Beyond the Brussels Effect: The Surprising Rise of the International Sustainability Standards Board

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Abstract

As climate-related risks become increasingly material to corporate performance and investor decision-making, the need for consistent, comparable disclosure standards has become urgent. Yet efforts to establish a global baseline have been hindered by regulatory fragmentation and competing frameworks. While the European Union's Corporate Sustainability Reporting Directive (CSRD) was expected to trigger a "Brussels Effect" and define the global norm, its scope has since been scaled back in response to political and economic pressures. The United States had similarly retreated from comprehensive disclosure mandates. Against this backdrop, the International Sustainability Standards Board (ISSB) has emerged, somewhat unexpectedly, as the leading platform for global convergence. Created under the authority of the International Financial Reporting Standards (IFRS) Foundation, the body responsible for developing globally recognized accounting standards, the ISSB leveraged its institutional credibility and infrastructure to accelerate uptake. This paper argues that the ISSB's success stems not from regulatory power, but from its institutional design and grounding in private-sector practice. Notably, it builds directly on the Sustainability Accounting Standards Board (SASB), a fully market-driven initiative created by and for private actors to produce financially material, decision-useful disclosures. By integrating SASB and Task Force on Climate-related Financial Disclosures (TCFD)'s risk framework, the ISSB offers a model that is both credible and pragmatic, one already familiar to global capital markets. This paper shows how the ISSB has transformed private standardsetting into a viable global baseline for climate disclosure.

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I. Introduction

In the past two decades, climate-related disclosure has moved from a peripheral topic to a central concern of corporate strategy and financial markets. Many large firms began to recognize that climate change posed long-term operational risks, and that measuring and reporting emissions was a way to prepare for evolving market, physical, and reputational challenges.[1] At the same time, institutional investors demanded greater transparency to evaluate portfolio exposure and long-term value.[2] In response, a proliferation of voluntary frameworks emerged, including the Global Reporting Initiative (GRI) in 1997, the Carbon Disclosure Project (CDP) in 2000, the Sustainability Accounting Standards Board (SASB) in 2011, and the Task Force on Climate-related Financial Disclosures (TCFD) in 2015.[3] These initiatives reflected growing interest in sustainability reporting, but they were uncoordinated and varied in scope, with different materiality definitions and metrics. The result was a fragmented disclosure landscape in which companies had to select among overlapping standards or report under multiple frameworks simultaneously, leading to inconsistencies and compliance burdens.[4]

As the limits of voluntary disclosure became clear, regulators intervened. Governments and authorities, concerned about greenwashing, systemic risk, and the lack of comparable information, sought to formalize climate reporting through mandatory rules.[5] These regulatory frameworks varied widely in their design and orientation. The European Union's Corporate Sustainability Reporting Directive (CSRD) opted for a comprehensive

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[1] Adam Sulkowski and Sandra Waddock, 'Beyond Sustainability Reporting: Integrated Reporting is Practiced, Required, and More Would Be Better' (2013) 10 U St Thomas LJ 1060, 1061.

[2] BlackRock, 'Spotlight: BlackRock Supports Consistent Climate-Related Disclosures; Urges Global Coordination' (August 2022) <https://www.blackrock.com/corporate/literature/whitepaper/spotlight-blk-supports-consistent-climate-related-disclosures-issb-august-2022.pdf> accessed 4 November 2025.

[3] Global Reporting Initiative (GRI) <https://www.globalreporting.org/> accessed 12 May 2025; CDP <https://www.cdp.net/> accessed 4 November 2025; Sustainability Accounting Standards Board (SASB) <https://www.sasb.org/> accessed 4 November 2025; Task Force on Climate-related Financial Disclosures (TCFD) <https://www.fsb-tcfd.org/> accessed 4 November 2025.

[4] TCFD, '2022 Status Report' (October 2022) 4–6 <https://assets.bbhub.io/company/sites/60/2022/10/2022-TCFD-Status-Report.pdf> accessed 4 November 2025.

[5] Charlotte Haine, 'How CSRD and EU Taxonomy Help Companies Fight Greenwashing Through Transparency' (*Greenomy*, 6 July 2023) <https://www.greenomy.io/blog/eu-taxonomy-csrd-transparency-to-fight-greenwashing> accessed 4 November 2025.

model of double materiality and stakeholder accountability.[6] In the United States, the Securities and Exchange Commission (SEC) adopted a narrower, investor-focused approach,[7] while California introduced disclosure rules requiring extensive reporting on emissions and climate-related risks.[8] At the same time, the private standard-setter International Sustainability Standards Board (ISSB) proposed frameworks intended to harmonize voluntary efforts across jurisdictions.[9] Still, as regulatory regimes multiplied, the problem of global fragmentation remained unresolved, raising the question of whether any single framework could serve as a global baseline.

Among the regulatory contenders, early momentum suggested that the European Union would set that baseline. With the adoption of the CSRD in 2022, the EU introduced a far-reaching regulatory regime that extended beyond its borders, requiring even non-EU companies with significant operations in the European market to comply.[10] Observers then anticipated a “Brussels Effect,” in which the EU’s strict standards would become the de facto global norm due to its market power and extraterritorial scope.[11] Yet that outcome has not materialized. Instead, this paper argues that the ISSB—not the EU—has emerged as the most viable foundation for global convergence in climate disclosure.

Although EU regulatory pressure remains strong, its implementation has encountered internal resistance, driven by competitiveness concerns and resulting in recent political recalibration.[12] Meanwhile, in the US, the SEC released a significantly weakened final climate disclosure rule in 2024 and formally abandoned its defense in court in 2025 under the Trump administration.[13] As the two most likely regulatory contenders faltered, a new global framework began to fill the vacuum: the ISSB.

Under the auspices of the International Financial Reporting Standards (IFRS) Foundation, an institution already known for setting global financial reporting standards, the ISSB launched its first set of rules in 2023, aiming to create a baseline for investor-focused

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[6] ‘Corporate Sustainability Reporting’ (*European Commission*) <https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en> accessed 12 May 2025.

[7] The Enhancement and Standardization of Climate-Related Disclosures for Investors, 89 Fed Reg 21668 (28 March 2024).

[8] Climate Corporate Data Accountability Act, SB 253, 2023–2024 Reg Sess (Cal 2023) <https://legiscan.com/CA/text/SB253/id/2833821> accessed 4 November 2025; Climate-Related Financial Risk, SB 261, 2023–2024 Reg Sess (Cal 2023) <https://legiscan.com/CA/text/SB261/id/2844343> accessed 4 November 2025.

[9] ‘ISSB Issues Inaugural Global Sustainability Disclosure Standards’ (*IFRS Foundation*, 26 June 2023) <https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/> accessed 4 November 2025.

[10] GRI, ‘CSRD: Implications for Companies Outside the EU’ (2023) <https://www.globalreporting.org/media/3fxpjvfp/gri-reporting-outside-eu-final.pdf> accessed 12 May 2025.

[11] Anu Bradford, *The Brussels Effect: How the European Union Rules the World* (OUP 2020).

[12] Directorate-General for Financial Stability, Financial Services and Capital Markets Union, ‘Omnibus Package’ (*European Commission*, 1 April 2025) https://finance.ec.europa.eu/news/omnibus-package-2025-04-01_en accessed 12 May 2025.

[13] ‘SEC Votes to End Defense of Climate Disclosure Rules’, Press Release No 2025-58 (*U.S. Securities and Exchange Commission*, 27 March 2025) <https://www.sec.gov/newsroom/press-releases/2025-58> accessed 4 November 2025.

sustainability disclosure.[14] This paper argues that, beyond the regulatory retreat of other jurisdictions, several structural features helped enable the ISSB's emergence as the leading framework for global convergence. First, unlike the EU's expansive stakeholder model, the ISSB is centered on financial materiality, an approach already familiar to corporations, investors, and regulators worldwide.[15] Second, it did not start from scratch. Instead, it absorbed the private infrastructure and legitimacy developed by standard-setters like the Sustainability Accounting Standards Board (SASB),[16] one of the most widely used investor-focused frameworks worldwide.[17] By institutionalizing what had started as market-driven initiatives, the ISSB offered a credible and operationally viable standard that lowered adoption costs and enhanced legitimacy in the eyes of both regulators and market participants.

While many geopolitical accounts frame international law as a product of great power rivalry, a "big power game" in which states compete to shape global norms in their image,[18] the rise of the ISSB tells a more complex story. Rather than emerging from hegemonic ambition, the ISSB gained traction as an institutional default, stepping into a regulatory vacuum left by disjointed state action and political fatigue. This paper argues that in the absence of strong state-led initiatives, transnational legal convergence can still occur, driven by private standard-setters leveraging technocratic legitimacy and institutional credibility.[19] In this sense, the ISSB's rise challenges the assumption that global legal order must be state-led, and instead suggests that governance by functionality, not rivalry, may shape global regulatory outcomes.

The impact of this convergence is already visible. As of 2024, jurisdictions representing over half the global economy by GDP have committed to adopting or aligning with the

[14] 'General Sustainability-related Disclosures' (*IFRS*) <https://www.ifrs.org/projects/completed-projects/2023/general-sustainability-related-disclosures/> accessed 12 May 2025.
[15] Ibid.
[16] 'Investor Use' (*SASB Standards*) <https://sasb.ifrs.org/investor-use/> accessed 12 May 2025.
[17] Peyton Horvath, 'From SASB and TCFD to ISSB: Simplifying Sustainability Reporting' (*Sustainable Investment Group*, 13 May 2024) <https://sigearth.com/from-sasb-and-tcfd-to-issb-simplifying-sustainability-reporting/> accessed 6 November 2025.
[18] John J Mearsheimer, *The Tragedy of Great Power Politics* (W W Norton 2001). Mearsheimer argues that competition among states for relative power drives global rulemaking. Paul Kennedy, *The Rise and Fall of the Great Powers* (Random House 1987). Kennedy links institutional dominance to underlying economic and geopolitical capacity. Robert Kagan, *The Return of History and the End of Dreams* (Knopf 2008). Kagan frames rivalry as an ideological contest between democratic and authoritarian visions of global order. Jack Goldsmith and Eric Posner, *The Limits of International Law* (OUP 2005). Goldsmith and Posner contend that international legal norms largely reflect states' pursuit of self-interest and power.
[19] Pierre-Hugues Verdier, 'The Political Economy of International Financial Regulation' (2013) 88 Ind L J 1405. Verdier shows how regulatory convergence can arise through decentralized technocratic networks of regulators and private standard-setters operating outside formal treaty mechanisms. Kal Raustiala, 'Rethinking the Sovereignty Debate in International Economic Law' (2003) 6 JIEL 841. Raustiala highlights the role of functional cooperation and technocratic institutions in driving international regulatory convergence. Tim Büthe and Walter Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy* (Princeton UP 2011). Büthe and Mattli show how private standard-setters and industry experts can shape transnational governance by leveraging credibility, expertise, and institutional access.

standards through domestic regulation or guidance,[20] and other regimes seek interoperability.[21] This widespread movement toward alignment reflects the ISSB's appeal, not as the boldest or most comprehensive framework, but as the one that could actually be implemented, balancing ambition with feasibility. Importantly, this paper does not portray the ISSB's emergence as inevitable or without limitations. It examines the constraints of the ISSB's approach, particularly its lack of enforcement authority. Adoption remains voluntary and flexible: jurisdictions may choose to implement only portions of the standards or make some elements optional rather than mandatory.[22] Another limitation, as critics have noted, lies in the ISSB's exclusive focus on financial materiality, which may give less weight to stakeholder-oriented concerns compared to investor priorities.[23]

This paper contributes not only to debates in climate governance but also to international legal theory more broadly. It engages frameworks such as Global Administrative Law,[24] International Public Authority,[25] and Transnational Legal Ordering,[26] while situating the ISSB within a broader class of private standard-setters characterized by market credibility and regulatory uptake.[27]

Structurally, the discussion unfolds in six parts. Part II situates climate disclosure within broader debates about corporate accountability and systemic risk. Part III traces the institutional evolution of the ISSB, highlighting how its roots in private-market initiatives shaped its pragmatic, investor-oriented design. Part IV compares regulatory efforts in the EU, US, and California, each initially positioned to set the global baseline. Part V analyzes the political headwinds that undermined those efforts and opened space for the ISSB's rise. Part VI concludes by reflecting on the ISSB's emergence as the most viable framework for global convergence.

