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Unveiling the key drivers of implementing ISSB'S sustainability and climate-related financial disclosures, IFRS S1 & S2

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Unveiling the Key Drivers of Implementing ISSB's Sustainability and Climate Related Financial Disclosures IFRS S1 & S2

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Abstract: **Reporting sustainability and climate related information drives responsible business practices, boost corporate reputation and stakeholder trust. Consistent and comparable sustainability-related financial disclosures are necessary across industries and jurisdictions to furnish decision-useful information to capital markets and broader communities. The International Sustainability Standards Board (ISSB) issued two comprehensive standards IFRS S1, Disclosure of Sustainability-related Financial Information and IFRS S2 Climate Related Disclosures. The IFRS S1 Sustainability Disclosure Standard requires an entity to disclose information about its four core content areas named governance, strategy, risk management, and matrices & targets in relation to the entity's sustainability-related risks and opportunities. IFRS S2 focuses specifically on climate-related risks and opportunities requires an entity to disclose information about its governance, strategy, risk management and metrics & targets .This paper explores the key factors that drives the organization in Bangladesh to adopt IFRS S1 & S2 to unite the greater journey of Sustainability and climate resilience. The study relate the construct of Organizational readiness to change such as vision clarity, change appropriateness and change efficacy with the leadership support and top management support. Organizational context such as organizational history of change, organizational resources and flexibility impacts the adoption process. Climate awareness moderates the adoption of the IFRS S1 and S2.**
Keywords: **ISSB; Sustainability and Climate Disclosures; IFRS S1 & S2; Bangladesh**

I. INTRODUCTION

Economic expansion, even while improving living standards, leads to greenhouse gas emissions from waste disposal and fossil fuel combustion, causing climate change, biodiversity loss, and rising temperatures. Given the evident impact of human activities on climate change, there is a growing emphasis by governments and organizations on transitioning the global economy to achieve net-zero carbon emissions whilst the investment community has intensified demand on companies to delineate the unique risks and opportunities linked to their long-term operations and sustainability. Reporting sustainability and climate information ensures sustainable investments, enhancing corporate governance, attracts foreign direct investment consequently promoting environmental responsibility transparency and accountability. In the past two decades, there has been a notable proliferation of diverse reporting frameworks worldwide concerning sustainability issues, encompassing subjects such as climate change, emissions, pollution, water management, and the broader scope of social responsibility and governance.

With an agenda of ensuring consistent and comparable sustainability-related financial disclosures across industries and jurisdictions The United Nations Climate Change Conference (COP26) recommends the birth of the International Sustainability Standards Board (ISSB) that aims to develop a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability and climate related risks and opportunities to help them make informed decisions. ISSB issued two comprehensive standards IFRS S1 & S2, where IFRS S1 establishes the framework for sustainability-related financial disclosures, ensuring consistency across industries and jurisdictions and IFRS S2 focuses specifically on climate-related risks and opportunities, aligning with the Task Force on Climate-related Financial Disclosures [1,2]. IFRS S1 emphases on the disclosure of Sustainability-related Financial Information that discloses governance, strategy, risk management, and matrices & targets in relation to the entity's sustainability-related risks and opportunities whereas, IFRS S2 focuses specifically on climate-related risks and opportunities reports on the key area of Climate-related risks and opportunities, Greenhouse Gas (GHG) emissions reporting, Resilience analysis - Evaluation of business resilience in different climate scenarios and Transition plans that Outlines strategies to achieve net-zero emissions and other climate-related goals [3].

Regulators in various countries are currently debating the importance of the adoption and working to define their rules for mandatory ISSB filings; companies that choose to report voluntarily need to do so as a mandatory subsection of their general annual financial filings beginning in 2024. The global adoption of IFRS

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S1 and S2 has gained momentum, with major economies like the UK, Australia, Canada, and Singapore incorporating them into their financial reporting systems [2]. Bangladesh Bank and the Financial Reporting Council (FRC) have issued guidelines emphasizing the importance of sustainability disclosures for financial institutions. Aligning with global frameworks like the TCFD and the ISSB, Bangladesh is incorporating IFRS S1 and S2 into its financial sector regulations [4].

