Policy Deep Dive

Building a Global Baseline: The Role of IFRS Sustainability Disclosure Standards

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Introduction

As the global economy increasingly pivots towards sustainability, the need for standardized sustainability reporting has never been greater. To meet this demand, the International Financial Reporting Standards (IFRS) Foundation established the International Sustainability Standards Board (ISSB) in 2021. Its mission is to create a global baseline for sustainability disclosures that is as rigorous, reliable, and consistent as financial reporting. In other words, the goal is to create a disclosure framework that provides investors with data they can use to make decisions and that facilitates cross-company comparisons.

The IFRS Sustainability Standards aim to set a global framework for sustainability and climate-related disclosures, providing investors with clear, actionable insights into the risks and opportunities companies face. To support businesses in navigating evolving legislation such as the IFRS Sustainability Standards, Cascale and Worldly have developed a series of policy deep dives that provide expert insights into key legislation for the consumer goods sector, such as on sustainability, reporting, and due diligence. These analyses showcase Cascale and Worldly's leadership in driving informed, industry-wide sustainability practices.

By incorporating the principles of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, Sustainability Accounting Standards Board (SASB) Standards, Integrated Reporting Framework, and the Climate Disclosure Standards Board (CDSB), the ISSB has ensured continuity in addressing climate-related risks and opportunities within its broader sustainability framework. This foundational effort places the IFRS Sustainability Standards at the core of the global shift toward a more transparent and sustainable economy.

Through its first two standards, IFRS S1 and IFRS S2, the ISSB sets the stage for companies to disclose material information on their sustainability practices, laying the groundwork to help investors and stakeholders alike to make informed decisions.

ISSB Standards

Building on the framework established by the TCFD, the ISSB released its first two standards in June 2023, effective January 2024. IFRS S1 establishes a global baseline by outlining general guidelines for investor-focused, sustainability-related disclosures. Meanwhile, IFRS S2 focuses specifically on climate-related risks and opportunities, aligning with IFRS S1's broader framework.

IFRS S1

IFRS S1 requires companies to disclose:

- **Sustainability-related risks and opportunities that are financially material to investors** — meaning the information is relevant to investors' decision-making;
- **The connection between these sustainability-related risks and opportunities and the company's financial statements** — helping investors understand their impact on the company's financial health.

While IFRS S1 encourages the use of industry-specific guidance, it does not explicitly mandate alignment with the SASB categorization. Instead, companies are encouraged to reference SASB standards as a source of guidance.

Additionally, IFRS S1 can be used whether or not a company follows Generally Accepted Accounting Principles (GAAP), the default accounting standard used in the United States, or IFRS Accounting Standards, ensuring broad applicability.

IFRS S2

IFRS S2 is designed as a companion to IFRS S1, with specific provisions focused on climate-related disclosures, such as requiring companies to:

- Distinguish between strategic physical risks – both acute risks like extreme weather events (floods, wildfires, etc.) and chronic risks like sustained higher temperatures or chronic heat waves – and risks related to the transition to a low-carbon economy (e.g., regulatory changes, market shifts);
- Explain their strategies for addressing identified climate risks, including clarity on how their climate-related targets are set and whether they are mandated by law or regulation;
- Conduct scenario analysis to assess how various climate-related events may impact their business in the future;
- Report cross-industry metrics, such as greenhouse gas emissions and other industry-specific data relevant to their operations.

IFRS S2 is more prescriptive than IFRS S1. However, both standards aim to enhance transparency and give investors material sustainability information without imposing an overly heavy compliance burden on reporting companies.

Acronyms:

CDSB	Climate Disclosure Standards Board
CSRD	Corporate Sustainability Reporting Directive
ESG	Environmental, social, and governance
ESRS	European Sustainability Reporting Standards
FSB	Financial Stability Board
GAAP	Generally Accepted Accounting Principles
GRI	Global Reporting Initiative
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
ISSB	International Sustainability Standards Board
SEC	Securities and Exchange Commission
SASB	Sustainability Accounting Standards Board
TCFD	Task Force on Climate-related Financial Disclosures

Figure 1: Glossary of key acronyms in sustainability and financial reporting.

A Global Benchmark for Investors Focused on Sustainability

The International Organization of Securities Commission (IOSCO) has endorsed the ISSB Standards, promoting their global adoption across regulatory frameworks. This endorsement is a critical milestone in ensuring that ISSB Standards become the global benchmark for investor-focused sustainability reporting, aligning regulatory bodies across multiple jurisdictions and fostering consistency in sustainability disclosures worldwide.

In addition, the ISSB and the Global Reporting Initiative (GRI) have worked together to harmonize sustainability reporting by ensuring compatibility and reducing complexity. This collaboration enables companies to use both sets of standards seamlessly. While ISSB focuses on high-quality information for investors, GRI caters to a broader range of stakeholders, creating a complementary framework that enhances both transparency and accountability in corporate sustainability practices.

