Blog Series: Governance as a Market Advantage
Blog Post no.3

Sustainability-related financial reporting at a turning point.

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For investors, the policy ask is clear – and has been consistent for a very long time. They need material sustainability-related financial information that is reported consistently across markets, supported by governance and assurance processes that make it reliable, and available in time to inform investment decisions. Where sustainability-related information is financially material, it should be treated with the same discipline and rigour as other financial information used for capital allocation, risk management and stewardship.

This does not mean ignoring implementation challenges. Reporting is not cost-free, and companies need time to build systems, controls and expertise. But high-quality sustainability-related financial information is not simply a compliance burden. It is part of the infrastructure that allows investors to understand companies, price risk and allocate capital effectively.

But around the world, we are seeing increased challenges to achieving this goal. Sustainability-related financial reporting is entering a decisive phase. After decades of standard-setting, regulatory development and growing investor demand for better information, a more sceptical debate is emerging. Some policymakers and market participants are now questioning whether the frameworks built over recent years are too complex, too burdensome or too ambitious. In some cases, even the relevance and materiality of sustainability-related financial information is being challenged.

We need a pragmatic solution – that is materiality focused, implemented sensibly and meets the needs of the market. Policymakers should support widespread adoption of the ISSB global baseline, preserve decision-useful disclosure where sustainability-related information is financially material, and establish a credible pathway towards assurance.

What does the global landscape look like?

The global picture remains uneven. In some markets, sustainability-related financial reporting is becoming more established, more standardised and more closely aligned with investor needs. In others, recently adopted frameworks are being reopened, narrowed or challenged on the grounds of cost, complexity or materiality.

The strongest sign of progress is the rapid uptake of the ISSB Standards. The IFRS Foundation reports that 36 jurisdictions have adopted, used or are finalising steps to introduce ISSB Standards into their regulatory frameworks. This includes markets like Australia, Hong Kong, Malaysia, Mexico, Nigeria and Türkiye.[1] This is an important development for global investors, because it supports a common foundation for sustainability-related financial disclosure across markets.

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[1] IFRS Foundation. (2025), *IFRS Foundation publishes jurisdictional profiles providing transparency and evidencing progress towards adoption of ISSB Standards*.
https://www.ifrs.org/content/ifrs/home/news-and-events/news/2025/06/ifrs-foundation-publishes-jurisdictional-profiles-issb-standards.html (04.06.2026).

This momentum is particularly visible in Asia, where the debate is increasingly moving from adoption to implementation. Markets such as Hong Kong, Singapore, Japan, Korea and Malaysia are developing pathways towards ISSB-aligned reporting, with growing attention to the governance, controls, data systems and assurance capabilities companies need to produce high-quality disclosure. This matters because it shows that sustainability-related financial reporting is becoming part of mainstream market infrastructure, rather than a standalone sustainability initiative.

The UK is another important example of constructive alignment. The UK Government has recently published the UK Sustainability Reporting Standards based on IFRS S1 and IFRS S2, with only limited amendments for the UK context. The stated objective is to support a sustainable finance framework that delivers credible and decision-useful sustainability-related financial information to financial markets.

Europe Union captures the risk of the pendulum swinging too far. The Corporate Sustainability Reporting Directive (CSRD), European Sustainability Reporting Standards (ESRS) and Corporate Sustainability Due Diligence Directive (CSDDD) represented one of the most ambitious attempts to embed sustainability reporting and due diligence into market regulation, including through the EU's double materiality approach. That ambition was important, but the original framework was arguably too granular in places, creating legitimate concerns around complexity, proportionality and implementation burden. Some recalibration was therefore necessary. But with the Omnibus package, the pendulum may have swung too far in the opposite direction, with the Commission estimating around 80% of companies removed from the scope of CSRD.[2] For investors, the concern is that fewer companies reporting directly may mean greater reliance on estimates, third-party data and incomplete information, weakening comparability across the market.