The question of whether to move toward mandatory adoption of the IFRS SDS is being debated from a variety of perspectives and considerations, including the value of adoption, the requirement, stakeholder demand, the availability of rules, and the readiness of preparers. With stakeholders acknowledging the importance of such reporting, the first step is to examine the key factors of adopting IFRS S1 and S2, observe the practical scenarios and look for any legislation governing that type of reporting.

Considering the diverse scenario of global adoption and the Bangladesh standpoint this study aims at discovering the key drivers of adopting ISSB's Sustainability and Climate related Financial Disclosures IFRS S1 & S2. Based on the organizational readiness to change theory and other organizational context this study builds a conceptual framework of the adoption of the ISSB's Sustainability and Climate related Financial Disclosures IFRS S1 & S2. This study has unique theoretical contribution that blends different factors form the organizational readiness to change theory with the different internal context that helps the organization to adopt the required standards. The study's findings help to provide the regulator and other stakeholders with a clear policy recommendation when assessing the businesses' readiness to adopt the requirements and to promote awareness and training campaigns, between organizational-level and observe the policy-level preparedness.

The rest of the paper is organized as follows: in part 2, reviews of pertinent literature are discussed; and also global scenario and the Bangladesh context is explained; Conceptual framework is clarified in section 3, and in section 4, methodology is described. A conclusion is provided in Section 5.

II. REVIEW OF THE RELATED LITERATURE

2.1 Overview of IFRS S1 and S2:

2.1.1 IFRS S1 Sustainability-related Financial Information

In order to help users decide whether to provide resources to an entity, the International Sustainability Standard Board (ISSB) released IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information), which requires an entity to disclose information about its sustainability-related risks and opportunities (governance, strategy, risks management, as well as matrices & targets).

Governance: Disclosures on governance aim to understand a company's processes, controls, and procedures for monitoring and managing sustainability-related risks and opportunities. Companies must disclose information about their governance body(s), responsibilities, roles, policies, and how they determine staff availability and set targets. They also need to disclose management's role in these processes, whether delegated to proper authority, and whether controls are used to oversee sustainability-related risks and opportunities.

Strategy: The purpose of sustainability disclosures is to help users understand the impact of sustainability-related risks and opportunities on an entity's business model, value chain, and decision-making. This includes describing geographical areas, facilities, and assets, as well as highlighting progress against plans, trade-offs, and significant risks of material adjustments. Quantitative information can be provided in a single amount or range, and if not disclosed, the entity must explain the reason. This helps users understand the company's financial planning and sustainability-related risks and opportunities.

Risk management: Sustainability-related financial disclosures aim to provide users with insight into an entity's risk management processes, enabling them to identify, assess, prioritize, and monitor sustainability-related risks and opportunities.

Metrics and targets: An entity must disclose metrics related to business models, activities, and industry features, including measurement procedures and method limitations. It must also disclose specific qualitative and quantitative targets to monitor progress towards strategic goals and meet required law and regulation targets. Sustainability-related financial disclosures can be included in management commentary or other reports, using internal and external sources like risk management processes, industry experience, and external ratings.

2.1.2 IFRS S2 (Climate Related Disclosures)

IFRS S2 Climate Related Disclosures, issued by ISB, mandate entities to disclose governance, strategy, risk management, and metrics related to climate-related risks and opportunities.

Governance: IFRS S2 mandates entities to disclose governance information to investors, allowing them to understand the processes, controls, and procedures used to manage climate-related risks and opportunities. This includes information about governance bodies and management roles. Integrated governance disclosures avoid duplication for different sustainability-related risks and opportunities.

Strategy: IFRS S2 mandates entities to disclose their strategy for managing climate-related risks and opportunities, including changes to their business model, adaptation efforts, and funding plans. It also outlines the expected impacts on financial position,

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performance, and cash flows over short, medium, and long-term periods. The standard also sets criteria for quantitative and qualitative information requirements and permits only qualitative information. A climate-related scenario analysis is necessary to inform disclosures about climate change resilience, using relevant scenarios and assumptions such as climate-related policies, macroeconomic trends, local weather patterns, demographics, land usage, infrastructure, energy usage, and technology developments.

Risk Management: The standard mandates entities to disclose their risk management processes and policies, allowing investors to understand the methods used to identify, assess, prioritize, and monitor climate-related risks and opportunities.

Matrics and Targets: IFRS S2 mandates disclosure of cross-industry metric categories, industry-based metrics, and targets for mitigating climate risks or maximizing opportunities, specifying metrics for progress measurement.