The adoption of the ISSB Standards is particularly significant because it fosters global alignment on sustainability reporting, reducing the need for companies to navigate a patchwork of national regulations. As of November 2024, **16 jurisdictions** had adopted national corporate sustainability reporting regimes based on the IFRS Standards, with **14 additional jurisdictions** working towards adoption (see Figure 2). This means that companies operating in these regions will be expected to disclose sustainability information that meets global standards, simplifying reporting and reducing regulatory burden.

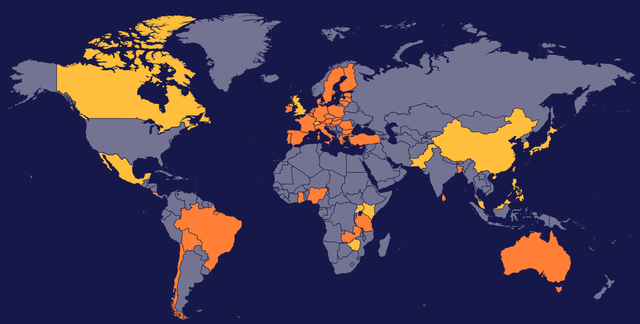
For companies, particularly in the consumer goods industry, the widespread adoption of these standards is a clear signal that transparency in sustainability is not just a regulatory requirement, but an essential factor for investor trust and market access. The ISSB Standards align with global efforts to track and reduce negative environmental impacts, ensuring companies remain competitive and responsible in the eyes of investors and consumers. This is particularly relevant as **China**, **Bangladesh**, **Turkey**, and **Pakistan**, some of the world's largest textile and apparel exporters, are among the 30 countries adopting or moving toward the adoption of these standards.

Corporate adoption of the ISSB Standards has so far been most widespread in **Asia-Oceania** and **Europe**, where 474 and 296 companies, respectively, reference the ISSB in their disclosures.[1] By March 2024, a total of 1,151 companies referenced ISSB, signifying the start of a global shift toward standardized sustainability reporting. This growing adoption not only improves market comparability but also helps companies meet the demands of investors, who are increasingly looking for consistent, comparable, and reliable sustainability data to make informed investment decisions.

[1] The IFRS Foundation undertook a review of publicly available reports between October 2023 and March 2024.

Jurisdictional and Corporate Progress Towards the Adoption or Other Use of ISSB Standards

Jurisdictional progress
Status as of November 2024



Finalized (16)
Jurisdictions that have finalized decisions on adoption or other use of ISSB Standards

Americas
•Bolivia •Brazil •Chile •Costa Rica •El Salvador

Asia-Oceania
•Australia •Bangladesh •Singapore •Sri Lanka •Chinese Taipei

EMEA
•EU* •Ghana •Nigeria •Tanzania •Turkey •Zambia

* EU is one jurisdiction

In progress (14)
Jurisdictions that are making progress to adopt or otherwise use ISSB Standards

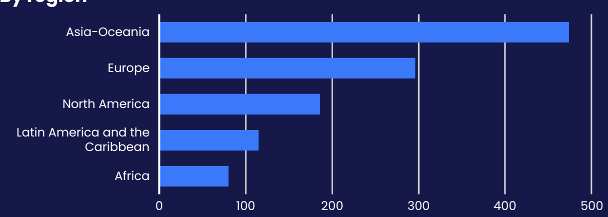
Americas
•Canada •Mexico

Asia-Oceania
•China •Hong Kong SAR •Japan •South Korea •Malaysia •Pakistan •Philippines

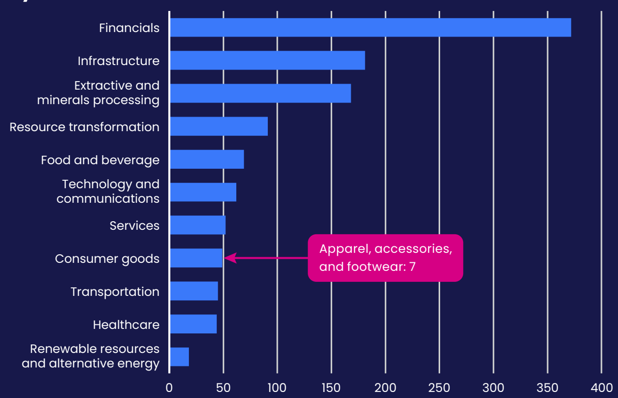
EMEA
•Kenya •Switzerland •Uganda •United Kingdom •Zimbabwe

Corporate progress
Companies referencing the ISSS (1,151)

By region



By sector



Note: The findings are based on a review of publicly available reports. The sample of companies analyzed consisted of companies, both listed and private, available within the data providers' platforms that referenced the ISSB between October 2023 and March 2024.

