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BLOG POST

IFRS S1 AND S2 IN LATIN AMERICA: A NEW ERA OF SUSTAINABILITY DISCLOSURE

Sustainability reporting is entering a new phase. What was once largely voluntary and driven by corporate social responsibility initiatives is increasingly becoming a core component of financial disclosure.

The launch of IFRS S1 and IFRS S2 in June 2023 by the International Sustainability Standards Board (ISSB) marks a significant step toward establishing a global baseline for sustainability-related financial disclosures. These standards aim to help companies provide investors with consistent and decision-useful information about sustainability-related risks and opportunities, creating a more comparable and transparent reporting framework.[1]

Although IFRS S1 and S2 establish a global framework, their adoption is jurisdiction-specific and depends on how national regulators incorporate the standards into local regulatory systems.

For companies operating in Latin America, these developments have important implications. While the pace of regulatory adoption varies across countries, financial institutions, investors, and multinational value chains are already beginning to incorporate ISSB-aligned disclosures into their expectations. Across the region, several countries are taking steps toward aligning their regulatory frameworks with IFRS S1 and IFRS S2 through concrete regulatory actions.

Brazil is currently the most advanced case. In 2023, the Brazilian Securities and Exchange Commission (CVM) approved the adoption of ISSB-aligned standards through Resolution No. 193, establishing a transition framework that includes both voluntary and mandatory application.[2] Sustainability-related disclosures aligned with IFRS S1 and S2 (locally issued as CBPS 01 and CBPS 02) are permitted on a voluntary basis from 2024–2025 and will become mandatory for publicly listed companies starting in 2026. Parallel regulations issued by the National Monetary Council (CMN) and the Central Bank (BCB) extend similar requirements to financial institutions, with phased implementation timelines depending on institutional size and systemic importance.[3]

Chile has also established a clear regulatory pathway toward adoption. The Financial Market Commission (CMF) has mandated sustainability-related disclosures for regulated entities through General Rule No. 461, initially aligned with TCFD and SASB standards. Building on this framework, General Rule No. 519—issued in 2024—incorporates IFRS S1 and IFRS S2 and requires their application for annual reporting periods beginning in 2026, with disclosures to be published in 2027. Currently, the use of ISSB standards is permitted, with a transition toward mandatory application for listed and other publicly accountable entities.[4]

Mexico has already moved into the implementation phase. In January 2025, the National Banking and Securities Commission (CNBV) amended the regulatory framework for issuers (Circular Única de Emisoras), mandating the application of IFRS S1 and IFRS S2 for listed issuers of equity and debt securities. These requirements apply from fiscal year 2025, with first disclosures to be published in 2026. Financial institutions are currently excluded from the scope, although regulators are evaluating how to introduce equivalent requirements for this segment.[5]

In contrast, Colombia has not yet formally adopted IFRS S1 and S2. However, the country has an established institutional framework for incorporating international standards through Law 1314 of 2009, under which IFRS accounting standards were adopted. This framework—led by the Technical Council for Public Accounting (CTCP) and national regulatory authorities—provides a structured pathway for the future integration of sustainability disclosure standards into the regulatory system.[6]

These regulatory developments are being reinforced by regional and international initiatives aimed at accelerating the adoption and implementation of ISSB standards. In particular, the IFRS Foundation and the Inter-American Development Bank (IDB) have established a partnership to support capacity building, regulatory alignment, and the integration of sustainability-related financial disclosures across Latin American markets.[7]

As a result, even companies that are not yet directly subject to regulatory mandates are facing growing pressure to align with ISSB standards in order to maintain access to capital and participate in global value chains.

UNDERSTANDING IFRS S1 AND IFRS S2

The ISSB's first two sustainability disclosure standards, IFRS S1 and IFRS S2, establish the foundation for sustainability-related financial disclosures, providing a structured framework for how companies identify, assess, and communicate sustainability-related risks and opportunities to investors.

IFRS S1: General sustainability disclosure requirements

IFRS S1 sets out the overarching framework for disclosing sustainability-related risks and opportunities that could affect a company's financial performance and long-term prospects. Its primary objective is to ensure that companies provide decision-useful information to investors about factors that may influence future cash flows, cost of capital, and access to finance.

A central concept within IFRS S1 is financial materiality, requiring companies to focus on sustainability issues that are reasonably expected to affect enterprise value. This represents a shift from broader ESG reporting approaches toward disclosures that are directly relevant for financial decision-making.

Beyond defining what should be disclosed, IFRS S1 also establishes how information should be prepared and presented. It emphasizes the need for consistency, comparability, and integration with financial reporting. In particular, companies are required to ensure connectivity between sustainability-related disclosures and financial statements, aligning reporting boundaries, assumptions, and time horizons.

The standard also introduces a structured approach to disclosure, requiring companies to explain:

- How sustainability-related risks and opportunities affect their strategy and business model, including impacts across the value chain.
- How these risks are identified, assessed, and managed within enterprise risk management processes.
- How performance is measured through metrics and targets, including methodologies, assumptions, and progress over time.