2.2 Glimpses from the literature

The International Sustainability Standards Board (ISSB) released FRS S1 and IFRS S2 in June 2023, which set a global standard for financial disclosure pertaining to sustainability. General disclosure guidelines for sustainability-related risks and opportunities (including strategy, governance, risk management, and measurements & targets) are provided by IFRS S1. In accordance with the Task Force on Climate-related Financial Disclosures (TCFD) framework, IFRS S2 provides detailed guidelines on disclosures pertaining to climate change (IFRS Foundation, 2023). The following table summarizes some key papers related to IFRS S1 and S2 adoption..

#	Title	Authors & Year	Methodology	Key Findings	Research Gaps / Limitations
4	Sustainability Reporting Ecosystem & IFRS S1/S2	[5]	Literature review	Highlights integration of sustainability & financial reporting; identifies research opportunities.	Few empirical studies due to the newness of standards.
5	Importance of IFRS S1/S2 in Sustainable Business (US)	[6]	Mixed-methods	S1/S2 support sustainable business strategies and transparency.	US-centric; limited global applicability.
6	Analysis of Sustainability Report Standards & Adjustment of IFRS S1/S2	[7]	Comparative analytical review	Proposes adjustments needed for implementing S1/S2 in varied contexts.	Lacks empirical testing of proposed adjustments.
7	Companies' Readiness to Adopt IFRS S2 Climate-Related Disclosures	[8]	Empirical review (100 firms)	Firms aligned with TCFD are better prepared; average disclosure varies.	Focus on large global firms; draft S2 context.
8	Implementation of IFRS Sustainability Disclosure Standards into Integrated Reporting	[9]	Qualitative case study	Future-oriented firms embed S1/S2 into integrated reports, enhancing forward-looking transparency and engagement.	Limited to leading firms; not generalizable to smaller, less mature adopters.

2.3 Global Status of Adoption and the case of Bangladesh:

The global adoption of IFRS S1 and S2 has gained momentum, with major economies like the UK, Australia, Canada, and Singapore incorporating them into their financial reporting systems [10]. The Australian Accounting Standards Board (AASB) has aligned its sustainability reporting standards with IFRS S1 and S2, mandating compliance from 2025 for large corporations. The Singapore Exchange (SGX) is integrating IFRS S1 and S2 into its sustainability reporting framework, with mandatory climate disclosures expected by 2025. The UK government is working on embedding IFRS S2 within its corporate climate reporting regulations. Bangladesh has taken a proactive approach to sustainability reporting. Bangladesh Bank and the Financial Reporting Council (FRC) have issued guidelines emphasizing the importance of sustainability disclosures for financial institutions. Aligning with global frameworks like the TCFD and the ISSB, Bangladesh is incorporating IFRS S1 and S2 into its financial sector regulations [11].

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III. RESEARCH METHOD

The present study builds a conceptual framework of the adoption of the ISSB's Sustainability and Climate-related Financial Disclosures IFRS S1 & S2. The model paper seeks to build a theoretical framework that predicts relationships between concepts. A conceptual model describes an entity and identifies issues that should be considered in its study: it can describe an event, an object, or a process, and explain how it works by disclosing antecedents, outcomes, and contingencies related to the focal construct [12], [13]. This typically involves a form of theorizing that seeks to create a nomological network around the focal concept, employing a formal analytical approach to examine and detail the causal linkages and mechanisms at play [3]. A model paper identifies previously unexplored connections between constructs, introduces new constructs, or explains why elements of a process lead to a particular outcome [14], [15]. For example, Payne et al. [16] used resource-based theory to develop a conceptual model of the antecedents and outcomes of customer value propositions. This study build a conceptual model of IFRS S1 & S2 adoption based on the organizational readiness to change theory and other internal organization level context.

