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Introductory Note On Sustainability Disclosures

Lauren Nicolaas, Huron University

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INTRODUCTION

The primary objective of this note is to introduce the concept of sustainability disclosures within a global and a Canadian financial reporting context. It begins by distinguishing among different types of sustainability disclosures and briefly tracing the history of voluntary reporting. It then examines the shift toward globally standardized disclosure requirements, including the establishment of the International Sustainability Standards Board (ISSB) and the issuance of its first two sustainability disclosure standards. The note concludes with a discussion of the ongoing challenges associated with sustainability reporting.

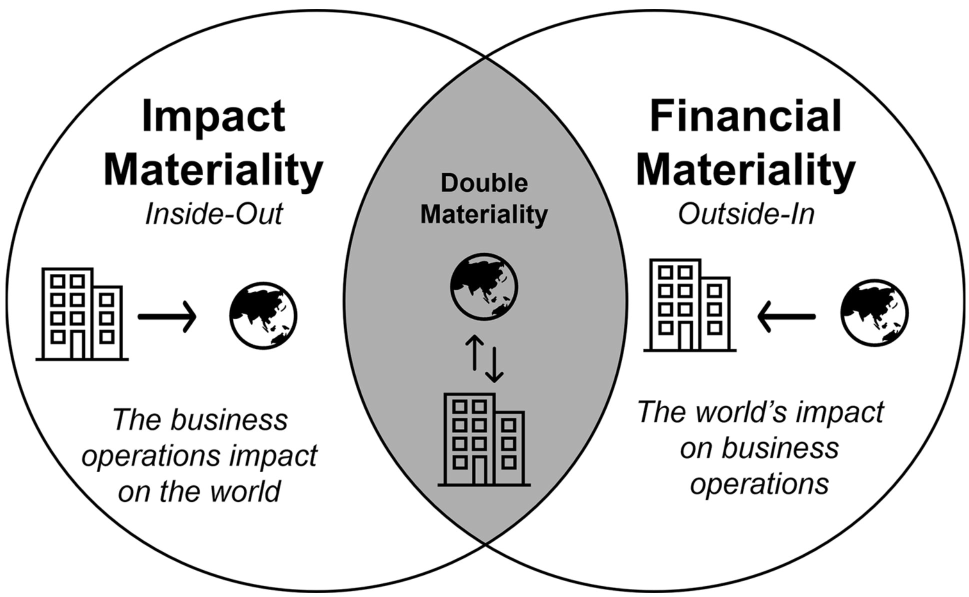
This note equips readers to:

- describe the evolution of sustainability disclosures;
- distinguish between user perspectives, including the concept of double materiality;
- identify the major disclosure themes of the International Financial Reporting Standards (IFRS) S1 and IFRS S2; and
- consider the implementation challenges and complexities of sustainability reporting.

SUSTAINABILITY REPORTING

A sustainability report discloses a company's environmental, social, and governance (ESG) information. ESG encompasses a broad range of topics, including climate change, biodiversity and resource use, labour practices, human rights, diversity and inclusion, community impact, and politics. There are often two different lenses considered in sustainability disclosures. The first lens is impact materiality, which is also known as the *inside-out* lens. It focuses on how a company impacts its external environment. For example, a mining company would disclose significant impacts to endangered species caused by its mining activities.

The second lens is called financial materiality, which is also known as the *outside-in* lens. It focuses on how external factors will impact a company. An example of this is how political uncertainty in a specific region could affect a company that does business in that region. When both lenses are considered, the approach is known as *double materiality*.



HISTORY OF VOLUNTARY SUSTAINABILITY DISCLOSURE

Since the mid 1990s, sustainability disclosures have evolved in response to increasing demand for better corporate transparency on ESG matters. The Global Reporting Initiative (GRI) was established in 1997 to create the first global framework for voluntary sustainability reporting.[1] The GRI centers its standards on an *inside-out* lens, so it focuses on how corporations impact the environment and societies in which they operate.

[1] Global Reporting Initiative. (n.d.). *Vision, mission and history*. https://www.globalreporting.org/about-gri/vision-mission-and-history/

In 2007, the Climate Disclosure Standards Board (CDSB) was established to promote the integration of environmental disclosures into annual financial reports.[2] In 2010, the International Integrated Reporting Council (IIRC) was founded to create an integrated reporting framework that combined financial statements with sustainability and strategy information.[3] A year later, the Sustainability Accounting Standards Board (SASB) was established to provide a framework for detailed sustainability disclosures.[4] In 2015, the Task Force on Climate-Related Financial Disclosures (TCFD) was created to develop a framework for the disclosure of climate-related financial risks. If this landscape feels confusing, it was. The plethora of frameworks created what many describe as the "alphabet soup" of ESG standards and evaluation methods.