Brazil provides a more nuanced example of the gap between formal adoption and implementation. While Brazil incorporated ISSB-aligned standards through its domestic CBPS framework, recent CVM Resolution 244 shifted the regime away from mandatory reporting before the mandatory phase had taken effect, leaving sustainability-related financial reporting voluntary under a comply-or-explain model. The stated rationale was to provide greater flexibility during implementation, but the change raises an important question for investors: whether semi-voluntary regimes can deliver the consistency, comparability and decision-usefulness that capital markets need.

The US illustrates an even more fundamental challenge. The SEC adopted climate-related disclosure rules in 2024 mandating organizations to disclose their climate-related risks, greenhouse gas (GHG) emissions and financial impacts from extreme weather events. However, those rules were stayed pending litigation and never fully enforced. In May 2026, the SEC proposed rescinding the rules in their entirety, arguing that they exceed the agency's statutory authority and are inconsistent with a registrant-specific, materiality-based approach.

[2] European Commission. (2025), *Omnibus package*.
https://finance.ec.europa.eu/news/omnibus-package-2025-04-01_ro (04.06.2026).

The SEC also argued that the rules impose costs that are not justified by their informational benefits and are at odds with capital formation objectives.[3]

For investors, this creates a difficult gap. Climate-related risks can be financially material, affecting strategy, asset values, cash flows, insurance costs, supply chains and long-term resilience. If disclosure is left entirely to voluntary market practice, investors may receive information that is inconsistent, incomplete or difficult to compare.

Why does Financial Sustainability Reporting standards matter?

1. **Investors need the full picture**

Investors need a clear view of how sustainability-related risks and opportunities may affect a company's ability to create value over time. Issues such as climate transition, biodiversity loss, human capital, supply-chain resilience and regulatory change can influence strategy, operating performance, cash flows, access to finance and cost of capital. Without reliable sustainability-related financial information, investors are left with an incomplete understanding of a company's prospects.

This requires disclosure that is focused, material and decision-useful. Investors need to understand how sustainability matters are governed, how they are integrated into strategy and risk management, and how they may affect financial performance over time. This is why qualitative and quantitative information on anticipated financial effects is so important: it helps investors assess not only the existence of risks and opportunities, but their potential impact on the business.

2. **Sustainability-related financial reporting supports better company performance**

Sustainability-related financial reporting can also support better company performance by strengthening internal governance, risk management and strategic decision-making. To report effectively, companies need to identify material sustainability-related risks and opportunities, assign responsibility, improve data systems and build stronger internal controls. This process can help boards and management better understand the issues that may affect long-term resilience and value creation.

Academic research supports this link. Eccles, Ioannou and Serafeim find that companies with stronger sustainability policies developed distinct governance and stakeholder engagement processes and outperformed matched peers over the long term.[4] Khan, Serafeim and Yoon also find that firms with strong performance on material sustainability issues significantly outperform firms with poor performance on those issues, while performance on immaterial sustainability issues is not associated with the same benefits.[5] The lesson is important: sustainability reporting is most valuable when it is focused on financially material issues and embedded in governance, controls and strategy.

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[3] U.S. Securities and Exchange Commission. (2026), *SEC Proposes Rescission of Climate-Related Disclosure Rules*. https://www.sec.gov/newsroom/press-releases/2026-49-sec-proposes-rescission-climate-related-disclosure-rules (04.06.2026).

[4] Eccles R. G., Ioannou I., & Serafeim G. (2014), The impact of corporate sustainability on organizational processes and performance. *Management Science*, 60(11), 2835–2857.

[5] Khan M., Serafeim G., & Yoon A. (2016), Corporate sustainability: First evidence on materiality. *The Accounting Review*, 91(6), 1697–1724.

3. **Reporting enables better engagement**

Reporting enables better engagement between companies and investors. High-quality disclosure gives investors a clearer basis for understanding how boards and management identify, assess and respond to sustainability-related risks and opportunities. It allows engagement to move beyond general questions of policy or intention towards a more informed discussion about strategy, governance, risk management, performance and long-term resilience.