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[20] 'Jurisdictions Representing Over Half the Global Economy by GDP Take Steps Towards ISSB Standards' (*IFRS*, May 2024) <https://www.ifrs.org/news-and-events/news/2024/05/jurisdictions-representing-over-half-the-global-economy-by-gdp-take-steps-towards-issb-standards/> accessed 4 November 2025.

[21] European Financial Reporting Advisory Group (EFRAG), 'IFRS Foundation and EFRAG Publish Interoperability Guidance' (2 May 2024) <https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/Interoperability%20Guidance%20press%20release_2%20May_FINAL%20-%20Copy.pdf> accessed 12 May 2025.

[22] IFRS, 'Jurisdictions Representing Over Half the Global Economy' (n 20).

[23] See Part III(d) below.

[24] Benedict Kingsbury, Nico Krisch, and Richard B Stewart, 'The Emergence of Global Administrative Law' (2005) 68 LCP 15. The authors introduce the Global Administrative Law approach, which emphasizes procedural legitimacy in transnational regulatory institutions.

[25] Armin von Bogdandy and Ingo Venzke, *In Whose Name? A Public Law Theory of International Adjudication* (OUP 2014); Armin von Bogdandy and others (eds), *The Exercise of Public Authority by International Institutions: Advancing International Institutional Law* (Springer Berlin 2010). Together, these works develop the International Public Authority framework, focusing on the normative constraints on international institutions that exercise public power.

[26] Terence C Halliday and Gregory Shaffer (eds), *Transnational Legal Orders* (CUP 2015). The authors articulate the Transnational Legal Ordering theory, which explains how legal norms are institutionalized through recursive interaction among transnational, international, and domestic actors.

[27] Stavros Gadinis, 'Three Pathways to Global Standards: Private, Regulator, and Ministry Networks' (2015) 109 AJIL 1; Büthe and Mattli, *The New Global Rulers* (n 19). These works complement Transnational Legal Ordering by analyzing how private and hybrid standard-setting bodies, such as IFRS, gain authority in global markets through credibility, institutional design, and regulatory uptake.

II. The Promise and Challenges of Climate Reporting

a. Why Disclosures and Standards are Needed

i. Corporate Strategy: Managing Climate Risk and Driving Performance

Corporations have long recognized the challenges posed by climate change and its implications for their operations and long-term profitability.[28] Risks from extreme weather, regulatory shifts, and changing market preferences have forced firms to reassess their resilience.[29] To manage and report emissions, businesses worked with civil society partners in the late 1990s to develop the Greenhouse Gas (GHG) Protocol,[30] a voluntary framework that has since become the global standard for emissions accounting, underpinning nearly all disclosure regimes.[31] Corporate motivations for creating the Protocol were pragmatic: by measuring emissions and exposure to climate risks, firms could identify inefficiencies, reduce operational vulnerabilities, and, therefore, enhance competitiveness.[32]

Businesses also helped develop frameworks like SASB a decade later and began voluntary disclosures before regulations imposed them.[33] These early efforts encouraged companies to start integrating climate risks into their business models and embedding environmental considerations into risk management processes.[34] Over time, this momentum produced formal governance systems to manage risks and align strategy with climate objectives.[35] Practices such as scenario analysis, board-level climate oversight, and the

[28] John Browne, 'Climate Change Speech' (Stanford University, Palo Alto, 19 May 1997) <https://www.climatefiles.com/wp-content/uploads/1997/05/bp-john-browne-stanford-1997-climate-change-speech-1.pdf> accessed 4 February 2025. This speech marked a significant departure from the industry's traditional stance on climate change. Surprising his peers, Browne stated that BP would no longer deny "the mounting evidence that emissions change climate" and pledged to reduce emissions, fund research, invest in alternative fuels, and engage in public policy debates—actions that went well beyond the regulatory requirements.

[29] 'Climate Risks and Opportunities Defined' (*United States Environmental Protection Agency*) <https://www.epa.gov/climateleadership/climate-risks-and-opportunities-defined> accessed 8 May 2025.

[30] World Resources Institute and World Business Council for Sustainable Development, 'Standards and Guidance' (*GHG Protocol*) <https://ghgprotocol.org/standards-guidance> accessed 4 February 2025; Jessica F Green, 'Private Standards in the Climate Regime: The Greenhouse Gas Protocol' (2010) 12 (3) Business & Politics 1 <https://doi.org/10.2202/1469-3569.1318>.

[31] Pankaj Bhatia and Janet Ranganathan, 'GHG Protocol: The Gold Standard for Accounting for Greenhouse Gas Emissions' (*GHG Protocol*, 4 October 2011) <https://ghgprotocol.org/blog/ghg-protocol-gold-standard-accounting-greenhouse-gas-emissions> accessed 20 January 2024.

[32] Stavros Gadinis, 'Social Business Judgment' (2025) Business Lawyer (forthcoming). <https://doi.org/10.2139/ssrn.5284487>.

[33] Jill E Fisch, 'Making Sustainability Disclosure Sustainable' (2019) 107 Geo L J 923, 950. Fisch describes how voluntary disclosure standards arose in response to growing investor interest in sustainability information and corporate desire for reputational and operational legitimacy.

[34] Gadinis, 'Social Business Judgment' (n 32). Gadinis argues that companies have developed sophisticated governance frameworks that integrate social impacts into strategic planning, going far beyond traditional compliance or corporate social responsibility programs.

[35] Ibid.

incorporation of environmental metrics into executive compensation became increasingly common.[36]

Importantly, voluntary standards like the GHG Protocol and the SASB were not externally imposed; rather, they were developed with significant input from industry participants seeking to manage climate risk and prepare to meet stakeholder expectations and improve performance. Although grounded in self-interest, these efforts produced public value by improving transparency and investor confidence.[37] Yet as more firms adopted these frameworks, differences in what was reported, how it was measured, and how progress was framed became increasingly visible. The unevenness of voluntary disclosure revealed the tension between flexibility and credibility, an issue that would eventually prompt closer scrutiny from regulators.[38]

ii. Regulatory Oversight: Combating Greenwashing and Equalizing Burdens

As voluntary regimes left companies with significant discretion on their environmental narrative, this selectivity opened the door to greenwashing, the practice of emphasizing sustainability achievements while downplaying less favorable metrics to gain reputational or market advantage.[39] Because firms possess far more information about their climate exposures and plans than stakeholders can access, information asymmetries[40] make it difficult to verify claims or assess performance.[41]

For regulators, addressing greenwashing is a crucial step in maintaining the integrity of capital markets.[42] As companies strive to present their environmental credentials to appeal to climate-conscious investors and consumers, many wonder whether their efforts yield tangible results.[43] Standardized reporting requirements help mitigate these risks by requiring companies to disclose climate risks using shared metrics, definitions, and formats, backed by

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[36] Virginia E Harper Ho, 'Corporate Climate Governance' (August 2025) European Corporate Governance Institute (ECGI) Law Working Paper No 804/2024 <https://ssrn.com/abstract=4934244> accessed 13 November 2025.

[37] Fisch, 'Making Sustainability Disclosure Sustainable' (n 33).

[38] Peter Pears, Tim Baines, and Oliver Williams, 'Greenwashing: Navigating the Risk' (*Harvard Law School Forum on Corporate Governance*, 24 July 2023) <https://corpgov.law.harvard.edu/2023/07/24/greenwashing-navigating-the-risk/>. The authors highlight the reputational, regulatory, and litigation risks associated with greenwashing and emphasize the need for accurate environmental disclosures.

[39] Lyle Moran, 'Climate Lawsuits Against Largest Fossil Fuel Producers Have Almost Tripled, Report Finds' (*ESG Dive*, 25 September 2024) <https://www.esgdive.com/news/climate-lawsuits-against-largest-fossil-fuel-producers-have-almost-tripled/728069/> accessed 8 February 2025. Moran notes that greenwashing has contributed to a rise in climate litigation.

[40] Fisch, 'Making Sustainability Disclosure Sustainable' (n 33).

[41] Diane May, 'US Securities and Exchange Commission Adopts Rule to Strengthen Fund Integrity and Market Confidence, Reduce Greenwashing' (*Ceres*, 20 September 2023) <https://www.ceres.org/resources/news/u-s-securities-and-exchange-commission-adopts-rule-to-strengthen-fund-integrity-and-market-confidence-reduce-greenwashing> accessed 10 March 2025.

[42] Nicholas Pfaff and others, 'Market Integrity and Greenwashing Risks in Sustainable Finance' (International Capital Market Association, October 2023) <https://www.icmagroup.org/assets/documents/Sustainable-finance/Market-integrity-and-greenwashing-risks-in-sustainable-finance-October-2023.pdf> accessed 10 March 2025.

[43] Pears, Baines, and Williams, 'Greenwashing: Navigating the Risk' (n 38).

verification and enforcement mechanisms.[44] A central goal is imposing consistent, comparable reporting obligations to improve oversight.

Regulatory mandates also serve an important second task: to equalize disclosure burdens across firms and level the playing field.[45] Although companies played a key role in developing the GHG Protocol, they also acknowledged the practical challenges of implementing it.[46] The Protocol classifies emissions into three scopes, with Scope 3, which includes indirect emissions from upstream and downstream activities in the value chain, being particularly difficult to quantify. Accurate Scope 3 reporting requires data systems and coordination across suppliers and customers, making it resource-intensive and complex.[47] Despite these challenges, Scope 3 reporting is widely regarded as essential to any credible accountability framework, as it accounts for 75% of companies' emissions on average.[48] This is where a mandatory regime can make a meaningful difference. Even when emissions data, especially for Scope 3, is difficult to collect, mandatory disclosure standards ensure that all firms are held to comparable expectations.[49] This avoids a race to the bottom, where transparent firms bear costs while competitors benefit from opacity.[50]

iii. Investor Needs: Enabling Oversight and Market Efficiency

Investors' interest in companies' environmental outcomes as predictors of stock market returns or long-term potential has grown significantly.[51] Some investors view a company's emissions profile as a signal of sustainable practices, expecting lower financing costs as a result,[52] while others favor companies they see as actively reducing broader societal

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[44] Caio Ferreira and others, 'How Strengthening Standards for Data and Disclosure Can Make for a Greener Future' (*International Monetary Fund*, 13 May 2021) <https://www.imf.org/en/Blogs/Articles/2021/05/13/how-strengthening-standards-for-data-and-disclosure-can-make-for-a-greener-future> accessed 8 February 2025.

[45] John C Coffee Jr, 'The Future of Disclosure: ESG, Common Ownership, and Systematic Risk' [2021] Colum Bus L Rev 602.

[46] Business Roundtable, 'Comment Letter on SEC Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors' (17 June 2022) <https://s3.amazonaws.com/brt.org/2022.06.17-BRT.Countryman.TheEnhancementandStandardizationofClimate-RelatedDisclosuresforInvestors3.pdf> accessed 6 February 2025.

[47] Evan Williams, 'The Chamber Fights Back Against Counterproductive Corporate Disclosure Requirements' (*US Chamber of Commerce*, 30 January 2024) <https://www.uschamber.com/finance/corporate-governance/the-chamber-fights-back-against-counterproductive-corporate-disclosure-requirements> accessed 6 February 2025.

[48] Maida Hadziosmanovic, Kian Rahimi, and Pankaj Bhatia, 'Trends Show Companies Are Ready for Scope 3 Reporting with US Climate Disclosure Rule' (*World Resources Institute*, 24 June 2022) <https://www.wri.org/update/trends-show-companies-are-ready-scope-3-reporting-us-climate-disclosure-rule> accessed 6 February 2025.

[49] Coffee, 'The Future of Disclosure' (n 45).

[50] David Hampton and Valerie Li, 'Corporate Disclosure of Climate Change Risk – A Pilot Study' (2022) 23 J Accounting Ethics & Public Policy 725.

[51] Larry Fink, 'A Sense of Purpose' (*BlackRock*, 2018) <https://www.blackrock.com/corporate/investor-relations/2018-larry-fink-ceo-letter> accessed 6 February 2025.

[52] Patrick Bolton and Marcin T Kacperczyk, 'Do Investors Care about Carbon Risk?' (2021) 142 J Financial Economics 517.

harms, even absent immediate financial gains.[53] To express these views, investors need detailed information on emissions, management strategies, targets, and plans. They also want to be able to monitor firms' progress over time and compare performance across sectors.