Figure 2: Jurisdictional and corporate progress towards the adoption or other use of ISSB standards / Source: IFRS Foundation

ISSB vs. ESRS/CSRD

Alignment. Companies subject to the EU's Corporate Sustainability Reporting Directive (CSRD) have to report in compliance with the European Sustainability Reporting Standards (ESRS), developed by EFRAG (previously known as the European Financial Reporting Advisory Group). The high degree of alignment, especially in climate-related disclosures, between the ESRS and the ISSB Standards represents a significant step towards a global sustainability reporting regime. The ESRS-ISSB Standards interoperability guidance published by EFRAG and the IFRS Foundation aims to reduce complexity and duplication for companies applying both sets of standards. Both demand disclosures to be verifiable and understandable, require companies to report across short, medium, and long-term time horizons, and focus on value chains – a significant source of potential sustainability-related risks, such as Scope 3 emissions.

Difference. The main difference is that the ISSB Standards are limited to sustainability risks that would materially impact the reporting company financially. In contrast, the ESRS require companies to disclose risks whose impact is material for a wider range of stakeholders, including broader society and the environment. For example, all of IFRS S2's metrics are included in the EU's climate risk reporting requirements, but the latter also mandates disclosures under a range of headings from biodiversity and the circular economy to worker welfare throughout the value chain. Assurance requirements also differ. While the CSRD requires that any sustainability information reported by companies is assured by an independent third party, the ISSB Standards do not necessitate this; it is up to jurisdictions adopting the ISSB Standards to determine whether assurance is required.

Early movers. Mandatory reporting requirements start in 2025, with the phasing in of the CSRD. Research by the consultancy firm KPMG suggests that most multinationals have not waited.[2] Sustainability reporting is already routine for many of the largest companies globally. Around three-quarters of the world's 5,800 largest companies report on sustainability, with 96 percent of the largest 250 companies doing so. All of the 100 largest companies in each of Japan, Malaysia, Singapore, South Africa, South Korea, Thailand, and the United States already engage in sustainability reporting.

[2] Survey of Sustainability Reporting 2024: The move to mandatory reporting, KPMG

United States: A Regulatory Outlier

The U.S. is the outlier in the trend of jurisdictions requiring greater sustainability reporting. The U.S. Securities and Exchange Commission's (SEC) proposed rule on climate risk disclosure reporting for public companies was closely aligned with IFRS S2. However, the rule – currently paused by the SEC pending legal challenges – faces an uncertain outlook under the Trump administration. Paul Atkins – President Donald Trump's nominee to replace Gary Gensler as SEC Chair – has argued that the rule oversteps SEC's congressionally delegated regulatory authority.

Nonetheless, state-level regulation continues across pockets of the U.S., in spite of potential legal challenges. California, for instance, has advanced amendments to its sustainability reporting laws, requiring large companies that do business in the state to disclose their greenhouse gas emissions and climate-related financial risks. The reporting requirements are set to begin in 2026 for Scope 1 and 2 emissions, and 2027 for Scope 3 emissions.

The EU's CSRD will also make sustainability reporting mandatory for more than 3,000 U.S. companies that do business in the EU.

Impact on the Fashion Industry

The fashion sector holds a profound responsibility to improve its social and environmental impact, given its global influence and resource-intensive nature. Despite growing awareness and efforts to improve, the industry should be farther ahead in implementing responsible operations and achieving meaningful supply chain transparency, resource efficiency, smarter design, and responsible sourcing. Accelerating progress is essential to address urgent challenges like climate change, human rights, and ethical sourcing.

The IFRS Sustainability Standards (IFRS S1 and S2) are poised to drive greater transparency and accountability in the fashion industry by providing a consistent framework for disclosing sustainability-related risks and opportunities across the value chain. IFRS S1 requires companies to disclose material sustainability-related risks and opportunities, compelling brands, retailers, manufacturers, and suppliers to connect critical challenges — such as carbon emissions, water consumption, and labor practices — directly to their financial performance. This elevates sustainability from a compliance requirement to a key driver of value for investors.

Similarly, IFRS S2's focus on climate-related disclosures, such as reporting greenhouse gas emissions across Scopes 1, 2, and 3, will further impact the industry—especially since Scope 3 emissions account for the majority of emissions for many retailers and brands.[3] For manufacturers and suppliers, the importance of Scope 3 data will necessitate tracking and sharing detailed data about their emissions processes. For brands and retailers, it will mean greater accountability in selecting suppliers and ensuring that sustainability commitments extend throughout the supply chain.