In doing so, IFRS S1 moves sustainability reporting closer to core financial reporting processes, rather than treating it as a separate or standalone exercise.[8]

IFRS S2: Climate-related disclosure requirements

While IFRS S1 provides the general framework, IFRS S2 introduces detailed requirements specifically for climate-related risks and opportunities, reflecting the growing recognition of climate change as a source of financial risk.

The standard requires companies to assess and disclose both:

- Physical risks, such as extreme weather events and long-term climate shifts.
- Transition risks, including regulatory changes, technological developments, and shifts in market preferences.

A key feature of IFRS S2 is its emphasis on forward-looking analysis. Companies are required to evaluate how climate-related risks and opportunities may affect their business model, financial performance, and strategic planning over different time horizons.

One of the most significant additions is the requirement to assess climate resilience through scenario analysis. Organizations must evaluate how their strategy performs under different climate scenarios, such as those aligned with global temperature targets, and disclose the assumptions, uncertainties, and financial implications of these analyses.

IFRS S2 also introduces more granular disclosure requirements, including:

- The financial effects of climate risks and opportunities on revenues, costs, assets, and capital allocation.
- Greenhouse gas (GHG) emissions, including Scope 1, Scope 2, and, where relevant, Scope 3.
- Capital expenditures and financing related to climate transition or adaptation.
- The role of climate considerations in executive remuneration and governance structures.

Importantly, IFRS S2 builds on the framework developed by the Task Force on Climate-related Financial Disclosures (TCFD), adopting its four core pillars—governance, strategy, risk management, and metrics and targets. This alignment facilitates continuity for companies already reporting under TCFD while introducing more detailed and decision-useful requirements. [9]

Together, IFRS S1 and IFRS S2 create a comprehensive and integrated framework for sustainability-related financial disclosure. By linking sustainability risks directly to financial performance and strategic decision-making, the standards require companies to embed sustainability considerations into governance, risk management, and financial planning processes—rather than treating them as external or purely reputational factors.

WHY THESE STANDARDS MATTER FOR LATIN AMERICA

The implementation of IFRS S1 and S2 is likely to have significant implications for companies operating across Latin America. Historically, sustainability reporting in the region has been characterized by fragmented standards and predominantly voluntary disclosure practices, limiting the comparability and reliability of information available to investors.

The introduction of a global baseline for sustainability-related financial disclosures has the potential to address these challenges by enhancing consistency, transparency, and comparability across companies and markets. This is particularly relevant in a region where capital markets are increasingly integrated with global investors, who rely on standardized information to assess risk and allocate capital.

The experience of IFRS accounting adoption across Latin America provides a useful precedent. Over the past two decades, the convergence toward international financial reporting standards has contributed to improved financial transparency, greater investor confidence, and increased access to international capital markets.[10]

In this context, the adoption of IFRS S1 and S2 can also generate broader strategic benefits. More consistent and decision-useful sustainability disclosures can help reduce information asymmetries between companies and investors, potentially improving access to capital and strengthening investor confidence. At the same time, integrating sustainability considerations into governance, strategy, and risk management processes can enhance organizational resilience, enabling companies to better anticipate regulatory changes, respond to market shifts, and manage emerging climate-related risks.

However, the transition to sustainability-related financial disclosures presents additional challenges. Many companies in the region face limitations in the availability and quality of climate-related data, as well as gaps in internal systems for measuring and managing sustainability risks. In addition, integrating sustainability into governance structures and enterprise risk management frameworks requires new capabilities and cross-functional coordination that are still developing in many organizations.

Beyond regulatory efforts, several regional and international initiatives are supporting this transition. For example, the United Nations Sustainable Stock Exchanges (SSE) initiative is working with stock exchanges across Latin America to promote ESG disclosure and strengthen sustainability reporting practices.[11] Similarly, the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) is supporting financial regulators in the region in integrating climate-related risks into supervision and financial stability frameworks.[12]

CONCLUSION

The introduction of IFRS S1 and IFRS S2 marks a structural shift in how sustainability is understood within financial markets, from a largely voluntary and narrative-driven exercise to a core component of financial disclosure. In Latin America, this transition is already underway. As adoption progresses, companies across the region will need to strengthen governance structures, integrate sustainability into enterprise risk management, and develop robust data and reporting systems to ensure that sustainability-related risks and opportunities are effectively reflected in financial disclosures.

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ABOUT HPL

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If you're looking to elevate your organization to the next level in sustainable finance, or if you're interested in issuing a green, social, or sustainability-linked bond, our expert team is here to provide you with guidance and assistance every step of the way. You can reach out to us through LinkedIn, email, or our website to explore the comprehensive services we offer. Together, we can embark on a path towards making a meaningful contribution to the global sustainability agenda. HPL has developed user-friendly methodologies and tools to help their clients assess compliance with international climate finance taxonomies and adopt international methodologies to measure financed emissions. HPL has designed the HPL CAT (Carbon Accounting Tool), which aims to enhance clients' ability to track financed emissions of scope 3 (category 15). This tool focuses on improving the quality of data related to greenhouse gas emissions. HPL CAT offers a detailed and personalized approach for each client, helping them set realistic and achievable goals and develop action plans that facilitate an orderly and effective transition to a low-carbon economy.

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