These investor demands are grounded in a growing recognition that climate-related risks are financially material.[54] They have the potential to affect firms' cash flows, asset valuations, creditworthiness, and access to capital. Without reliable information, investors are left blindsided by material threats to a company's business model or financial position.[55] Inadequate data raises the risk of mispricing, distorting capital allocation, obscuring portfolio exposures, and threatening financial stability.[56]

Mandatory climate disclosure emerges, therefore, as a critical tool to address these concerns. It increases transparency and market monitoring by allowing participants to contrast data from different companies and thus evaluate performance more accurately.[57] Standardized reporting formats aim to improve the usability and comparability of information, while the liability risk associated with mandatory disclosure, policymakers hope, puts pressure on executives to beef up their measurement and data collection efforts, thus boosting the accuracy of company-provided figures.[58]

b. Costs of Compliance: Finding the Right Balance

Although climate disclosure promises important societal and market benefits, it also imposes significant costs on companies—costs that, if not carefully managed, could undermine both the effectiveness and political sustainability of these regimes.[59] The challenge is not to eliminate these costs, which are inherent to transparency, but to balance them carefully so that disclosure regimes are effective yet feasible for a wide range of companies.

Emissions reporting, particularly for Scope 3, illustrates the scale and complexity of compliance. Meeting mandates often require major investments in data systems, controls, and third-party verification. Most firms must devote significant resources to building a reporting infrastructure, including staff, software, new procedures, and management involvement.[60]

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[53] Matt Phillips, 'Exxon's Board Defeat Signals the Rise of Social-Good Activists' (*New York Times*, 9 June 2021) <https://www.nytimes.com/2021/06/09/business/exxon-mobil-engine-no1-activist.html> accessed 14 January 2025.

[54] 'Vanguard's Approach to Climate Risk Governance' (*Vanguard Investment Stewardship Insights*, May 2024) <https://corporate.vanguard.com/content/dam/corp/advocate/investment-stewardship/pdf/perspectives-and-commentary/climate_risk_governance_policy_insights.pdf> accessed 6 November 2025, 1.

[55] The Enhancement and Standardization of Climate-Related Disclosures for Investors, 89 Fed Reg 21668 (28 March 2024).

[56] Patrick Bolton and others, *The Green Swan: Central Banking and Financial Stability in the Age of Climate Change* (Bank for International Settlements 2020) 25–30 <https://www.bis.org/publ/othp31.pdf> accessed 14 November 2025; European Central Bank, *Climate-Related Risk and Financial Stability* (2021) 10–15 <https://www.ecb.europa.eu/pub/pdf/other/ecb.climateriskfinancialstability202107~87822fae81.en.pdf> accessed 10 June 2025. These studies provide empirical evidence that inadequate climate disclosure contributes to mispricing and financial vulnerability.

[57] Lynn M LoPucki, 'Corporate Greenhouse Gas Disclosures' (2022) 56 UC Davis L Rev 405.

[58] Ibid.

[59] National Association of Manufacturers, 'Comment Letter on SEC Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors' (6 June 2022) <https://documents.nam.org/tax/nam_comments_sec_climate_rule.pdf> accessed 6 February 2025.

[60] Anne Field, 'ESG Disclosure Challenges? A Digital Plan Can Help—and Open New Routes to Profit' (*Wall Street Journal: Deloitte Insights*, 5 March 2024) <https://deloitte.wsj.com/sustainable-business/esg-disclosure-

This effort also typically requires cross-departmental coordination, straining internal capacity, particularly in companies not previously structured for voluntary reporting.[61] Compliance involves significant upfront costs,[62] though some expect them to decline over time,[63] while others worry about near-term profitability.[64] Policymakers hope mandates build on existing voluntary systems rather than requiring firms to start from scratch.[65] However, even transitioning from voluntary to standardized mandatory disclosure can be a resource-intensive process.

Small suppliers and private firms are particularly affected, often providing emissions data to larger companies despite being outside mandates. During the SEC rulemaking process, groups such as the National Association of Home Builders,[66] American Farm Bureau Federation,[67] American Trucking Associations,[68] and National Federation of Independent Business[69] argued that small businesses may be forced to hire costly consultants or risk losing clients unwilling to bear the reputational risks of incomplete disclosure. Value chain emissions accounting disproportionately burdens industries with diffuse or globally dispersed suppliers, where data systems are immature or inconsistent.[70]

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challenges-a-digital-plan-can-helpand-open-new-routes-to-profit-fb485f1e> accessed 6 February 2025; Maximilian Hettler and Lorenz Graf-Vlachy, 'Corporate Scope 3 Carbon Emission Reporting as an Enabler of Supply Chain Decarbonization: A Systematic Review and Comprehensive Research Agenda' (2024) 33 Business Strategy and the Environment 263.

[61] Maura Webber Sadovi, '5 Takeaways on the Costs, Challenges of Climate Disclosure Compliance' (*ESG Dive*, 16 July 2024) <https://www.esgdive.com/news/5-takeaways-costs-challenges-climate-disclosure-compliance-ESG/721468/> accessed 4 May 2025.

[62] Lorenz Graf-Vlachy and Maximilian Hettler, 'Why Firms Are Not Reporting Their Scope 3 CO_2 Emissions' (*California Management Review Insights*, 25 March 2024) https://cmr.berkeley.edu/2024/03/why-firms-are-not-reporting-their-scope-3-co2-emissions/ accessed 6 November 2025.

[63] Impax, 'Comment Letter on SEC Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors' (12 May 2022) <https://www.sec.gov/comments/s7-10-22/s71022-20128633-292831.pdf> accessed 13 May 2025.

[64] Dimensional Fund Advisors, 'Comment Letter on SEC Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors' (13 May 2022) <https://www.sec.gov/comments/s7-10-22/s71022-20128689-293923.pdf> accessed 13 May 2025.

[65] The Enhancement and Standardization of Climate-Related Disclosures for Investors, 89 Fed Reg 21668 (28 March 2024). The SEC notes that many registrants already disclose GHG emissions voluntarily and that the proposed rules are designed to build on existing reporting frameworks.

[66] National Association of Home Builders, 'Comment Letter on SEC Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors' (17 June 2022) <https://www.sec.gov/comments/s7-10-22/s71022-20131106-301159.pdf> accessed 13 May 2025.

[67] American Farm Bureau Federation, 'Comment Letter on SEC Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors' (17 June 2022) <https://www.sec.gov/comments/s7-10-22/s71022-20164335-334160.pdf> accessed 13 May 2025. This letter highlights the disproportionate burden on farmers and ranchers.

[68] American Trucking Associations, 'Comment Letter on SEC Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors' (17 June 2022) <https://www.sec.gov/comments/s7-10-22/s71022-20134158-303963.pdf> accessed 6 February 2025.

[69] National Federation of Independent Business, 'Comment Letter on SEC Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors' (17 June 2022) <https://www.sec.gov/comments/s7-17-22/s71722-20134158-303963.pdf> accessed 6 February 2025.

[70] Ibid.

Empirical data confirm these concerns. Only about 10% of companies provide fully measured Scope 3 emissions.[71] Companies engaged in voluntary disclosure report average annual costs of $533,000–$677,000,[72] while the SEC estimates $864,000 per company.[73] In Europe, the European Financial Reporting Advisory Group (EFRAG) estimates compliance at €150,000–€1 million, with large listed firms facing one-off costs of €395,000 and recurring annual costs of €680,000.[74]

Companies themselves have echoed these warnings. BusinessEurope expressed concern that the EU proposal is "disproportionate to the objectives."[75] The Securities Industry and Financial Markets Association (SIFMA) highlighted the potential high costs to comply with California's disclosure laws,[76] and HP told the SEC it "drastically underestimated" compliance costs.[77] These reservations underscore the need for a disclosure regime that calibrates transparency and accountability, while recognizing the operational realities and resource constraints that companies face.

There is a risk that excessive costs and complexity in measuring emissions could produce unintended consequences. High compliance burdens could discourage firms from entering or remaining in public markets, prompting them to seek alternative financing channels or relocate to jurisdictions with less stringent requirements.[78] They may also accelerate privatization trends or divert corporate resources away from innovation toward bureaucratic compliance tasks.[79]

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[71] 'Only 10% of Companies Measured Their Greenhouse Gas Emissions Comprehensively in 2022 vs 9% in 2021' (*Boston Consulting Group*, 20 October 2022) <https://www.bcg.com/press/20october2022-few-companies-measured-greenhouse-gas-emissions-comprehensively> accessed 10 April 2025.

[72] Environmental Resources Management (ERM), 'Survey Reveals Costs and Benefits of Climate-Related Disclosure for Companies and Investors' (2022) <https://www.erm.com/news/survey-reveals-costs-and-benefits-of-climate-related-disclosure-for-companies-and-investors/> accessed 15 May 2025.

[73] The Enhancement and Standardization of Climate-Related Disclosures for Investors, 89 Fed Reg 21668 (28 March 2024) 21895.

[74] Kerstin Lopatta, 'EFRAG's Cover Letter on the Cost–Benefit Analysis of the First Set of Draft ESRS' (*EFRAG,* November 2022) <https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/05%20EFRAGs%20Cover%20Letter%20on%20the%20Cost-benefit%20analysis.pdf> accessed 15 May 2025.

[75] BusinessEurope, 'Corporate Sustainability Reporting Directive — A BusinessEurope Position Paper' (14 July 2021) <https://www.businesseurope.eu/publications/corporate-sustainability-reporting-directive-a-businesseurope-position-paper/> accessed 15 May 2025.

[76] Letter from Securities Industry and Financial Markets Association (SIFMA) to California Air Resources Board, 'Information Solicitation to Inform Implementation of California Climate Disclosure Legislation' (8 March 2025) <https://www.sifma.org/wp-content/uploads/2025/03/SIFMA-letter-in-response-to-CARB-Climate-Disclosure-3-8-25.pdf> accessed 15 May 2025.

[77] HP Inc, 'Comment Letter on SEC's Proposed Rule on the Enhancement and Standardization of Climate-Related Disclosures for Investors' (17 June 2022) <https://www.sec.gov/comments/s7-10-22/s71022-20132241-302682.pdf> accessed 5 April 2025.

[78] Davis Polk & Wardwell LLP, 'Comment Letter on SEC's Proposed Rule on the Enhancement and Standardization of Climate-Related Disclosures for Investors' (9 June 2022) <https://www.sec.gov/comments/s7-10-22/s71022-20130934-300028.pdf> accessed 6 February 2025.

[79] Business Roundtable, 'Comment Letter on SEC's Proposed Rule The Enhancement and Standardization of Climate-Related Disclosures for Investors' (File No S7-10-22) (17 June 2022) <https://s3.amazonaws.com/brt.org/2022.06.17-BRT.Countryman.TheEnhancementandStandardizationofClimate-RelatedDisclosuresforInvestors3.pdf> accessed 6 February 2025.

c. Institutional Design Problem: Encouraging Disclosure and Managing Costs

The experience with emissions disclosure illustrates a broader institutional challenge: burdensome compliance risks eroding support. Mandates must encourage tracking and reporting while keeping costs proportionate to avoid deterring participation. At the center of this issue lies a classic tension: overly lenient standards enable greenwashing, while overly rigid ones risk overwhelming small and mid-sized firms.[80] Scholars have long recognized this dilemma, particularly in financial regulation, environmental law, and corporate governance, where oversight must balance informational needs with feasibility and avoid either regulatory capture or over-deterrence.[81]

This challenge is especially pronounced in climate disclosure, where risks evolve rapidly and reporting depends on complex value chains and uncertain estimates. The SEC's climate rule, for instance, faced significant pushback from firms concerned about liability for unverifiable Scope 3 data.[82] Similarly, the EU's CSRD includes phased timelines and proportionality measures reflecting cost concerns.[83] The ISSB explicitly sought to navigate these pressures in its institutional design. Its standards permit reliance on "reasonable and supportable information," allow estimates and secondary data for Scope 3, and apply an enterprise-value materiality threshold to focus reporting.[84] Ultimately, the effectiveness of climate disclosure depends not only on the volume of reported data, but on the institutional architecture shaping how companies respond.[85] Good design can embed sustainability into governance and strategy; poor design risks superficial compliance or regulatory avoidance.[86]

Another critical institutional design issue is the need for interoperability, the ability of different standards and regulatory frameworks to work together effectively.[87] As more jurisdictions adopt or consider climate disclosure mandates, the global regulatory landscape became fragmented. Companies operating globally may face overlapping requirements, raising costs and reducing disclosure utility.[88] In response, stakeholders have called for

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[80] Fisch, 'Making Sustainability Disclosure Sustainable' (n 33).

[81] Cary Coglianese (ed), *Achieving Regulatory Excellence* (Brookings Institution Press 2016). The editor discusses regulatory tradeoffs between burdens and benefits.