IV. CONCEPTUAL FRAMEWORK

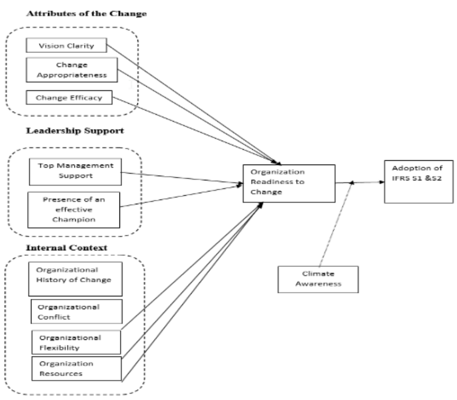

Figure1: Conceptual Model

4.1 Key Drivers of adopting IFRS S1 &S2

The organizational and management literature has extensively examined change management, with a special emphasis on the characteristics that determine whether change initiatives are successful or likely to fail. Armenakis and Bedeian [17] assert that perceived necessity, flexibility, change magnitude, and clarity of aim are all crucial aspects of change. Employees are more likely to embrace and stick with a change when they believe it is in line with the organization's objectives and core values [19]. Furthermore, because there is less opposition, change projects that are gradual rather than drastic are frequently simpler to execute [20]. Other academics emphasize that effective communication is a crucial component of transformation, as clear and consistent messaging lowers ambiguity [21]. Therefore, organizational members' attitudes toward the transformation process are based on the characteristics of change, such as its urgency, scope, communication, and alignment with the organization's vision.

The characteristics of the change pertain to the "what" aspect of the change, that is, one ought to think about what is being altered first [22]. According to Lapointe and Rivard [23], the majority of the time, the change is linked to local procedures, organizational structure, roles and duties, and compensation plans in addition to the new system. The opinions of change beneficiaries regarding organizational preparation for change are likely to be significantly impacted by three characteristics of the change, as will be discussed below:

Vision Clarity:

According to change management theorists, the belief that change is necessary is one of the most important attitudes for developing change readiness [16–18]. Much of the rationale behind such an emotion comes from a clear vision. The necessity for change is made more legitimate when there is a difference between the desired and actual performance. If not, the motivation for a shift could be seen as capricious [16]. The idea of vision clarity aligns with social accounts theory as well, which states that change agents must give information to justify the need for an organizational change [26].

Stakeholders can better grasp the desired future state when a clear vision is presented, including the implications of adopting IFRS S1 and S2 for the company. According to research on change management, having a clear vision is essential for inspiring and coordinating behavior throughout change projects [27]. Organizations run the danger of confusion or disengagement during adoption efforts if they don't have a compelling and clear vision. Adoption of IFRS S1 and S2 could be presented as improving investor trust and environmental, social and governance transparency in a compelling way and stakeholders are more likely to agree to embrace them if they are clearly explained.

Change appropriateness: The belief that the change is suitable, is referred as the change appropriateness. Indeed, if employees are to embrace change, they must not only think that a change is necessary, but also think that the proposed change will effectively address the gap [16-18]. This attitude, which describes whether the suggested adjustment is the right one for the current circumstance, is likewise in line with social accounts theory [28]. Employees may not be prepared to "buy-in" to the change or try to make it work if they believe the suggested change is the wrong strategy for achieving the vision [5]. It is obvious that a change's appropriateness matters since people may agree that a change of some kind is necessary but disagree with the particular change that is being suggested.

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Adopting IFRS S1 and S2 is considered a required and appropriate course of action, which is known as change appropriateness. This characteristic has been highlighted as a key belief affecting how change recipients respond to organizational changes [17]. Adoption of IFRS S1/S2 is more likely if stakeholders believe it to be pertinent and necessary.

Change efficacy: A key component of the majority of motivation theories is a sense of effectiveness, expressed as expectancy that one's efforts will result in successful accomplishment [29]. People need to believe that the change is appropriate and that success is achievable in order to be inspired to support it. In this regard, we think that people's judgments of organizational readiness may be significantly influenced by environmental information. One may get the conclusion that their organization is prepared for a successful implementation if the suggested change has already been successfully implemented in comparable organizations and the relevant people have been informed. On the other hand, one may anticipate some hesitancy from the people impacted by the change if the media has previously covered comparable failures.

The general consensus regarding the organization's ability to successfully apply IFRS S1 and S2 is known as change efficacy. It consists of trust in leadership support, systems, abilities, and resources [17]. Effective adoption is more likely to occur if firms think they have the data systems, knowledge, and direction they need.