This matters because stewardship depends on information. Without reliable disclosure, investors may struggle to assess whether a company's approach is credible, whether risks are being managed effectively, or whether further engagement is needed. Academic and policy research on investor stewardship has also highlighted that engagement is increasingly focused on sustainability-related issues, and that better corporate disclosure can support more effective dialogue between investors and companies. Recent evidence suggests that engagement can also contribute to improvements in corporate disclosure on issues such as climate risk, although the strength of outcomes depends on the quality of the engagement and the responsiveness of the company.[6]

Good reporting helps investors ask better questions, compare company approaches and hold boards accountable for how sustainability-related risks and opportunities are integrated into long-term strategy.

4. **Reporting contributes to positive market-wide outcomes**

Reliable sustainability reporting also supports better market-wide outcomes. When investors have access to consistent and decision-useful information, markets are better able to price sustainability-related risks and opportunities, allocate capital efficiently and reward companies that are managing long-term risks effectively. In this sense, reporting is not only a company-level exercise; it contributes to the quality and resilience of the wider market.

Academic research supports this point. Christensen, Hail and Leuz note that mandatory sustainability reporting can have broader economic effects by reducing information asymmetry, improving transparency and supporting market discipline.[7] Similarly, research by Dhaliwal, Li, Tsang and Yang finds an association between CSR disclosure and a lower cost of equity capital internationally, suggesting that better non-financial disclosure can support investor confidence and market efficiency.[8]

Consistency, comparability and compatibility

For sustainability-related financial reporting to be useful, investors need three things. First, consistency: companies should apply reporting requirements in a stable and coherent way over time, so investors can track performance, risk and progress. Second, comparability: disclosures should allow investors to assess companies across sectors, markets and

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[6] University of Cambridge Institute for Sustainability Leadership. (2024), *The rise and influence of investor stewardship*. Future of Boards Business Briefing.

[7] Christensen H. B., Hail L., & Leuz C. (2021), Mandatory CSR and Sustainability Reporting: Economic Analysis and Literature Review. *Review of Accounting Studies*, 26, 1176–1248.

[8] Dhaliwal D. S., Li O. Z., Tsang A., & Yang Y. G. (2014), Corporate social responsibility disclosure and the cost of equity capital: The roles of stakeholder orientation and financial transparency. *Journal of Accounting and Public Policy*, 33, 328–355.

geographies using a common basis. Third, compatibility: different reporting frameworks should work together rather than create overlapping or conflicting requirements.

These qualities matter because sustainability-related risks and opportunities do not stop at national borders, and neither do capital markets. Global investors need information that can be analysed across portfolios, compared between companies and connected to financial decision-making. If reporting frameworks diverge too far, companies face unnecessary complexity and investors face fragmented, inconsistent information.

This is particularly important for emerging markets, where information asymmetries can be greater and external data availability may be more limited. For global investors allocating capital across Asia and other emerging markets, sustainability-related financial disclosures can improve comparability between companies and jurisdictions, while reducing reliance on estimates, sector averages or third-party proxies.

This is why ICGN supports widespread adoption of the ISSB Standards as the global baseline for sustainability-related financial disclosure. IFRS S1 and IFRS S2 provide a common foundation for reporting material sustainability-related financial information, helping jurisdictions align around comparable disclosures while preserving appropriate local regulatory choices. Greater interoperability between major frameworks can reduce reporting burdens for companies and help investors assess financially material information on a consistent basis. Without compatibility and comparability, sustainability reporting risks becoming a patchwork of local requirements rather than a reliable foundation for capital allocation and stewardship.

Voluntary vs. Mandatory

Not all companies have the same capacity to produce comprehensive sustainability disclosures from day one. Voluntary standards can therefore play a useful transitional role: helping companies build reporting systems, respond to investor information requests and prepare for future expectations.

But voluntary reporting should be the beginning of the journey, not the destination. Investors need reliable, comparable and decision-useful information across their investment universe. The long-term objective should remain consistent, mandatory and appropriately assured sustainability reporting where the information is material to investors, with voluntary standards acting as a bridge rather than a substitute.

Bottom line

Sustainability-related financial reporting is at turning point. The challenge is not whether sustainability reporting should be ambitious or simplified. The challenge is how to make it effective, reliable and globally comparable.

The direction of travel should be clear. Policymakers should support widespread adoption of the ISSB global baseline, preserve decision-useful disclosure where sustainability-related information is financially material, and establish a credible pathway towards assurance. Limited assurance may be appropriate in the first phase, but over time investors should be able to rely on sustainability-related financial information with the same confidence they expect from other financial information.