[82] The Enhancement and Standardization of Climate-Related Disclosures for Investors, 89 Fed Reg 21668 (28 March 2024). The document discusses liability risks and Scope 3 concerns raised during comment period.

[83] 'Corporate Sustainability Reporting' (*European Commission*) <https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en> accessed 6 November 2025.

[84] IFRS, 'IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information' (June 2023) 8 <https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf?bypass=on> accessed 6 November 2025.

[85] Harper Ho, 'Corporate Climate Governance' (n 36).

[86] Madison Condon and others, 'Mandating Disclosure of Climate-Related Financial Risk' (Institute for Policy Integrity and Environmental Defense Fund 2021) <https://policyintegrity.org/files/publications/Mandating_Climate_Risk_Financial_Disclosures.pdf> accessed 6 November 2025.

[87] Jacob McKeeman and Kieran Woodsworth, 'A Global Baseline? How to Navigate Interoperability Across Sustainability Reporting Rules' (*Institutional Shareholder Services - Corporate*, 11 March 2024) <https://www.iss-corporate.com/library/a-global-baseline-how-to-navigate-interoperability-across-sustainability-reporting-rules/> accessed 13 May 2025.

[88] Ibid.

coordination. For example, UBS Bank emphasized the need for dialogue between jurisdictions to improve interoperability, proposing a working group of jurisdictional representatives.[89] Similarly, the Swedish Financial Reporting Board raised concerns that diverging ISSB and EU standards could impose unnecessarily high administrative burdens on European companies and reduce the usefulness of corporate reporting, urging continued collaboration to harmonize requirements.[90]

d. The Role of Industry Support

Besides managing costs and complexity, disclosure regimes must secure industry support to succeed. While mandates are necessary to address information asymmetry and systemic risks, their durability depends on buy-in from the firms they regulate. Disclosure rules that are perceived as misaligned with business practices or disconnected from financial materiality are more likely to face resistance through lobbying, litigation, or noncompliance.[91] The example of some voluntary regimes underscores this point. The GHG Protocol shows the power of early and sustained industry participation. As a market-driven initiative, it relied heavily on corporate input and road-testing to create methodologies for measuring and reporting emissions that businesses could adopt, becoming the de facto global standard for emissions accounting.[92] Similarly, as discussed later in the paper, the evolution of the SASB standards illustrates how business endorsement can shape durable disclosure frameworks.

Academic scholarship has long recognized that regimes that fail to engage major industry stakeholders are more vulnerable to political backlash and regulatory rollback.[93] A growing body of work in law, economics, and governance documents how private actors are central to climate disclosure and standard-setting.[94] Scholars have shown that international organizations often rely on firms and NGOs as intermediaries to diffuse norms and scale implementation, a model sometimes described as orchestration in global governance theory.[95] Others have highlighted how transnational networks of private actors can establish effective governance structures where international treaties fall short.[96] Research on market-driven governance shows firms participate more when standards reflect business realities and offer

[89] UBS Group AG, 'Comment Letter on ISSB Consultation' (11 July 2022) <https://ifrs-springapps-comment-letter-api-1.azuremicroservices.io/v2/download-file?path=611_65713_ubs--issb-consultation-endorsement-letter-final.pdf> accessed 6 November 2025.

[90] Swedish Financial Reporting Board, 'Comment Letter to EFRAG on the Due Process Procedures Consultation' (14 September 2021) 2 <https://www.efrag.org/system/files/sites/webpublishing/Project%20Documents/2106151549247651/CL20%20-%20SFRB%20-%20EFRAG%27s%20Due%20Process%20Consultation.pdf> accessed 18 November 2025.

[91] IFRS, 'IFRS S2 Climate-Related Disclosures', app B (2023) <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/#about> accessed 6 November 2025.

[92] Bhatia and Ranganathan (n 31).

[93] Green (n 30); Michael P Vandenbergh, 'Private Environmental Governance' (2013) 99 Cornell L Rev 129, 130–34.

[94] Benjamin Cashore, 'Legitimacy and the Privatization of Environmental Governance: How Non-State Market-Driven (NSMD) Governance Systems Gain Rule-Making Authority' (2002) 15 Governance 503, 505–07.

[95] Kenneth W Abbott et al, 'Orchestrating Global Governance: From Empirical Findings to Theoretical Implications' in Kenneth W Abbott et al (eds), *International Organizations as Orchestrators* (CUP 2015) 349–79.

[96] Thomas Hale and David Held, 'Introduction: Mapping Changes in Transnational Governance' in Thomas Hale and David Held (eds), *The Handbook of Transnational Governance: Institutions and Innovations* (Polity Press, 2011) 1, 4–6.

brand or competitive benefits.[97] When firms see disclosure as aligned with enterprise value and stakeholder expectations, they are more likely to comply, innovate, and advocate for consistency. Conversely, when obligations appear overly burdensome or duplicative across jurisdictions, firms often mobilize to resist.

These dynamics are already visible. In the United States, industry pushback narrowed the SEC's final climate disclosure rule.[98] In Europe, the CSRD also encountered lobbying pressures that led to phased implementation schedules and exemptions for small and non-listed companies.[99] Even California's groundbreaking 2023 climate disclosure laws, which go further than federal efforts, have been challenged in court.[100] Thus, industry support is not merely desirable for political reasons; it is essential for the viability and durability of disclosure regimes. Regulatory frameworks that integrate industry input during the design phase, provide reasonable flexibility, and recognize data limitations are more likely to foster sustainable compliance.

III. The ISSB Standard

The preceding chapters have shown that climate-related disclosure regimes face a core institutional challenge: balancing transparency and comparability with business feasibility and global coordination. Voluntary efforts helped lay the groundwork, but fragmentation, high compliance burdens, and diverging requirements soon created a need for a more coherent framework. It was in this context that the International Sustainability Standards Board (ISSB) emerged, not through legislative power, but by fusing the credibility of private frameworks like SASB and TCFD with the global reach of the IFRS Foundation. What follows is the brief institutional story of how the ISSB came to define the new baseline for global sustainability reporting.

a. Origins, Design, and Institutional Legacy

The formation of the ISSB in 2021 marked a turning point in climate-related disclosure governance. Announced at the 2021 United Nations Climate Change Conference (COP26) climate summit in Glasgow, the ISSB was created by the IFRS Foundation, the same body that oversees the International Accounting Standards Board (IASB),[101] with the explicit

[97] Matthew Potoski and Aseem Prakash (eds), *Voluntary Programs: A Club Theory Perspective* (MIT Press, 2009) 9.
[98] Scott Patterson, 'SEC Approves Weakened Climate Disclosure Rule' (*Wall St J*, 6 March 2024) <https://www.wsj.com/finance/regulation/sec-climate-disclosure-greenhouse-gases-d57de27c> accessed 6 November 2025.
[99] Kate Abnett and Julia Payne, 'Europe Plans to Ease Sustainability Reporting Rules to Compete Globally' (*Reuters*, 26 February 2025) <https://www.reuters.com/world/europe/eu-set-propose-sweeping-red-tape-cuts-boost-business-competitiveness-2025-02-26/> accessed 6 November 2025.
[100] 'Ongoing Legal Battle Over California's Climate-Related Disclosure Laws: District Court Dismisses Supremacy Clause and Extraterritoriality Claims in *U.S. Chamber of Commerce v. CARB*' (*Vinson & Elkins*, 7 February 2025) <https://www.velaw.com/insights/ongoing-legal-battle-over-californias-climate-related-disclosure-laws-district-court-dismisses-supremacy-clause-and-extraterritoriality-claims-in-u-s-chamber-of-commerce-v-carb/> accessed 6 November 2025.
[101] 'IFRS Foundation Announces International Sustainability Standards Board, Consolidation with CDSB and VRF, and Publication of Prototype Disclosure Requirements' (*IFRS*, 3 November 2021)

mandate to develop a global baseline of sustainability disclosure standards for capital markets.[102] Its aim was not to replace national standards or stakeholder-based approaches, but to offer an investor-focused framework that jurisdictions could adopt or adapt.[103]

From the outset, the ISSB positioned itself as a consolidator of existing frameworks rather than a creator of new ones. It was deliberately built upon two widely used voluntary standards, the SASB and TCFD, already recognized for their financial relevance and decision-useful metrics. SASB, in particular, had been developed through a bottom-up, market-driven process to mirror the architecture of financial accounting. By integrating SASB, the ISSB preserved its legitimacy and institutionalized it within a global governance structure. This choice reflects a broader circularity: while early private standards were designed to emulate financial accounting, it was ultimately a financial accounting body itself—the IFRS Foundation—that absorbed them, closing the loop between private initiative and global financial architecture.

Institutionally, the ISSB was modeled after the IASB.[104] Like its financial reporting counterpart, the ISSB is designed to issue technically robust and globally applicable standards supported by a consultative governance process.[105] It operates under a geographically diverse board and maintains offices in Frankfurt, Montreal, London, and San Francisco.[106] Its founding chair, Emmanuel Faber, brought both corporate experience and sustainability credibility from his prior role as CEO of Danone. The ISSB's first two standards, IFRS S1 (general sustainability-related disclosures) and IFRS S2 (climate-related disclosures), were finalized in 2023 and became effective for reporting periods beginning in or after January 2024.[107] However, in line with the IFRS model, the standards only become binding through national-level adoption.[108]

i. From SASB to ISSB: Building on Private Standards

The ISSB's roots lie in the SASB, a market-driven initiative launched in 2011 by environmental engineer and sustainability consultant Jean Rogers[109] to address the gap

<https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/> accessed 6 November 2025.

[102] Ibid.

[103] BlackRock, 'Spotlight' (n 2).

[104] 'What is the International Sustainability Standards Board and what are its objectives?' (*IFRS*) <https://www.ifrs.org/groups/international-sustainability-standards-board/issb-frequently-asked-questions/> accessed 18 November 2025; 'IFRS Foundation announces International Sustainability Standards Board' (*IFRS*, 3 November 2021) <https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/> accessed 18 November 2025.

[105] 'International Sustainability Standards Board' (*IFRS*) <https://www.ifrs.org/groups/international-sustainability-standards-board/> accessed 1 May 2025.

[106] 'IFRS Foundation Agrees Memoranda of Understanding to Establish ISSB Presence in Frankfurt, Marking First Step Towards a Global Footprint' (*IFRS*, 2 March 2022) <https://www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-agrees-mous-to-establish-issb-presence-in-frankfurt/> accessed 6 November 2025.

[107] 'ISSB Issues Inaugural Global Sustainability Disclosure Standards' (n 9).

[108] Ibid.

[109] 'About Dr. Jean Rogers' (*Rogers Associates, LLC*) <https://www.jeanrogers.com/about> accessed 12 May 2025; David Freiberg, Jean Rogers, and George Serafeim, 'How ESG Issues Become Financially Material to Corporations and Their Investors' (2020) Harvard Business School Working Paper No 20-056

between growing investors' demand for ESG data and the limited scope of traditional financial disclosure frameworks.[110] To occupy this space, SASB explicitly modeled itself on the Financial Accounting Standards Board (FASB). Just as FASB sets standards for financial disclosures, SASB would design sustainability standards, industry-specific, that could be used in securities filings.[111] It applied the Supreme Court's definition of materiality from *TSC Industries v. Northway*, which holds that a fact is material if "a reasonable investor would consider it important," the same standard used by the SEC."[112]

To be aligned with investors' needs and business reality, SASB's standard-setting process emphasized empirical rigor and extensive stakeholder consultation and engagement.[113] The resulting framework, organized around a bespoke Sustainable Industry Classification System (SICS), produced tailored disclosure topics and metrics for 77 industries.[114] SASB's credibility was reinforced by a governance model mirroring accounting bodies[115] and a Foundation overseeing standard-setting with stakeholders representing trillions in assets.[116] Notably, early leadership and backing included Michael Bloomberg and Robert Eccles.[117]

By the late 2010s, however, the proliferation of voluntary standards, including SASB, GRI, CDP, and TCFD, had resulted in a fragmented and overlapping disclosure landscape. Companies faced rising compliance burdens, and regulators and investors alike called for greater coherence. In response, the IFRS Foundation launched a consultation in 2020 on expanding into sustainability disclosure.[118] The response was overwhelmingly supportive:

<https://www.hbs.edu/ris/Publication%20Files/20-056_1c21f28a-12c1-4be6-94eb-020f0bc32971.pdf> accessed 6 November 2025.