By 2021, EY reported that there were approximately 600 different ESG reporting provisions[5] and 100 different ESG ratings providers worldwide.[6] There was limited consistency across frameworks: some encouraged general ESG disclosures while others focused on a narrow set of quantifiable indicators such as greenhouse gas emissions (GHG).[7] In a largely voluntary reporting environment, companies could choose their framework and naturally chose frameworks that highlighted their ESG strengths while giving less attention to weaker areas. This raised increasing concerns about greenwashing, the practice of making something appear to be more environmentally friendly or less environmentally damaging than it really is. Some large companies, including Google and Walmart, opted to draw from several different standards rather than adopt a single framework.[8] Other companies chose not to disclose anything at all. For investors, this lack of credibility and consistency made it difficult to compare companies, leading to a call for a single standardized global framework.

THE ISSB

"If you want to go global, it must be IFRS."
- Erkki Liikanen, Chair of the IFRS Foundation Trustees[9]

The IFRS foundation provides a globally recognized framework for financial reporting, used in more than 140 countries worldwide. In 2021, the IFRS foundation established the ISSB with the goal of standardizing sustainability reporting worldwide.[10]

"The ISSB is developing—in the public interest—standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets."[11]

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[2] McBrien, M. (2018, April 11). Looking back at 10 years of CDSB. *Climate Disclosure Standards Board*. https://www.cdsb.net/blog-news/cdsb-framework/796/looking-back-10-years-cdsb.
[3] Deloitte IAS Plus. (n.d.). *International Integrated Reporting Council (IIRC)*. https://www.iasplus.com/en-gb/resources/global-organisations/iirc.
[4] IFRS Foundation. (n.d.). *SASB history*. https://www.ifrs.org/issued-standards/sasb-standards/sasb-history/.
[5] EY & Oxford Analytica. (2021, June). *The future of sustainability reporting standards: The policy evolution and the actions companies can take today*. https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/public-policy/documents/ey-the-future-of-sustainability-reporting-standards-june-2021.pdf.
[6] Liang, H., & Chan, K. C. (2022). The alphabet soup in reporting and measuring ESG. *Asian Management Insights*, 9(2), 19–24. https://ink.library.smu.edu.sg/lkcsb_research/7153.
[7] See note 6 above.
[8] Walmart Inc. (2025). *FY2025 ESG report*. https://corporate.walmart.com/content/dam/corporate/documents/esgreport/2025/FY2025-Walmart-ESG-Report.pdf?.
[9] IFRS Foundation. (2023, July 19). *The ISSB Story: bringing the global baseline to life* [Video]. https://www.youtube.com/watch?v=bDTrxG3ioDU.
[10] IFRS Foundation. (n.d.). *International Sustainability Standards Board (ISSB)*. https://www.ifrs.org/groups/international-sustainability-standards-board/.
[11] See note 10 above.

The ISSB has focused on consolidating and formalizing existing successful frameworks. It has adopted the TCFD's well-established four-pillar framework: governance, strategy, risk management, and metrics and targets. In 2022, the CDSB and SASB organizations were folded into the ISSB. In doing so, the ISSB signalled its intent to reduce fragmentation and harmonize sustainability reporting.

Things moved very rapidly from there; in 2023, the ISSB released its first two global disclosure standards: IFRS S1 and IFRS S2, marking the beginning of the formal, internationally recognized system for sustainability reporting. Similar to financial reporting, IFRS establishes the standards, but the responsibility to mandate their use rests with each jurisdiction's regulatory authority.

IFRS S1

The goal of developing IFRS S1 was for companies to disclose information to help stakeholders understand the impacts of sustainability-related risks and opportunities on a business. Per IFRS S1, paragraph 3:

> *"This Standard requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term"*

In this way, the standard is designed to help investors, creditors and other stakeholders (collectively referred to as *the users*) understand how sustainability-related factors could impact the company's entity prospects (the company's future ability to generate cash flow and remain financially viable). In other words, the ISSB standards are taking an *outside-in* lens: focusing on how sustainability affects the company's financial performance, rather than how the company's activities affect society or the environment.