Streamlining measures should preserve the comparability and consistency of information available to investors across reporting frameworks. Simplification that reduces duplication is welcome. Simplification that makes it harder for investors to assess companies on a consistent basis, or that limits access to decision-useful information, would not serve long-term investors or the broader goal of well-functioning capital markets.

CASE STUDIES

Boohoo: When supply-chain risk became investor risk[9]

Background: In 2020, Boohoo faced serious allegations about labour conditions in its Leicester supply chain, including reports of workers being paid below the minimum wage and working in poor conditions. An independent review later found that many allegations about poor working conditions and low pay were substantially true, and that Boohoo's supply-chain monitoring had been inadequate. The issue raised questions about governance, supply-chain oversight, internal controls and the reliability of the company's public statements on labour standards.

Outcome: The controversy had clear financial consequences. Boohoo's share price reportedly fell by around 40% after the allegations emerged, and in 2024 a group of investors brought a claim seeking more than £100 million in damages, alleging that misleading statements and delayed disclosure around worker exploitation caused financial losses. Boohoo denied the allegations and said it would contest the claim. The case shows that social and supply-chain risks can become financially material where weak oversight affects valuation, litigation risk, investor confidence and trust in the company's governance.

PG&E: When climate risk became balance-sheet risk[10]

Background: PG&E, California's largest utility, filed for bankruptcy in 2019 after a series of devastating wildfires exposed the company to substantial liabilities. The 2018 Camp Fire, one of the most destructive wildfires in California's history, was linked to PG&E equipment, including a transmission tower located in the area of the fire. Novethic described PG&E as "the first bankruptcy linked to climate change", capturing how physical climate risk can move from an environmental concern to a financial and capital structure issue.

Outcome: PG&E's bankruptcy showed how climate-related physical risks can rapidly affect liabilities, asset values, insurance costs, access to capital and investor confidence. For investors, the case underlines why disclosure on asset resilience, operational risk, infrastructure vulnerability and climate-related liabilities is financially material. Climate risk is

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[9] Boohoo investors seek £100m in damages after minimum wage row, The Guardian, 06.06.2024. https://www.theguardian.com/business/article/2024/jun/06/boohoo-investors-seek-100m-in-damages-after-minimum-wage-row?utm_source=chatgpt.com (04.06.2026).

[10] Novethic. (2019), *PG&E electric: the first bankruptcy linked to climate change*. 11.02.2019. https://www.novethic.fr/actualite/isr-rse/pg-e-electric-the-first-bankruptcy-linked-to-climate-change-146906.htm

not abstract where it can affect solvency, litigation exposure and the long-term viability of a business model.

BYD: When labour and supply-chain risks became strategic risks[11]

Background: In December 2024, Brazilian labour authorities raised serious concerns about labour conditions at a BYD electric vehicle factory construction site in Bahia. The allegations involved 163 Chinese workers employed by a contractor and included excessive working hours, degrading accommodation, withheld passports and restrictions on workers' ability to leave. BYD said it had cut ties with the contractor and moved affected workers to hotels. In 2026, further allegations emerged in relation to Chinese migrant workers involved in the construction of BYD's first European car plant in Szeged, Hungary, including concerns around working hours, contracts and possible labour law violations.

Outcome: The immediate result in Brazil was that construction at the site was halted by the authorities, demonstrating how labour and supply-chain risks can quickly become operational and strategic risks. The potential consequences extended beyond reputational damage to include regulatory scrutiny, project disruption, labour shortages, litigation exposure and risks to market access. For investors, the case raised questions about supply-chain due diligence, contractor oversight, remediation processes, board accountability and management capacity to support global expansion.

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We encourage dialogue by contacting Jakub Brejdak, Senior Policy Executive, policy@icgn.org.

[11] BYD construction site in Brazil shut over 'slavery-like' conditions, *The Guardian*, 24.12.2024. https://www.theguardian.com/business/2024/dec/24/byd-car-factory-construction-site-brazil-shut-chinese-nationals (15.06.2026).