[110] Jean Rogers, 'Jean Rogers' Meonske Professional Development Conference Keynote' (*SASB Standards,* 28 April 2017) <https://sasb.ifrs.org/blog/blog-read-jean-rogers-meonske-professional-development-conference-keynote/> accessed 6 November 2025; Regulation S-K, 17 CFR § 229 (2023). While the SEC Regulation S-K required disclosure of "material" risks, it remained silent on whether ESG-related factors, such as climate change, water scarcity, or supply chain labor practices, met that threshold.

[111] 17 CFR § 229.303 (2024); 'SASB Conceptual Framework' (*Sustainability Accounting Standards Board*, February 2017) < https://sasb.ifrs.org/wp-content/uploads/2019/05/SASB-Conceptual-Framework.pdf> accessed 18 November 2025.

[112] *TSC Industries Inc v Northway Inc* 426 US 438 (1976).

[113] Steve Lydenberg, Jean Rogers, and David Wood, 'From Transparency to Performance: Industry-Based Sustainability Reporting on Key Issues' (Initiative for Responsible Investment, Harvard University 2010) <https://www.mikekrzus.com/downloads/files/Harvard-IRI-KPIs.pdf> accessed 14 November 2025. The authors propose a framework for industry-specific sustainability reporting, emphasizing the principles of simplicity, materiality, and transparency. The methodology outlined in this report laid the groundwork for the establishment of the SASB.

[114] 'Find Your Industry' (*SASB Standards*) <https://sasb.ifrs.org/find-your-industry/> accessed 14 November 2025.

[115] Michael Cohn, 'SASB Reconfigures Board Structure' (*Accounting Today*, 11 May 2017) <https://www.accountingtoday.com/news/sasb-reconfigures-board-structure> accessed 13 May 2025.

[116] Janine Guillot, 'Investors Fuel Market Movement for Comparable ESG Data' (*SASB Standards*, 26 January 2021) <https://sasb.ifrs.org/blog/investors-fuel-market-movement-for-comparable-esg-data/> accessed 18 November 2025.

[117] 'Governance Archive' (*SASB Standards*) <https://sasb.ifrs.org/about/governance-archive/> accessed 18 November 2025; 'Our Donors' (*SASB Standards*) <https://sasb.ifrs.org/our-donors/> accessed 18 November 2025.

[118] IFRS Foundation, 'Consultation Paper on Sustainability Reporting' (September 2020) <https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf> accessed 13 May 2025.

stakeholders highlighted the Foundation's track record in delivering high-quality international financial accounting standards as well as its robust governance structure and perceived neutrality.[119] With IFRS financial standards already widespread globally, the IFRS Foundation was uniquely positioned to establish a global baseline for sustainability disclosure.[120]

The IFRS Foundation seized this opportunity for institutional convergence. In 2021, SASB merged with the International Integrated Reporting Council (IIRC) to form the Value Reporting Foundation (VRF),[121] combining SASB's metrics with IIRC's narrative-driven framework.[122] That same year, the IFRS Foundation announced the ISSB and plans to consolidate the VRF and the Climate Disclosure Standards Board (CDSB) by mid-2022,[123] marking a historic integration in sustainability reporting.

This movement brought together some of the most widely used investor-oriented frameworks under a single global standard-setter. Therefore, ISSB's first standards incorporated SASB's industry-specific guidance and TCFD's four-pillar structure (governance, strategy, risk management, and metrics/targets).[124] While the content of these standards is explored in the following section, their institutional consolidation marks a decisive move toward global alignment in climate-related disclosure (discussed further in Part III-B).

b. ISSB Standard Requirements

The ISSB's first two standards set out the substantive disclosure requirements for sustainability-related information in general-purpose financial reporting. IFRS S1 establishes the foundational principles, requiring companies to disclose all material sustainability-related risks and opportunities, including social and environmental topics, that could reasonably be expected to affect enterprise value.[125] IFRS S2, focused specifically on climate-related disclosures, mandates reporting aligned with the TCFD framework, including: governance structures and board oversight of climate issues; strategic impacts of climate risks and

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[119] International Organization of Securities Commissions (IOSCO), 'Report on Sustainability-Related Issuer Disclosures' (June 2021) <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf> accessed 13 May 2025.

[120] Karolina Furczyk, 'Countries Using IFRS Standards Around the World' (*GLC*, 20 January 2025) <https://glc.pl/en/blog/countries-using-ifrs-standards-around-the-world/#:~:text=How%20many%20countries%20is%20IFRS%20used%20in?,and%20many%20countries%20in%20Asia%20and%20Africa> accessed 13 May 2025.

[121] Mark Segal, 'SASB Merges with IIRC to Form the Value Reporting Foundation' (*ESG Today*, 5 November 2020) <https://www.esgtoday.com/sasb-merges-with-iirc-to-form-the-value-reporting-foundation/> accessed 13 May 2025.

[122] Ibid.

[123] Michael O'Dwyer, 'New Body to Oversee Global Sustainability Disclosure Standards' (*Financial Times*, 3 November 2021) <https://www.ft.com/content/3fb80e89-4ce6-4cc8-8472-ae4c8c99b12d> accessed 13 May 2025.

[124] 'Introduction to the ISSB and IFRS Sustainability Disclosure Standards' (*IFRS*) <https://www.ifrs.org/sustainability/knowledge-hub/introduction-to-issb-and-ifrs-sustainability-disclosure-standards/> accessed 18 November 2025.

[125] IFRS, 'IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information' (n 84).

opportunities; risk management approaches; and metrics and targets, including Scope 1, 2, and 3 greenhouse gas emissions.[126]

The rules will likely apply primarily to public companies, consistent with IFRS standards designed to inform investors, lenders, and creditors.[127] However, the exact scope of target companies will be defined by each jurisdiction that opts to use the new standards.[128] The standards lack an explicit safe harbor but offer some interpretive flexibility. For example, S2 instructs companies to use "all reasonable and supportable information available without undue cost or effort" and to ensure "faithful representation" in their estimates.[129] Moreover, the ISSB has introduced certain transitional reliefs, such as phasing in Scope 3, and has indicated in discussions with jurisdictions that additional safe harbors could be considered to mitigate litigation risks.[130] Ultimately, liability protections will be determined by national regulators.[131] The following sections analyze the key features of the ISSB's standards.

i. The Choice for Financial Materiality

A central feature of the ISSB standards is financial materiality, defined through enterprise value, long rooted in securities law and now extended to sustainability disclosures. The ISSB deliberately adopted this investor-focused lens, building on SASB's approach and aligning with both US precedent and IASB financial standards. Under IFRS S1, information is considered material "if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial reporting make on the basis of that reporting."[132]

This investor-oriented "single materiality" model differs from other standards and has significant implications. Unlike stakeholder-oriented frameworks such as the GRI, which requires companies to assess and report their most significant impacts on the economy, environment, and people regardless of financial effect (impact materiality),[133] the ISSB's scope is narrower. It focuses on sustainability-related risks and opportunities affecting a company's

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[126] IFRS, 'IFRS S2: Climate-Related Disclosures' (June 2023) paras 1–3, 12–15, 21–23 <https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s2-climate-related-disclosures.pdf?bypass=on> accessed 17 November 2025.
[127] Ibid para B2.
[128] IFRS Foundation, 'The jurisdictional journey towards globally comparable information for capital market' (2024) <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/adoption-guide/inaugural-jurisdictional-guide.pdf> accessed 6 November 2025.
[129] IFRS, 'IFRS S2: Climate-Related Disclosures' (n 127) paras 29(b)–(d), B33.
[130] IFRS, 'Climate-Related Disclosures — Scope 3 Greenhouse Gas Emissions' (ISSB Meeting Staff Paper, Agenda Ref 4B, October 2022) paras 6, 25–27 <https://www.ifrs.org/content/dam/ifrs/meetings/2022/october/issb/ap4b-climate-related-disclosures-scope-3-greenhouse-gas-emissions.pdf> accessed 6 November 2025.
[131] Ibid.
[132] 'ISSB Publishes IFRS S1 "General Requirements for Disclosure of Sustainability-related Financial Information"' *(IAS Plus,* 25 June 2023*)* <https://www.iasplus.com/en/news/2023/06/ifrs-s1> accessed 6 November 2025.
[133] Hikari Watanabe, 'GRI Standards Revisions Part 1: Eliminating Core and Comprehensive Options' (*ADEC ESG*, 11 March 2022) <https://www.adecesg.com/resources/blog/gri-standards-revisions-part-1-eliminating-core-and-comprehensive-options/> accessed 13 May 2025.

financial performance and cash flows.[134] The EU takes a hybrid approach. Under the CSRD, the double materiality framework mandates disclosures on both (a) how sustainability issues affect the company (financial materiality) and (b) how the company affects society and the environment (impact materiality).[135] The ISSB declined this path, reflecting pragmatic concerns about convergence and a desire for alignment with financial standards.

While conceptually narrower, financial materiality in the sustainability context is forward-looking and dynamic. Many sustainability-related risks, such as regulatory change, climate volatility, or shifting consumer expectations, may not appear material based on historical data but could significantly affect enterprise value over time. IFRS S1 acknowledges that sustainability-related information often involves future events and indirect effects.[136] For example, a manufacturing company's vulnerability to carbon pricing, or a tech firm's exposure to data privacy risks may materially influence long-term valuation even without short-term losses.

ii. Industry-Specific Guidance to Materiality

To operationalize its definition of materiality, the ISSB offers companies a structured method to identify sustainability-related risks and opportunities most relevant to their business model. While IFRS S1 outlines general financial materiality, it recognizes that material sustainability issues vary widely across industries.[137] To address this variation, the ISSB encourages companies to use SASB's industry-specific metrics and disclosure topics as a tool to assess and disclose material sustainability information.[138] The standard explicitly references SASB as supporting guidance and includes it in its educational materials.[139]

The ISSB confirmed the value of industry-specific disclosures during its public consultation process. Despite some debate, it concluded that the metrics are essential for enabling investors to make consistent, comparable assessments.[140] Accordingly, IFRS S1 provides that companies "shall consider" the SASB topics and metrics relevant to their industry when identifying material information.[141] This strikes a balance: firms are not required to report on every SASB metric but are expected to use them as a starting point. This mirrors how financial accounting standards incorporate sector-specific practices—for

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134 'Assessing Materiality' (*KPMG International*, 21 November 2024) <https://service.betterregulation.com/sites/default/files/2024-11/KPMG%20-%20Assessing%20materiality1.pdf> accessed 13 May 2025.

135 Deloitte, 'Unpacking the Double Materiality Assessment under the E.U. Corporate Sustainability Reporting Directive' (27 June 2024) 31 (12) Heads Up 1 <https://dart.deloitte.com/USDART/home/publications/deloitte/heads-up/2024/csrd-esrs-double-materiality-assessment> accessed 13 May 2025.

136 IFRS, 'IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information' (n 84) para 3.

137 IFRS, 'Sustainability-Related Risks and Opportunities and the Disclosure of Material Information' (November 2024) <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/issb-materiality-education-material.pdf> accessed 6 November 2025.

138 Ibid.

139 'SASB: Your Pathway to ISSB' (*SASB Standards*) <https://sasb.ifrs.org/sasb-your-pathway-to-issb/> accessed 14 May 2025.

140 Neil Stewart, 'Future of the SASB Standards: What You Need to Know for 2023 Disclosure' (*SASB Standards*, 19 January 2023) <https://sasb.ifrs.org/blog/future-of-the-sasb-standards-what-you-need-to-know-for-2023-reporting/> accessed 14 May 2025.

141 IFRS, 'IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information' (n 84) 16.

example, applying different recognition and measurement rules for financial institutions versus manufacturing firms.[142]

Moreover, by building on the already-adopted SASB framework, the ISSB enhances continuity and comparability while avoiding duplication. It has committed to maintaining and updating SASB's industry-specific rules and has already begun revising metrics, including those related to plastics use, to align with IFRS S2.[143] This ongoing technical agenda ensures that the standards remain responsive to evolving risks and stakeholder expectations.

iii. Process for Formulating Standards: Stakeholder Engagement

The ISSB adopted the same rigorous standard-setting process that the financial reporting body IASB uses but has tailored it to the nature of sustainability. Central to this process is the ISSB's commitment to stakeholder engagement and publicly documented due process.[144]

To ensure broad input, the ISSB engaged extensively with investors, corporations, regulators, accounting firms, and experts both before and after releasing its draft standards.[145] During the exposure period for IFRS S1 and S2, it received over 1,300 comment letters addressing issues such as emissions disclosures and materiality.[146] Roundtables, webinars, and global outreach supported this inclusive approach, with submissions and deliberations made public.[147] This feedback directly informed refinements and supplementary materials.