Because sustainability-related risks can come from many different places, the disclosures focus on a company's entire value chain, which can span across the world. Companies are required to report any information reasonably expected to materially impact the business. Specifically, information is considered material if its omission or misstatement could influence the decisions of the report's primary users.[12] The standard is split into the four pillars previously established by the TCFD.

The Four Pillars	
Governance	Strategy
Risk Management	Metrics and Targets

[12] IFRS Foundation, *IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information* (2023), paras. 17–19

Governance

The governance section focuses on how the company splits and manages responsibilities for sustainability-related risks and opportunities. This means disclosing how sustainability-related decisions are made and how they are delegated between management. For example, a company might have a sustainability committee made up of management that handles a lot of these key decisions and this would be disclosed in the governance section.[13]

Strategy

The strategy section is mainly aimed at helping stakeholders understand the company's approach to sustainability-related risks and opportunities. The first part of this section is the company's business model and value chain. The value chain should indicate where each business activity takes place. For example, a company may show a map depicting different activities in different regions which allows stakeholders to understand if sustainability-related risks are concentrated in a specific geographic region. For example, *the users* can see if a company relies on getting its raw materials from a region with a lot of political unrest.

The strategy section also lists all sustainability-related risks and opportunities and how they could impact the business. The company must also classify these risks and opportunities based on time horizon, split between short-term, medium-term, and long-term. Importantly, each company must specify what each time horizon encompasses as it likely varies across companies. The company must also disclose how these sustainability-related risks and opportunities affect the company's financials for the current reporting period, as well as how they could be expected to impact financials in the future.[14] This is often the most complex part of the report as it moves beyond a narrative discussion and requires that impacts be quantified and tied directly to financial statement line items.

Short Term	Medium Term	Long Term
1 year	1 to 8 years	9 to 30 years

Illustrative example, companies may choose other time horizons

[13] IFRS Foundation, *IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information* (2023), paras. 26-27.
[14] IFRS Foundation, *IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information* (2023), paras. 28-42

Risk Management

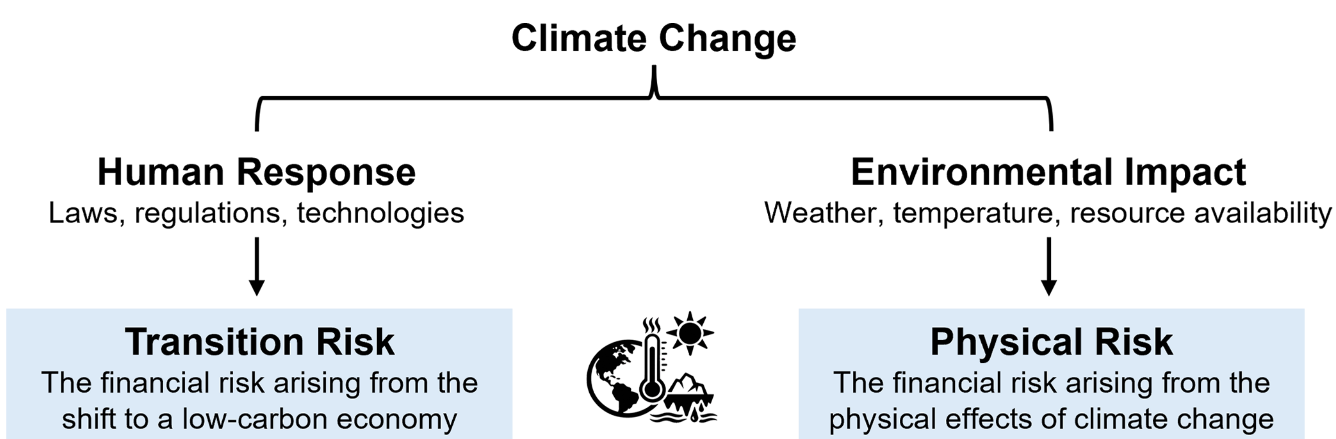
The risk management section is focused on how the company identifies, assesses, prioritizes, and manages sustainability-related risks. An example of an analysis to be included in this section is scenario analysis, a method of evaluating how different plausible future conditions could affect a company's strategy, financial performance and resilience. It may, for instance, assess how varying levels of water scarcity in key regions could impact the business. This section also includes how the company uses the risks that it identifies to inform the management process, including how these sustainability risks are weighed against other types of business risks.[15]

