus" strategies. These approaches harmonise with international standards while accommodating national policy goals. Brazil has indicated ISSB alignment via its securities regulator, and South Africa is advancing from robust TCFD implementation towards formalised, ISSB-compliant climate disclosures for listed entities. Such examples demonstrate how countries can preserve regulatory autonomy alongside enhanced global comparability.

while emerging TNFD-aligned expectations expand further the perimeter to ecosystem dependencies and natural capital risks embedded within supply chains. This is resulting in IFRS S1/S2 shattering silos, forcing finance, risk, operations and strategy to synchronise on sustainability. Plus, Scope 3 expose 70% of hidden supply chain risks, though spiking audit costs, but revealing the US $10 trillion transition opportunities.

Extending the lens: Climate and nature

Post-COVID, nature-related risks have surged alongside carbon, threatening financial stability. Biodiversity loss, water stress, pollution, and land degradation increasingly influence asset values, operating costs, and long-term investment viability. Here, Taskforce on Nature-related Financial Disclosures (TNFD) delivered a TCFD-style framework for identifying, assessing, and disclosing risks and opportunities related to biodiversity and ecosystem services. 2025's IFRS Foundation and TNFD pact, signalled alignment between climate and nature disclosures.

For sectors like agriculture, mining, chemicals, infrastructure, and energy, such an integration becomes material, since ecosystem degradation and resource scarcity increasingly influence asset values, operating costs, and long-term investment viability.

Proportionality and interoperability

ISSB's Transition Implementation Group guidance underscores proportionality, particularly in data-constrained environments. It endorses use of reasonable and supportable information for Scope 3 emissions and scenario analysis, addressing real-world hurdles for companies in intricate value chains.

Interoperability initiatives with GRI and alignment with European Sustainability Reporting Standards (ESRS) minimise reporting duplication for multinational firms, while preserving the investor-centric intent of the IFRS global baseline. These mechanisms are critical for emerging markets, where capacity, data infrastructure, and institutional readiness vary significantly.

From compliance to capital mobilisation

The strategic importance of IFRS S1 and S2, bolstered by alignment with TNFD, rests in their ability to transform how risk, resilience, and value creation are understood across financial systems. By embedding sustainability and nature-related factors into core decision-making, these standards shift reporting from siloed metrics to integrated insights that inform investment, strategy, and risk management across sectors.

However, in emerging markets, success hinges not just on regulatory adoption, but on a robust enabling ecosystem including seamless regulatory coordination, reliable data infrastructure, financial incentives, and institutional capacity. This holistic approach then ensures that standards deliver real impact, such as better climate risk pricing in banking portfolios or enhanced ESG-linked lending within sustainable finance landscape.

When framed as a strategic tool for communication and capital mobilisation, rather than mere compliance obligation, IFRS S1 and S2 and TNFD can fortify supply chains against shocks, improve investor confidence through comparable data, and elevate domestic firms' global edge. The true measure of this shift from voluntary disclosures to a foundational financial architecture lies in outcomes like increased capital inflows, heightened market confidence reduced cost of capital, and more resilient, inclusive growth patterns that prioritise sustainable sectors and transition investments.