The ISSB's formal due process includes agenda consultations, prototyping, public comment periods, deliberations, board votes, and post-issuance support.[148] This process advanced with notable speed. Exposure drafts were published in March 2022, and the final versions of IFRS S1 and S2 were issued in June 2023—a timeline of just over 15 months.[149] The accelerated timeline reflected both investor urgency and the institutional groundwork laid by TCFD and SASB.

To support global adoption, the ISSB introduced a phased implementation strategy. Many jurisdictions may begin with a voluntary or "comply-or-explain" regime, supported by transitional relief like waiving comparative disclosures in the first year.[150] The 2024 "Jurisdictional Adoption Guide" outlines pathways for incorporating ISSB standards, urging

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[142] 'IFRS 9: Financial Instruments' (*IFRS*) <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-9-financial-instruments/> accessed 6 November 2025; 'IFRS 15: Revenue from Contracts with Customers' (*IFRS*) <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-15-revenue-from-contracts-with-customers/> accessed 6 November 2025.

[143] 'Single-Use Plastic: Accounting for Change' (*Planet Tracker*, 28 June 2022) <https://planet-tracker.org/single-use-plastic-accounting-for-change/> accessed 14 May 2025.

[144] 'Our Due Process' (*IFRS*) <https://www.ifrs.org/about-us/our-due-process/> accessed 14 May 2025.

[145] Ibid.

[146] Jennifer Williams-Alvarez, 'Proposed Sustainability Disclosure Rules Draw Comments and Concerns' (*Wall St J*, 12 August 2022) < https://www.wsj.com/articles/proposed-sustainability-disclosure-rules-draw-comments-and-concerns-11660296600?reflink=desktopwebshare_permalink> accessed 14 May 2025.

[147] Ibid.

[148] IFRS Foundation, 'Due Process Handbook' (August 2020) <https://www.ifrs.org/content/dam/ifrs/about-us/legal-and-governance/constitution-docs/due-process-handbook-2020.pdf> accessed 13 May 2025.

[149] 'ISSB Issues Inaugural Global Sustainability Disclosure Standards' (n 9).

[150] ERM Sustainability Institute, 'ISSB's IFRS S1/2: Laying the Foundation for Global Mandatory Disclosures' (February 2024) 4–5 <https://www.sustainability.com/globalassets/sustainability.com/reports/issb/ermsi-issb-briefing_update_v4.pdf> accessed 14 May 2025.

regulators to publish transparent summaries of their adoption decisions ("jurisdictional profiles") to enable global monitoring.[151]

While this flexibility aids regulatory support and accommodates diverse legal systems, it also risks undermining one of the ISSB's core objectives: global comparability. If jurisdictions diverge in their scope, timelines, or enforcement approaches, the resulting disclosures could fall short of the consistency investors seek. Whether this tension can be resolved will depend on how countries implement and align with the ISSB framework over time.

iv. From Soft to Hard Law: The Institutionalization of the ISSB Standards

By the time the ISSB released its inaugural standards, voluntary sustainability reporting had already become a de facto norm among large global companies. By 2021, 96% of the world's 250 largest companies published sustainability reports,[152] and over half of the S&P Global 1200 cited SASB.[153] This widespread diffusion created market expectations and reporting practices that prepared the foundation for regulatory convergence and enabled the ISSB's emergence as the leading global baseline.

The ISSB offers a vivid illustration of the shift from soft to hard law.[154] For years, voluntary reporting initiatives shaped corporate practices, often with substantial input from the business and investment communities. As these standards gained legitimacy through widespread adoption, regulators began to incorporate their core concepts into binding rules. Unlike other regulatory initiatives that merely drew inspiration from voluntary norms, the ISSB formally consolidated these soft law instruments, both organizationally and substantively, into authoritative global standards under the IFRS Foundation. In doing so, the ISSB became not just a product of the soft-to-hard law trajectory, but a catalyst for its institutionalization, offering a baseline that regulators could directly adopt or adapt.

This shift gained further momentum as regulators around the world began incorporating the ISSB standards into domestic frameworks. Following the ISSB release, the International Organization of Securities Commissions (IOSCO) endorsed its standards, urging its 130 member jurisdictions to align.[155] The standards are also backed by G7 and G20 leaders.[156] By mid-2024, more than twenty jurisdictions, representing over half the global

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[151] IFRS Foundation, 'The jurisdictional journey' (n 128).

[152] 'Key Global Trends in Sustainability Reporting' (*KPMG International*) <https://kpmg.com/xx/en/our-insights/esg/survey-of-sustainability-reporting-2022/global-trends.html> accessed 15 May 2025.

[153] 'More Than Half of S&P Global 1200 Now Disclose Using SASB Standards' (*Value Reporting Foundation*, 22 September 2021) <https://www.globenewswire.com/news-release/2021/09/22/2301122/0/en/More-Than-Half-of-S-P-Global-1200-Now-Disclose-Using-SASB-Standards.html> accessed 15 May 2025.

[154] Kenneth W Abbott and Duncan Snidal, 'Strengthening International Regulation Through Transnational New Governance: Overcoming the Orchestration Deficit' (2009) 42 Vand J Transnat'l L 501. The authors introduce the concept of "orchestration" to describe how international organizations engage with private and sub-state actors to achieve regulatory goals without direct authority, a framework that helps explain the ISSB's reliance on preexisting private standards like SASB and TCFD.

[155] Mark Segal, 'IOSCO Calls on Regulators to Incorporate New IFRS Sustainability Reporting Standards' (*ESG Today*, 25 July 2023) <https://www.esgtoday.com/iosco-calls-on-regulators-to-incorporate-new-ifrs-sustainability-reporting-standards/> accessed 15 May 2025.

[156] Sue Lloyd, 'New Global Sustainability Reporting Requirements Are Out. Here's What Companies Need to Know' (*World Economic Forum*, 29 August 2023) <https://www.weforum.org/stories/2023/08/issb-global-sustainability-reporting-requirements-explainer/> accessed 14 May 2025.

economy, had either adopted the ISSB standards, initiated regulatory rulemaking to incorporate them, or signaled formal endorsement. IOSCO ultimately expects between 100,000 and 130,000 companies to be using the ISSB's sustainability standards.[157]

Brazil was the first to announce phased adoption, starting voluntary reporting in 2024 with full compliance by 2026.[158] The UK has announced support for ISSB and is developing its own Sustainability Disclosure Standards, expected to align closely with IFRS S1 and S2 and apply to listed companies starting in 2026.[159] Australia similarly modeled its new climate disclosure rules (AASB S1 and S2) directly on the ISSB, with large firms subject to phased compliance starting in 2025.[160] In Asia, Hong Kong's regulators and exchange issued guidance in December 2024 mandating climate disclosures consistent with IFRS S2,[161] while the new Sustainability Standards Board of Japan launch its first sustainability disclosure standards aligned with ISSB in March 2025.[162]

China has also expressed strong support for ISSB alignment, with the Ministry of Finance signaling that future domestic sustainability reporting standards will be based on IFRS S1 and S2.[163] However, China is expected to move beyond ISSB's focus on financial materiality by incorporating elements of double materiality, reflecting both financial impacts on the firm and the firm's impact on society and the environment, which is closer to the EU's approach.[164] In Africa, countries like Nigeria, South Africa, and Kenya, which have a long-standing history of IFRS adoption for financial reporting, have indicated they will do the same with ISSB for sustainability disclosure.[165]

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[157] Rochelle Toplensky, 'Stock Exchange Regulators Back Global Climate-Reporting Rules' (*Wall St J*, 25 July 2023) <https://www.wsj.com/articles/stock-exchange-regulators-back-global-climate-reporting-rules-35ce71b9> accessed 14 May 2025.

[158] Luiz Gustavo Bezerra, Beatriz Lavigne, and Priscilla Santos, 'Brazil Sets Global Precedent: First Nation to Embrace ISSB Sustainability Financial Reports' (*Eye on ESG*, 27 October 2023) <https://www.eyeonesg.com/2023/10/brazil-sets-global-precedent-first-nation-to-embrace-issb-sustainability-financial-reports/> accessed 8 February 2024.

[159] Department for Business and Trade, 'UK Sustainability Reporting Standards' (*GOV.UK*, 25 June 2025) <https://www.gov.uk/guidance/uk-sustainability-reporting-standards> accessed 13 May 2025.

[160] 'Australian Sustainability Reporting Standards AASB S1 and AASB S2 are Now Available on the AASB Digital Standards Portal' (*AASB*, 8 October 2024) <https://aasb.gov.au/news/australian-sustainability-reporting-standards-aasb-s1-and-aasb-s2-are-now-available-on-the-aasb-digital-standards-portal/> accessed 15 May 2025.

[161] Jennifer Laidlaw, 'Where Does the World Stand on ISSB Adoption?' (*S&P Global*, 9 April 2024) <https://www.spglobal.com/esg/insights/where-does-the-world-stand-on-issb-adoption> accessed 15 May 2025.

[162] 'Japan's SSBJ Issues First Sustainability Disclosure Standards Aligned with ISSB Guidelines' (*ESG News*, 5 March 2025) <https://esgnews.com/japans-ssbj-issues-first-sustainability-disclosure-standards-aligned-with-issb-guidelines/> accessed 15 May 2025.

[163] 'China Takes Steps Towards Unified National Sustainability Disclosure Regime' (*Climate Cooperation China*, 24 January 2025) <https://climatecooperation.cn/climate/china-takes-steps-towards-aunified-national-sustainability-disclosure-regime/> accessed 6 November 2025.

[164] Ibid.

[165] Samson Okari, 'The Future of Sustainability Reporting in Africa: Key Insights on ISSB and IFRS Sustainability Disclosure Standards' (*BDO East Africa*, 7 April 2025) <https://www.bdo-ea.com/en-gb/insights/the-future-of-sustainability-reporting-in-africa-key-insights-on-issb-and-ifrs-sustainability-discl> accessed 15 May 2025.

The shift is further reinforced by private ordering. Stock exchanges like Singapore's have revised listing rules to require ISSB-aligned disclosures.[166] Institutional investors like BlackRock, State Street, and Vanguard have expressed support for ISSB alignment in portfolio company disclosures.[167] Perhaps most critically, this hardening of soft law reflects broader dynamics in international regulatory convergence.[168] As more jurisdictions adopt ISSB standards, divergence costs increase. Global firms benefit from standardized reporting obligations, which reduce compliance burdens and legal uncertainty. Conversely, jurisdictions that resist harmonization may find their markets perceived as less credible by international investors. In this way, the ISSB offers not only a technical solution but a governance mechanism for reconciling cross-border sustainability disclosure.

c. Limitations and Legitimacy

The ISSB's investor-focused orientation has facilitated its rapid uptake globally, but it has also sparked debates about its limitations and legitimacy. By prioritizing financially material risks and aligning sustainability reporting with enterprise value, the ISSB adopts a vision of governance that emphasizes the informational needs of capital providers. Critics argue that this approach sidelines broader concerns of affected communities, society, and ecosystems that are central to stakeholder-oriented frameworks, most notably the EU's double materiality model.[169]

However, the ISSB's focus on financial materiality reflects a deliberate strategic choice, rooted in the history of its predecessor, SASB. When SASB was launched in 2011, sustainability reporting was struggling to gain relevance among mainstream investors. To gain standing, SASB framed sustainability data in financial terms, highlighting its usefulness for investor decision-making.[170] Labeling issues as "material" also forces corporate leaders to

[166] 'SGX RegCo to Incorporate IFRS Standards into Mandatory Climate Reporting Rules' (*Latham & Watkins LLP*, 7 October 2024) <https://www.lw.com/en/insights/sgx-regco-to-incorporate-ifrs-standards-into-mandatory-climate-reporting-rules> accessed 14 May 2025.

[167] Joanna Cound, Sarah Matthews, and Michelle Edkins, 'BlackRock Response to the Exposure Draft – Climate-Related Disclosures Issued by ISSB' (*Harvard Law School Forum on Corporate Governance*, 15 August 2022) <https://corpgov.law.harvard.edu/2022/08/15/blackrock-response-to-the-exposure-draft-climate-related-disclosures-issued-by-issb/> accessed 29 April 2025; State Street, 'Comment Letter on Exposure Drafts IFRS S1 and IFRS S2' (29 July 2022) <https://www.statestreet.com/web/disclosures-and-disclaimers/documents/issb-exposure-drafts-general-principles-and-climate-related-disclosures.pdf> accessed 29 April 2025; Lindsey Stewart, 'ESG Reporting: Asset Managers Express Divergent View' (*Harvard Law School Forum on Corporate Governance*, 17 October 2022) <https://corpgov.law.harvard.edu/2022/10/17/esg-reporting-asset-managers-express-divergent-view/> accessed 29 April 2025.