Metrics and Targets

The metrics and targets section focuses on the company's sustainability performance. The standard requires a company with a sustainability-related target to disclose progress toward that target, including any target or metric mandated by law or regulation. For example, a company might set medium-term targets to reduce its water usage to a specified level. Instead of just stating that they are tracking this metric, the company must report the volume of water withdrawn for operational purposes and other progress metrics. This reduces a company's ability to exaggerate or greenwash its targets as it is responsible for reporting quantitative progress.[16]

IFRS S2

The IFRS S2 focuses exclusively on climate-related risks and opportunities. The risks are defined as the potential negative effects on a company from climate change and are further split into climate-related physical risks and climate-related transition risks.[17] Climate-related physical risks are caused by natural events such as hurricanes or large storms, or by longer-term shifts such as increases in temperature or precipitation. Climate-related transition risks come from efforts to transition to a carbon-free economy and may involve reputation, technology, or policy changes. For example, regulatory limits on GHG may increase operating costs or require a company to reduce production until investments into carbon-neutral manufacturing can be made.

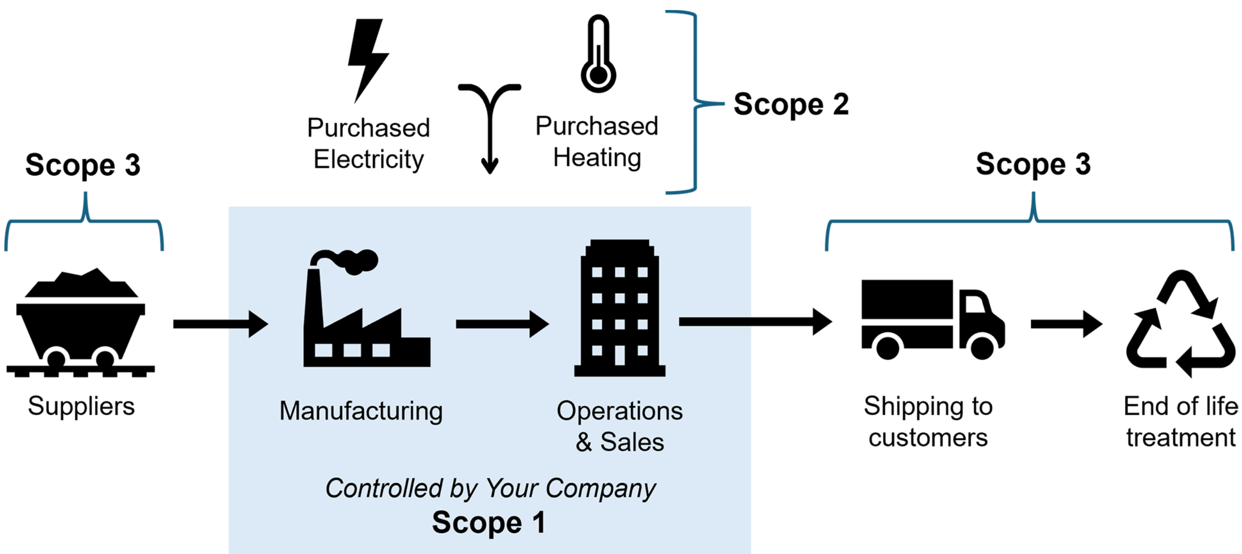


[15] IFRS Foundation, *IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information* (2023), paras. 43-44.
[16] IFRS Foundation, *IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information* (2023), paras. 45-53.
[17] IFRS Foundation, *IFRS S2: Climate-related Disclosures* (2023), Appendix A

IFRS S2 contains the same four pillars and a very similar structure to IFRS S1. Each pillar has a similar purpose as in S1, except that the risks and opportunities are focused exclusively on climate. S2 specifically requires companies to conduct climate scenario analysis, a process that can be resource-intensive and time-consuming.

A particularly important section for S2 is metrics and targets. In addition to disclosing progress towards any climate-related metrics and targets, companies must announce the amount and percentage of assets or business activities that are vulnerable to climate-related physical risks, transition risks, and opportunities. They must also disclose GHG emissions which are split into three categories: scope 1, scope 2, and scope 3. Scope 1 includes any emissions directly caused by sources owned by the company. Scope 2 accounts for all emissions created by the generation of electricity that has been acquired by the company.