External pressures from regulators, investors, and consumers compound these challenges. For instance, EU regulations are driving eco-minded product design, circular business models, and waste reduction. Similarly, geopolitical policies like the U.S. Uyghur Forced Labor Prevention Act compel the industry to address human rights violations in supply chains, with non-compliance potentially leading to bans on key materials like cotton from Xinjiang, China.

To address these converging pressures, brands, retailers, manufacturers, and suppliers must collaborate to enhance supply chain transparency and responsibility, embed sustainability within their operations, and integrate global sustainability standards into their practices — efforts that dovetail with the emergence and convergence of global reporting standards, which demand extensive information about their operations and, even more critically and challengingly, about their value chains.

[3] For example, see Scope 3 upstream: Big challenges, Simple remedies, page 8

How Companies Can Prepare

As intended, IFRS S1 and S2 are emerging as the global baseline for sustainability reporting, aiming to provide a consistent framework for companies to disclose sustainability-related financial information.

Companies in the textile, apparel, footwear, and consumer goods sectors that operate internationally can take steps to prepare by aligning their reporting practices with these standards to meet investor and regulatory expectations. Delay in doing so may lead to regulatory sanction, reputational damage, and less favorable access to investor capital.

To prepare effectively, companies should:

- **Assess Material Relevance:** Identify the sustainability information their stakeholders consider materially relevant and define metrics that align with IFRS S1 and S2.
- **Integrate Report Systems:** Establish a non-siloed, cross-functional structure to collect, report, and evaluate sustainability data throughout their value chains.
- **Plan for Future Needs:** Ensure expandability for sustainability issues that are emerging as increasingly significant to investors and regulators, such as biodiversity.

Cascale and Worldly offer tailored resources and innovative tools to support this process. Most notably, Cascale's Higg Index — available exclusively on Worldly — provides comprehensive, actionable data on environmental and social performance. By leveraging these tools, companies can streamline data collection and reporting, enhance transparency, and enhance compliance with global sustainability standards.

The Future of Sustainability Reporting: From Voluntary to Mandatory

Voluntary guidelines and standards will remain widely used for the foreseeable future. However, responsible businesses should prepare for compliance requirements emerging globally. The IFRS Sustainability Standards could mark a turning point for the fashion industry, offering a global framework to enhance transparency, accountability, and collaboration across the value chain. The adoption of these standards — alongside regulatory initiatives like the EU's CSRD and geopolitical policies such as the U.S. Uyghur Forced Labor Prevention Act — signals the evolution of sustainability reports from a voluntary practice to a mandatory business imperative.

In this changing landscape, early alignment with IFRS S1 and S2 could be advantageous for brands, retailers, manufacturers, and suppliers alike. Companies that integrate these standards into their operations will be better equipped to meet investor expectations, comply with regulations, and demonstrate leadership in sustainability.

Cascale's Higg Index, exclusively available on Worldly, can play a critical role in this transition by helping stakeholders across the value chain to track, analyze, and report sustainability data, providing the transparency required to meet global standards. These tools also help companies assess challenges like Scope 3 emissions, supply chain visibility, and human rights compliance—building a strong foundation for long-term success.

As voluntary guidelines give way to mandatory reporting, we believe the convergence of global standards will continue to accelerate. Companies that embrace this shift will not only ensure compliance but may also unlock new opportunities to innovate, differentiate, and lead in the transition towards a more transparent, ethical, and equitable global economy. Cascale and Worldly remain dedicated to equipping their members and customers with the insights and tools necessary to thrive in this new era of sustainability reporting.

Questions? Contact us at policy@cascale.org

Cascale is the global nonprofit alliance empowering collaboration to drive equitable and restorative business practices in the consumer goods industry. Formerly known as the Sustainable Apparel Coalition, Cascale owns and develops the Higg Index, which is exclusively available on Worldly, the most comprehensive sustainability data and insights platform. Cascale unites over 300 retailers, brands, manufacturers, governments, academics, and NGO/nonprofit affiliates around the globe through one singular vision: To catalyze impact at scale and give back more than we take to the planet and its people.

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Worldly is the leading sustainability data insights platform, trusted by 40,000+ major brands, retailers, and manufacturers in fashion, outdoor, home goods, toys, and more. Worldly uniquely collects high-resolution primary data specific to companies' value chains, operations, and products, providing insight into true impacts across carbon, water, chemistry, and labor. Featuring the most comprehensive source of ESG data for global manufacturers and the largest library of materials and product impacts, Worldly empowers businesses to scale responsibility into their global operations, faster and more accurately. Hosting, connecting with, and supporting the leading industry solutions and methodologies, including ZDHC, Bluesign, and the Higg Index — developed and owned by the global nonprofit alliance Cascale — Worldly delivers the insights businesses need to reduce their impact, comply with emerging regulatory and financial disclosure requirements, and meet the expectations of a new generation of customers.

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