[168] Huw Jones, 'Momentum Building Behind Global Company Climate Disclosures, Standards Body Says' (*Reuters*, 28 May 2024) <https://www.reuters.com/business/environment/momentum-building-behind-global-company-climate-disclosures-standards-body-says-2024-05-28/> accessed 6 November 2025.

[169] For a broader discussion of different approaches to materiality and their limitations, see Sveinung Jørgensen, Aksel Mjøs, and Lars Jacob Tynes Pedersen, 'Sustainability Reporting and Approaches to Materiality: Tensions and Potential Resolutions' (2022) 13 Sustainability Accounting, Management & Policy J 341; Måns Dunfjäll, 'Materiality in Transition: Challenges and Opportunities in Corporate Sustainability Reporting under the CSRD' (2025) 16 EJRR 927.

[170] Jean Rogers, 'Global Sustainability Standards — A World of Difference' (*Medium*, 17 November 2021) <https://jean-98858.medium.com/global-sustainability-standards-a-world-of-difference-461a22063f1f>

treat them seriously, triggering performance metrics, internal controls, and resource allocation.[171] The ISSB's adoption of this approach thus reflects continuity rather than novelty, easing integration into global capital markets but narrowing the scope of what counts as sustainability-relevant.

Legitimacy concerns also stem from the institutional context in which the ISSB emerged. It entered an already crowded space of sustainability standard-setters, such as GRI, which had long claimed authority as the leading multi-stakeholder sustainability framework. To establish its own authority, the ISSB drew on two sources: (1) the consolidation of well-known frameworks like SASB and TCFD (discussed earlier), and (2) the structural legitimacy of the IFRS Foundation. Unlike other initiatives, the ISSB benefited from the IFRS's decades-long track record of setting globally recognized accounting standards, already adopted in over 140 jurisdictions.[172] This legitimacy rests on both its track record and its governance ties with regulators, giving the ISSB a perception of maturity even amid politically charged climate debates.[173] In effect, sustainability was reframed as a natural extension of capital market infrastructure.

The ISSB's positioning gave it an edge over competing frameworks, which, despite traction in specific constituencies, lacked IFRS's global infrastructure and regulatory reach. Its focus on financial materiality reinforced this advantage by offering a familiar, less costly approach than double materiality,[174] although the latter is often praised for its broader ambition.[175]

The ISSB also derives credibility from its technocratic and non-state nature. Unlike treaty-based intergovernmental regimes or national regulatory frameworks, the ISSB's authority rests not on public mandates or statutes but on perceived credibility and market alignment.[176] By centering rulemaking on capital markets rather than on prior government negotiation, the ISSB cultivates a reputation as a private, non-state standard-setter, with jurisdictions only deciding afterward whether to adopt or adapt its standards. Its consultations have heavily involved institutional investors, large corporations, and professional service firms, while representation from Global South countries, civil society, and labor organizations

accessed 6 November 2025. She argues that SASB's strict adherence to financial materiality was necessary to mainstream ESG in US capital markets.

171 Freiberg, Rogers, and Serafeim (n 110).

172 Furczyk (n 121).

173 Barton Swaim, 'Why Climate-Change Ideology is Dying' (*Wall St J*, 27 January 2025) <https://www.wsj.com/opinion/climate-ideology-is-dying-environment-change-policy-movement-8c8fb882> accessed 6 November 2025.

174 Dunfjäll (n 171).

175 Carol A Adams and others, 'The Double Materiality Concept: Application and Issues' (Global Reporting Initiative, May 2021) <https://www.globalreporting.org/media/jrbntbyv/griwhitepaper-publications.pdf> accessed 6 November 2025.

176 Halliday and Shaffer (n 26); Stavros Gadinis and Chris Havasy, 'The Quest for Legitimacy: A Public Law Blueprint for Corporate Governance' (2024) 57 UC Davis L Rev 1581.

has been more limited.[177] Some scholars view this as evidence of procedural imbalances in how sustainability priorities are defined and whose interests dominate.[178]

This model is not unprecedented. In global financial governance, market-based authority is well established.[179] Soft-law bodies like IOSCO and the Basel Committee derive influence from technocratic expertise and alignment with capital markets, not public deliberation or legal obligation.[180] The ISSB extends this model into the sustainability domain, where many observers note that the stakes are broader and more contested. Scholars have emphasized that defining sustainability inevitably involves distributional choices about whose values and risks are prioritized.[181]

Strategically, this framing has helped the ISSB navigate geopolitical sensitivities. By presenting itself as a neutral, investor-focused solution rather than a state-driven project, the ISSB has enabled jurisdictions with divergent priorities to view it as a legitimate focal point for disclosure harmonization.

Although the ISSB benefited from the IFRS Foundation's credibility and embedded infrastructure, its consolidation was neither automatic nor inevitable. Many expected the EU's CSRD and ESRS to dominate under the so-called "Brussels Effect." Instead, the ISSB leveraged institutional advantages, investor alignment, and the language of financial materiality to attract jurisdictions seeking a feasible baseline. Yet scholars caution that this neutrality is more rhetorical than real, since the ISSB reflects specific institutional and ideological choices about whose priorities are embedded in sustainability governance.[182] These dynamics merit closer scrutiny, particularly as private standard-setters increasingly shape the trajectory of global sustainability governance.[183]

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[177] Alessandra Kulik and Michael Dobler, 'Stakeholder Participation in the ISSB's Standard Setting Process: The Consultations on the First Exposure Drafts on Sustainability Reporting' (2023) 14 Sustainability Accounting, Management & Policy J 349, 360–63.

[178] Ibid.

[179] Walter Mattli and Tim Büthe, 'Setting International Standards: Technological Rationality or Primacy of Power?' (2003) 56 World Politics 1.

[180] Gadinis, 'Three Pathways to Global Standards' (n 27).

[181] For broader critiques of the financialization of sustainability governance and the role of private standard-setters, see Daniela Gabor, 'The Wall Street Consensus' (2021) 29 Development & Change 429; Sanya Carley and David M Konisky, 'The Justice and Equity Implications of the Clean Energy Transition' (2020) 5 Nature Energy 569, 574–76.

[182] Max Göttsche and others, 'Striking a Balance: The Importance of Double Materiality in Sustainability Reporting' (*ECGI Blog*, 26 September 2023) <https://www.ecgi.global/publications/blog/striking-a-balance-the-importance-of-double-materiality-in-sustainability> accessed 6 November 2025.

[183] For critical perspectives on the limits of the ISSB's investor-focused approach and the democratic tensions in private sustainability governance, see Klaus Dingwerth, 'Field Recognition and the State Prerogative: Why Democratic Legitimation Recedes in Private Transnational Sustainability Regulation' (2017) 5 Politics & Governance 75 <https://doi.org/10.17645/pag.v5i1.794>; Charl de Villiers and others, 'The International Sustainability Standards Board's (ISSB) Past, Present, and Future: Critical Reflections and a Research Agenda' (University of Auckland Business School Research Paper, 2024) <https://ssrn.com/abstract=4825883> accessed 6 November 2025.

d. The ISSB and Transnational Legal Governance

The ISSB's emergence also offers insights for international legal scholarship. As discussed above, unlike traditional institutions grounded in treaties or multilateral negotiation, the ISSB illustrates how global authority can be constructed through market alignment and private governance infrastructure. Rather than negotiated by states, the standards gained traction through functional adoption, filling a regulatory void left by political gridlock.

This trajectory positions the ISSB as a novel case for engaging with frameworks such as Global Administrative Law (GAL) and International Public Authority (IPA), which emphasize procedural legitimacy, transparency, and accountability.[184] While the ISSB incorporates stakeholder consultations and public exposure drafts, its legitimacy relies more on market credibility than on public or multilateral mandate, which may raise questions about whose interests shape global sustainability governance.[185]

The ISSB also complicates assumptions embedded in Transnational Legal Ordering (TLO) theory, which typically emphasizes recursive norm diffusion through sustained interaction between transnational actors and domestic legal systems.[186] By contrast, the ISSB's standards are often adopted after they are finalized, not co-produced with national governments. Its institutionalization is thus less recursive and more strategic, reflecting investor demand for comparable data and regulators' preference for ready-made solutions amid fragmented governance environments.[187]

Overall, the ISSB reflects a hybrid model of transnational governance. Like GAL and IPA frameworks, it relies on procedural mechanisms (public consultations, exposure drafts, and transparency, etc.) to build legitimacy without a treaty-based mandate. However, participation has been uneven, with institutional investors and large firms dominating, while regulators from developing countries and civil society remain underrepresented. These dynamics confirm GAL and IPA's insights on the growing role of private authority, but also complicate them as the ISSB's hybrid model blends procedural openness with practical participation imbalances.

IV. Part IV. Regulators Enter the Foray

a. Europe: Scope, Materiality, and Stringency of the CSRD

The European Union has taken the most expansive and stakeholder-oriented approach to corporate sustainability disclosure. The CSRD, adopted in January 2023, forms a cornerstone of the EU's Green Deal and aims to enhance corporate accountability and

[184] Kingsbury, Krisch, and Stewart (n 24).
[185] Büthe and Mattli, *The New Global Rulers* (n 19).
[186] Halliday and Shaffer (n 26).
[187] Kenneth W Abbott and Duncan Snidal, 'The Governance Triangle: Regulatory Standards Institutions and the Shadow of the State', in Walter Mattli and Ngaire Woods (eds), *The Politics of Global Regulation* (Princeton UP 2009) 44.

transparency on environmental, social, and governance matters.[188] Replacing the Non-Financial Reporting Directive (NFRD), the CSRD originally sought to expand the scope of mandatory ESG disclosures to about 50,000 companies, later scaled back during implementation.[189] It applies not only to large EU-based and listed companies, but also to certain small- and medium-sized enterprises and to non-EU companies with more than €150 million in annual revenue from the EU and at least one EU branch or subsidiary.[190] As a result, many multinational corporations with global operations, including those headquartered outside the EU, now fall within the directive's ambit.

With the technical disclosure requirements outlined in the European Sustainability Reporting Standards (ESRS),[191] the rules mandate companies disclose climate-related information, including emissions across Scopes 1, 2, and 3, climate transition plans aligned with the Paris Agreement, and the governance and oversight of climate risks at the board level. Companies must also describe how climate risks are integrated into their business strategy and risk management processes, and obtain limited assurance over reported sustainability information, eventually transitioning to reasonable assurance.[192] However, the full ESRS framework goes far beyond climate, requiring companies to address a wide range of sustainability issues, from biodiversity to workforce equality.[193]

A defining feature of the CSRD regime is the adoption of "double materiality." In contrast to the ISSB standards, which rely solely on financial materiality (i.e., the effect of sustainability issues on the company's financial position), the EU framework also requires disclosure of a company's impacts on people and the environment.[194] This dual focus means that companies must assess and report on matters that may not be financially material but are socially or environmentally significant, and this assessment must cover the company's entire value chain.[195] An earlier presumption that all disclosures were material was later removed after criticism.[196]

Despite its ambition, the CSRD has faced implementation concerns. Companies like BASF and Deutsche Bank raised feasibility objections, particularly around Scope 3 data.[197]

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[188] Mindy Hauman, 'Mind the Gap: A Comparative Analysis of the CSRD, the CSDDD and the SFDR as Green Deal 2.0 (2024 to 2029) Unfolds' (*White & Case*, 8 July 2024) <https://www.whitecase.com/insight-alert/mind-gap-comparative-analysis-csrd-csddd-and-sfdr-green-deal-20-2024-2029-unfolds> accessed 10 May 2025.

[189] 'CSRD: A Guide to the Corporate Sustainability Reporting Directive' (*Persefoni*, 27 March 2025) <https://www.persefoni.com/blog/what-is-csrd> accessed 15 May 2025.

[190] Ibid.

[191] 'About Sustainability Reporting' (*EFRAG*) <https://www.efrag.org/en/sustainability-reporting/about-sustainability-reporting> accessed 15 May 2025

[192] Thibault Meynier, Sarah H Mishkin and Matthew Triggs, 'EU Finalizes ESG Reporting Rules with International Impacts' (*Harvard Law School Forum on Corporate Governance*, 30 January 2023) <https://corpgov.law.harvard.edu/2023/01/30/eu-finalizes-esg-reporting-rules-with-international-impacts/> accessed 5 May 2025.