Scope 3 includes all indirect GHG emissions that occur across a company's value chain —emissions that arise because of the company's activities but from sources it does not own or directly control. These emissions are grouped into fifteen distinct categories, ranging from emissions associated with any goods and services purchased to those generated by a company's employees commuting to and from work. As a result, Scope 3 measurement is often the most complex and judgment-intensive aspect of emissions reporting.



THE CSSB – A CANADIAN TAKE

In 2023, following the establishment of the ISSB, Canada formed the Canadian Sustainability Standards Board (CSSB).[18] The CSSB serves as Canada's national sustainability reporting standard-setter, and represents Canada within the ISSB. It aims to follow the ISSB's framework as closely as possible but modifies these standards to best serve the Canadian public interest. This approach mirrors financial reporting, where jurisdictions often adopt global standards with minor local modifications.

[18] Financial Reporting & Assurance Standards Canada. (n.d.). *CSSB video transcript*. FRAS Canada. https://www.frascanada.ca/en/cssb/cssb-video-transcript

The CSSB released the Canadian Sustainability Disclosure Standards (CSDS) 1 and 2 as a localized version of IFRS S1 and S2, with which they are substantively aligned. However, Canada has chosen to allow adoption of the localized version more gradually over the next five years. For example, the CSSB extended the transition relief period for Canadian entities for scope 3 GHG emissions and climate resilience reports, meaning Canadian companies have more time to develop their sustainability reports.

THE SUSTAINABILITY PENDULUM AROUND THE WORLD

Not every jurisdiction is moving in the same direction, nor at the same pace, when it comes to sustainability reporting due to geopolitical context and pressures. The global regulatory landscape is not defined by steady convergence, but by cycles of expansion, resistance, and recalibration. A disclosure is written into regulation one year, and reconsidered, delayed, or repealed the next. There are several such global examples. Industry leaders around the world often describe this dynamic as the “sustainability pendulum”.

The European Union (EU), for instance, created the European Sustainability Reporting Standards (ESRS) and made sustainability reporting mandatory for large entities. The ESRS align closely with the ISSB framework but include additional requirements, the most notable being that companies disclose their material impacts on society and the environment — in other words, they adopt a *double materiality* approach.[19] The original 2023 ESRS were very prescriptive and detailed; however, many companies argued that implementing ESRS created a significant administrative burden. In 2025, the European sustainability agenda shifted toward simplification, and the EU substantially narrowed the scope of ESRS and scaled back disclosure and assurance requirements.

Australia is a global leader in sustainability reporting. They have mandated sustainability disclosures under the Australian Accounting Standards Board (AASB), which, like the CSSB, closely aligns with ISSB. As of March 2026, the AASB S2 (which is substantially the same as IFRS S2) has become mandatory for companies that exceed a certain emissions level or corporate size. This is part of a phased rollout that will include smaller firms over time. The AASB S2 disclosures must be audited, which enhances the credibility and reliability of the reported information.

At the same time, however, the United States of America (USA) does not currently have a national sustainability reporting framework. Efforts by the Securities and Exchange Commission (SEC) to introduce mandatory climate disclosure rules in 2024 were halted following legal challenges and disagreement from states and large private groups. However, individual states have begun implementing their own regulations. For example, California will soon require large companies to disclose scope 1 & 2 emissions and publish a climate-risk report.[20]

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[19] European Commission. (2025, December 9). *Corporate sustainability reporting*. Directorate-General for Financial Stability, Financial Services and Capital Markets Union. https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

[20] California Legislature. (2023). *Climate Corporate Data Accountability Act (Senate Bill 253)*. https://legiscan.com/CA/text/SB253/id/2844397; California Legislature. (2023). C*limate-Related Financial Risk Disclosure (Senate Bill 261)*. https://legiscan.com/CA/text/SB261/id/2844343

THE NEXT PHASE OF STANDARD SETTING

In April 2025, the Canadian Securities Administrators (CSA) announced that they were pausing discussions on making climate-related disclosures mandatory in Canada. The CSA felt that their focus needed to be shifted to other matters given the geopolitical climate (trade-wars with the USA, for instance). As of March 2026, CSDS 1 and 2 remain voluntary standards in Canada; however, industry experts believe that disclosure is likely to become a requirement in the near future.

During the February 2026 ISSB meeting, staff discussed progress on IFRS S3 which will focus on biodiversity and ecosystem measurement criteria.