Leadership support: Support from the leadership has repeatedly been noted as a critical component in organizational transformation. Strong and obvious leadership commitment helps establish a steering coalition and foster a sense of urgency in order to promote change [30]. Setting direction, assembling resources, and inspiring staff to welcome change are all critical tasks performed by leaders [31]. Because it promotes empowerment, trust, and vision sharing, transformational leadership in particular has been associated with increased employee acceptance of change [32]. Additionally, studies reveal that employees' resistance and dispersed efforts are frequently caused by a lack of leadership support [33]. Additionally, leaders must be change agents who consistently support initiatives by their actions, resource allocation, and acknowledgment of staff members' contributions [34].

As a result, leadership support creates psychological safety, which is essential for workers navigating uncertainty, in addition to legitimizing change initiatives.

People detect the support that exists throughout the company through their interpersonal networks, according to the social learning theory [35]. Principal support in this study refers to both local change agents' and top management's support [18].

A key factor in the successful implementation of IFRS S1 and S2 is leadership support. High-level leadership affects adoption through interconnected mechanisms such as legitimacy and strategic priority, resource allocation and capability building and coordination of stakeholders and change orchestration.

Top Management Support: The success or failure of an information system project is mostly determined by top management, according to numerous investigations [36–38]. These days, it appears that managers and information systems scholars alike agree that good leadership is essential. An IT project that has strong upper management support is likely to receive more funding for development and maintenance [39], which improves enabling conditions [40] and, eventually, raises views of organizational readiness.

IFRS S1/S2 compliance is a strategic priority rather than a supplementary reporting obligation, as evidenced by the clear and consistent backing of top management. Senior leaders provide legitimacy to sustainability disclosure projects by publicly endorsing them, which lessens organizational skepticism regarding the effort's significance and sustainability [41]. Senior leadership legitimacy also improves internal and external signaling because regulators, auditors, and investors see leadership support as a pledge to high-quality governance and disclosures [42]. Instead of being an ad hoc initiative, the new disclosures are owned at the governance level when boards and C-suite sponsorship facilitate their integration into corporate reporting schedules, audit plans, and risk management procedures [30].

Presence of a project champion: It has long been recognized by academics and practitioners that it is very risky to attempt implementing complex change without a project champion [43, 44]. In the context of IT, champions are those that actively pursue their own IT-related goals, overcoming or avoiding barriers to project approval and implementation [45]. They may have initiated the procedure or been convinced by other organization members that it was necessary. Recent research indicates that the perceived leadership behaviors of IT project champions have a direct and positive impact on users' opinions about the change object [46]. Their findings lend credence to the claim that project champions may effectively lead teams to accomplish goals [46].

Technical interpretation, interpreting S1/S2 standards for the company's business model, choosing KPIs and scopes, and communicating with outside advisers are some of the specific duties of advocates for IFRS S1/S2 implementation. Data integration: designing processes that guarantee traceability and internal control over sustainability data in collaboration with IT and finance Building capacity and providing training: setting up role-based training to enable operational teams to gather and verify disclosures, Assurance readiness includes working with internal audit to coordinate and prepare the procedures and documentation needed for both internal and external assurance. In order for capital market participants to use and test disclosures,

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stakeholder engagement involves creating investor materials and answering investor inquiries.

Organizational internal context

An organization's internal environment has a big impact on how well it can implement and maintain change programs. Internal context, according to Pettigrew [47], is the organizational culture, structure, resources, and current capabilities that interact with outside forces to affect the results of change. Research indicates that companies with adaptable organizational structures, creative cultures, and a strong emphasis on learning are better equipped to handle change. However, inflexible structures, a lack of resources, and misaligned systems can all act as obstacles to change.

Employees' views of the legitimacy of change are influenced by internal context, which also includes communication channels, organizational history, and human resource procedures. Additionally, it is crucial that leadership support and internal environment are in sync; even powerful leadership initiatives may fail in the absence of sufficient funding, a positive workplace culture, and engaged employees [20]. Holt et al. [25] define internal context as the conditions that characterize the organization during a period of transition. Internal context, according to Mowday and Sutton [48], is the external environment that affects the beliefs, attitudes, intentions, and behavior of change recipients. Based on previous research, we hypothesize that the perceptions of preparedness of change targets are significantly influenced by three organizational characteristics.

Businesses are more likely to successfully implement IFRS S1 and S2 if they have a history of managing change, such as when they implemented new accounting standards or undertook significant reporting overhauls. These kinds of businesses frequently have governance frameworks, established procedures, and leadership expertise in handling challenging changes. For instance, because of their pre-existing infrastructures and greater level of change readiness, nations and businesses who had already managed waves of IFRS convergence or prior waves of sustainability reporting integration found adoption to be easier.

Organizational history of change:

To some degree, all organizations are idiosyncratic; that is, previous experiences have been stored in each organization in a pattern that makes the organization different from others that may on the surface appear very similar [49]. Organizations are dynamically evolving systems, and each has a history of resources, commitments, successes, and failures that shape the environment in which computer-based systems are developed and implemented [50]. Therefore, organizational history or memory might affect the way a change is framed in terms of previous initiatives undertaken by organization and hence have a great influence on the extent of IT implementation success.

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Organizational conflicts:

Managers, a project leader, a project champion, members of the project team, system developers, and a group of user representatives (clinicians) are often among the numerous people and organizations involved in the implementation process. According to Kling [51], these actors have varying goals and interests when it comes to adopting a new system. Therefore, organizational politics and power dynamics may have an impact on system implementation [52][53]. Targeted customers may believe that the organization is not prepared for change as a result of competing interests among several important individuals and groups.

Adoption can be severely hampered by internal disagreement, whether it be between leadership, departments (such as finance vs. sustainability teams), or other silos. Miscommunication, delayed decision-making, elevated stress, resistance, and interrupted processes are all frequently caused by conflict. Conflicts over materiality determinations or the extent of disclosures may appear in the context of IFRS S1 and S2. Profit and sustainability objectives are at odds, and some departments are reluctant to integrate new systems or share data. Usually, this slows down development, lowers the quality of adoption, and could result in flimsy compliance rather than deep integration.

Organizational flexibility:

Some organizations are more agile and easily adaptable than others. For this reason, the degree to which organizational policies and practices are supportive of change may also be important to understanding how an employee perceives the organization's readiness for change [16]. Eby et al. [54] examined this issue in a study of two divisions of a national sales organization that was transitioning to work teams. Their results reveal that vendors' perceptions of their organization's ability to accommodate change by altering policies and procedures were strongly and positively related to perceived organizational readiness for change. Hence, we posit that clinicians are likely to hold unfavorable views about readiness for change when they perceive their healthcare organization's structure and policies as rigid and inflexible.

Compared to other organizations, some are more flexible and agile. Accordingly, an employee's

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perception of the organization's preparedness for change may also be influenced by how supportive organizational policies and practices are of change [16]. This problem was investigated by Eby et al. [54] in a study of two divisions of a national sales organization that was implementing work teams. According to their findings, perceived organizational readiness for change was highly and favorably correlated with vendors' assessments of their company's capacity to adapt to change by changing policies and practices. Therefore, we propose that when clinicians believe that the structure and policies of their healthcare organization are inflexible, they are more likely to have negative opinions about their readiness for change.

Climate Awareness:

The term "climate awareness" describes how organizations recognize the opportunities and risks associated with climate change, including pressures from the market, regulations, and reputation [55]. Because IFRS S1 and S2 are specifically intended to increase transparency regarding sustainability and climate-related risks, adoption of these standards is more likely when organizational leaders and stakeholders have a high level of climate awareness [56].

Therefore, the positive correlation between adoption of IFRS sustainability standards and change readiness is reinforced by climate awareness. Organizations with a high degree of change readiness but a low level of climate awareness, for example, might not feel the need to adopt IFRS S1 and S2 immediately or strategically, which would slow down the adoption process. On the other hand, organizations are more likely to view adoption as a strategic requirement for long-term legitimacy and resilience when there is a high level of climate awareness [57]. Climate awareness thus serves as a moderator that enhances the impact of readiness on adoption results.

V. CONCLUSION

This study delves into the adoption of ISSB's IFRS S1 & S2, with a heightened focus on climate action and sustainability. It explores key adoption drivers and proposes a conceptual model. The study builds conceptual model that displays the key drivers of adopting IFRS S1 and S2. The study relate the construct of Organizational readiness to change such as vision clarity, change appropriateness and change efficacy with the leadership support and top management support. Organizational context such as organizational history of change, organizational resources and flexibility impacts the adoption process. Climate awareness moderate the adoption of the IFRS S1 and S2. The research is an attempt to discover the key construct of the adoption and further empirical study can be conducted for the enhanced policy recommendation and the proactive adoption of IFRS S1 and S2 for business sustainability and climate resilience.

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