CHALLENGES, TENSIONS, AND CONCLUDING THOUGHTS

The introduction of IFRS S1 and S2 represents a significant step towards global consistency in reporting. By establishing common disclosure requirements, the standards improve comparability across companies. It also creates a framework and global baseline that makes it harder to engage in greenwashing. However, as with any major regulatory innovation, progress brings new design questions and trade-offs:

Is more information better information?

Scholars, regulators, and financial professionals have long expressed concerns over the growing length and complexity of financial disclosures.[21] In 2025, the S&P/TSX 60 companies had an average annual report length of about 162 pages.[22] This is modest by international standards; for example, Goldman Sachs of the USA put out a 608-page form 10-K annual disclosure for 2024.[23] Additional sustainability disclosures under S1 and S2 are complex and thorough. Vale S.A., one of the world's largest mining companies, produced one of the world's first reports under the IFRS S2 framework for the fiscal year 2024; it was 48 pages long.

There are very real concerns that disclosure volume may overwhelm users, prioritizing granular details at the expense of overall decision usefulness. Therefore, a central unresolved question is whether the growing architecture of sustainability reporting truly enhances decision-useful information or merely contributes to the broader problem of disclosure overload.

Does the benefit justify the cost?

Tracking, reporting, disclosing, and at times auditing sustainability data are very time-consuming and costly. Companies naturally expect reporting costs to increase as the disclosure requirements increase. At the same time, some companies are concerned that they are allocating a significant share of their sustainability budgets to reporting rather than actual initiatives.[24] These disclosures may be especially burdensome on smaller businesses that do not have the capacity or expertise for this additional work.

[21] Lesmy, D., Muchnik, L., & Mugerman, Y. (2019). *Do you read me? Temporal trends in the language complexity of financial reporting* [SSRN working paper No. 3469073]. https://doi.org/10.2139/ssrn.3469073
[22] The author reviewed 60 annual reports and calculated the average number of pages, including both the MD&A and the financial statements.
[23] The Goldman Sachs Group, Inc. (2025). *Annual report on Form 10-K for the fiscal year ended December 31, 2024* [PDF]. https://www.goldmansachs.com/investor-relations/financials/10k/2024/2024-10-k.pdf
[24] Business at OECD (BIAC). (2025, July). *The risks of divergence between global ESG reporting standards*. https://www.businessatoecd.org/hubfs/The%20Risks%20of%20Divergence%20Between%20Global%20ESG%20Reporting%20Standards.pdf

Who is sustainability reporting for?

According to the IFRS Foundation, the ISSB was created to provide investors with consistent and decision-useful sustainability information.[25] However, some scholars argue that the move also reflects an effort to anchor sustainability reporting firmly within capital markets, prioritizing financially material information over broader societal impacts.[26] In other words, what this points to is whether an *outside-in* lens geared towards investors is sufficient, or if mandatory disclosures should also include an *inside-out* lens. The ISSB standards were intended to add *outside-in* disclosures to existing sustainability reports under GRI, which emphasize an *inside-out* lens.[27] However, securities regulators and authorities are primarily concerned with investor protection. As a result, they are more likely to mandate ISSB-aligned disclosures while leaving impact-focused ones, such as those under GRI, voluntary.

Concluding Thoughts

In many ways, the debates surrounding the IFRS S1 and S2 mirror long-standing tensions in financial reporting: How much disclosure can be considered enough? Does complexity enhance or undermine understandability? Can regulation drive meaningful change without imposing unnecessary burden? And who are the users? These are not new questions, and ultimately acknowledging these tensions is not about picking flaws with the standards, but rather about understanding the complexities of integrating sustainability into financial reporting. The accounting and business community continues to work rigorously to improve corporate transparency and communication around sustainability matters. In the end though, no set of standards can substitute for thoughtful professional judgment. That judgement, when applied with integrity, skepticism, and strategic insight, will shape whether sustainability reporting advances transparency or simply adds to the page count.

[25] IFRS Foundation. (n.d.). *International Sustainability Standards Board*. https://www.ifrs.org/groups/international-sustainability-standards-board/
[26] De Villiers, C., Unerman, J., & Rinaldi, L. (2024). The International Sustainability Standards Board's (ISSB) past, present, and future: Critical reflections and a research agenda. *Pacific Accounting Review*, 36(2), 255–273. https://doi.org/10.1108/PAR-02-2024-0038
[27] IFRS Foundation. (2022, March 24). *IFRS Foundation and GRI to align capital market and multi-stakeholder standards to create an interconnected approach for sustainability disclosures*. https://www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/