[193] Ibid.

[194] Matthias Täger, '"Double Materiality": What Is It and Why Does It Matter?' (*Grantham Research Institute at LSE*, 21 April 2021) <https://www.lse.ac.uk/granthaminstitute/news/double-materiality-what-is-it-and-why-does-it-matter/> accessed 6 November 2025.

[195] Ibid.

[196] Sam Groves, 'Rebuttable Presumptions Rebutted in Comment Letters to EFRAG' (*Corporate Disclosures,* 29 August 2022) <https://www.corporatedisclosures.org/content/top-stories/rebuttable-presumptions-rebutted-in-comment-letters-to-efrag.html> accessed 8 February 2024.

[197] BASF, 'Comment Letter on the Draft European Sustainability Reporting Standards (ESRS)' (8 August 2022) <https://efrag.sharefile.com/share/view/s2fcacc016dcf48ce85a943870c6dccc7/fo8ee61f-d3a3-4463-8629-

Professional firms warned about the volume of disclosures,[198] and financial institutions flagged difficulties in tracking indirect emissions.[199] In response to growing pressure from businesses and national governments, the EU delayed sector-specific standards until 2026[200] and scaled back coverage in 2025.[201] The CSRD's core structure and double materiality remain intact, distinguishing Europe's regime from investor-centered models elsewhere.

b. United States: The SEC's Scaled-Back Approach

In contrast to the EU's expansive and stakeholder-driven approach, the SEC has taken a more cautious, investor-focused path to climate disclosure. The SEC's regulatory strategy is grounded in its traditional mandate: to protect investors, maintain fair and efficient markets, and facilitate capital formation. Consistent with that role, the SEC's climate disclosure rule, first proposed in March 2022 and finalized in March 2024, explicitly framed climate-related information as financially material and relevant to investor decision-making, not as a tool of environmental policy.[202]

The rule requires the disclosure of financially material information on climate-related risks, governance structures, risk management processes, and Scope 1 and 2 emissions.[203] It also requires limited assurance for large accelerated filers, to be phased in over time.[204] Notably, the final rule omits Scope 3 emissions entirely, a significant departure from other regimes.

The original 2022 proposal generated extraordinary attention, receiving over 24,000 public comments,[205] a record and far more than the average of just 92 comments per SEC rule during the Dodd-Frank rulemaking period.[206] The comments suggest that the difficulties in implementing the disclosure mandate as initially drafted would be far higher than the agency

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a524256322e9> accessed 15 May 2025; Deutsche Bank, 'Comment Letter on the Draft European Sustainability Reporting Standards (ESRS)' (29 July 2022) <https://efrag.sharefile.com/share/view/s2fcacc016dcf48ce85a943870c6dccc7/fo8ee61f-d3a3-4463-8629-a524256322e9> accessed 15 May 2025.

[198] KPMG, 'Comment Letter on the Draft European Sustainability Reporting Standards (ESRS)' (3 August 2022) <https://efrag.sharefile.com/share/view/sfee944fc553c401396e7dffc23314dc2/fob6a1ba-4237-4c96-baf6-baa166d0f8b6> accessed 15 May 2025.

[199] BBVA, 'Comment Letter on the Draft European Sustainability Reporting Standards (ESRS)' (July 2022) <https://efrag.sharefile.com/share/view/sfee944fc553c401396e7dffc23314dc2/fob6a1ba-4237-4c96-baf6-baa166d0f8b6> accessed 15 May 2025.

[200] 'Council Adopts Directive to Delay Reporting Obligations for Certain Sectors and Third Country Companies' (*Council of the European Union*, 29 April 2024) <https://www.consilium.europa.eu/en/press/press-releases/2024/04/29/council-adopts-directive-to-delay-reporting-obligations-for-certain-sectors-and-third-country-companies/> accessed 3 May 2025.

[201] See Part V-b.

[202] 'SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors', Press Release No 2022-46 (*U.S. Securities and Exchange Commission*, 21 March 2022) <https://www.sec.gov/newsroom/press-releases/2022-46> accessed 6 November 2025.

[203] Chloe Field and Cynthia Hanawalt, 'The SEC's Final Climate Disclosure Rule: Key Requirements, and the Materiality Threshold' (*Sabin Center for Climate Change Law*, 11 March 2024) <https://blogs.law.columbia.edu/climatechange/2024/03/11/the-secs-final-climate-disclosure-rule-key-requirements-and-the-materiality-threshold/> accessed 6 November 2025.

[204] Ibid.

[205] 'SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors' (n 202).

[206] Pamela Ban and Hye Young You, 'Presence and Influence in Lobbying: Evidence from Dodd-Frank' (2019) 21 Business & Politics 267, 268 <https://doi.org/10.1017/bap.2018.27>.

had anticipated.[207] They raised concerns about implementation burdens, data reliability, and Scope 3 emissions disclosure.[208] Major asset managers voiced reservations: State Street favored keeping Scope 3 voluntary,[209] while BlackRock suggested companies report only on relevant Scope 3 categories.[210] Another line of criticism questioned whether the proposed rule exceeded the SEC's statutory authority by effectively compelling corporate behavior.[211]

The final rule, approved by a 3–2 vote along partisan lines in March 2024, reflects the agency's attempt to balance these competing pressures.[212] While retaining core governance and risk management disclosure elements, the SEC pared back many of the more contentious provisions.[213] It also extended compliance timelines, softened attestation requirements, and eliminated GHG intensity metrics.[214] Importantly, a safe harbor protects good-faith forward-looking statements, including transition plans.[215]

Despite these concessions, litigation followed rapidly. On the rule's release day, ten Republican-led states challenged it in the Eleventh Circuit,[216] followed by others in the Fifth and Eighth Circuits.[217] Energy groups also sued the SEC for overstepping its regulatory mission,[218] while environmental advocates filed suit in the D.C. Circuit, claiming that the

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[207] Lawrence A Cunningham, 'What the Volume and Diversity of Comment Letters to the SEC Say About Its Climate Proposal' (*Harvard Law School Forum on Corporate Governance*, 3 July 2022) <https://corpgov.law.harvard.edu/2022/07/03/__trashed-4/> accessed 6 November 2025.
[208] Ibid.
[209] State Street, 'Comment Letter on SEC Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors' (17 June 2022) <https://www.statestreet.com/web/disclosures-and-disclaimers/documents/sec-proposed-rule-enhancement-and-standardization-of-climate-related-disclosures-for-investors.pdf> accessed 10 May 2025.
[210] BlackRock, 'Comment Letter on SEC Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors' (17 June 2022) <https://www.sec.gov/comments/s7-10-22/s71022-20132288-302820.pdf> accessed 15 May 2025.
[211] Lawrence A Cunningham and others, 'Comment Letter on SEC Climate Disclosure Proposal by 21 Law and Finance Professors' (2022) GW Law Faculty Publications & Other Works <https://scholarship.law.gwu.edu/faculty_publications/1593> accessed 15 May 2025.
[212] Hiroko Tabuchi, Ephrat Livni and David Gelles, 'S.E.C. Approves New Climate Rules Far Weaker Than Originally Proposed' (*New York Times*, 6 March 2024) <https://www.nytimes.com/2024/03/06/climate/sec-climate-disclosure-regulations.html> accessed 15 May 2025.
[213] Ibid.
[214] Ibid.
[215] 'Navigating the SEC Climate-Related Disclosure Requirements' (*PwC*, 14 March 2024) <https://viewpoint.pwc.com/dt/gx/en/pwc/in_depths/in_depths_INT/in_depths_INT/navigating-the-sec-climate-related-disclosure-requirements.html> accessed 15 May 2025.
[216] Lamar Johnson, '10 Republican-Led States File Lawsuit to Block SEC's Climate Disclosure Rule' (*Utility Dive*, 11 March 2024) <https://www.utilitydive.com/news/10-republican-states-challenge-final-sec-climate-disclosure-rule/709871/> accessed 15 May 2025.
[217] Andrew Ramonas, 'Nine More States Target SEC Climate Reporting Rules in Court (2)' (*Bloomberg Law*, 12 March 2024) <https://news.bloomberglaw.com/esg/nine-more-states-join-republican-lawsuits-over-sec-climate-rules> accessed 15 May 2025.
[218] Ibid.

rule's weakening, especially the removal of Scope 3, undermines investor protection.[219] These lawsuits highlight US polarization on climate policy.[220]

c. United States: California's Ambitious State-Level Regime

While the SEC's federal climate disclosure rule has stalled, the state of California has continued to advance the first-in-the-nation climate-reporting regime. On October 7, 2023, Governor Gavin Newsom signed into law two landmark bills: Senate Bill 253 (the Climate Corporate Data Accountability Act) and Senate Bill 261 (the Climate-Related Financial Risk Act).[221] These laws extend well beyond the federal approach in both scope and stringency. Unlike the SEC's rule, which applies only to publicly listed companies, California's regime covers both public and private firms that conduct business in the state and meet certain revenue thresholds.[222]

Together, the laws are projected to cover more than 10,000 companies, including many large multinationals.[223] SB 253 requires companies to disclose their Scope 1 and 2 emissions beginning in 2026 and their Scope 3 emissions beginning in 2027, regardless of materiality.[224] SB 261, by contrast, mandates biennial climate risk reports that describe how companies identify, assess, and manage climate-related financial risk.[225] Companies will also be required to include information on governance and strategy, provide assurance, and describe board oversight and any adopted climate-related targets or transition plans. The laws are administered by the California Air Resources Board (CARB), which is tasked with developing implementing regulations and overseeing compliance.[226] Disclosures must be prepared in accordance with the GHG Protocol,[227] and the law encourages interoperability with other national and

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[219] 'Sierra Club, Earthjustice Challenge SEC's Weakened Climate Risk Disclosure Rule' (*Earthjustice*, 13 March 2024) <https://earthjustice.org/press/2024/sierra-club-earthjustice-challenge-secs-weakened-climate-risk-disclosure-rule> accessed 15 March 2024.

[220] Soyoung Ho, 'Trump's SEC Takes First Step to Rescind Climate Disclosure Rule' (*Thomson Reuters*, 12 February 2025) <https://tax.thomsonreuters.com/news/trumps-sec-takes-first-step-to-rescind-climate-disclosure-rule/> accessed 15 May 2025.

[221] 'California's First-in-the-Nation Climate Disclosure Legislation Sets New Standard for Corporate Transparency' (*Ceres*, 11 September 2023) <https://www.ceres.org/news-center/press-releases/californias-first-nation-climate-disclosure-legislation-sets-new> accessed 15 May 2025.

[222] Madison Olson, 'Coming Soon: "Doing Business" in California Will Require Companies to Disclose Climate Risk and Emissions Reports' (*American University Business Law Review*, 25 October 2023) <https://aublr.org/2023/10/coming-soon-doing-business-in-california-will-require-companies-to-disclose-climate-risk-and-emissions-reports/> accessed 15 May 2025.

[223] 'Companies Call for Climate Disclosure Legislation as California Lawmakers Return to Session' (*Ceres*, 14 August 2023) <https://www.ceres.org/news-center/press-releases/companies-call-climate-disclosure-legislation-california-lawmakers> accessed 15 May 2025.

[224] SB 253, 2023–2024 Reg Sess (Cal 2023) <https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB253> accessed 6 November 2025.

[225] SB 261, 2023–2024 Reg Sess (Cal 2023) <https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB261> accessed 6 November 2025.

[226] 'California Legislature Passes Landmark Climate Disclosure Laws' (*Linklaters LLP*, 22 November 2024) <https://www.linklaters.com/en-us/knowledge/publications/alerts-newsletters-and-guides/2023/september/20/california-legislature-passes-landmark-climate-disclosure-laws> accessed 15 May 2025.

[227] Ibid.

international frameworks.[228]

A key innovation of California's approach is its treatment of Scope 3 disclosures. Whereas the SEC and ISSB allow issuers to omit Scope 3 data based on materiality or feasibility, California makes Scope 3 mandatory for all covered companies.[229] The law does, however, include a transitional safe harbor for Scope 3 disclosures: through 2030, penalties will apply only to non-filers, not to firms that submit good faith estimates. This approach reflects both the acknowledged difficulty of collecting high-quality value chain data and the state's desire to balance enforcement with flexibility during the early implementation period.

Despite strong support from large corporations like Microsoft, Patagonia, and Adobe,[230] the laws have faced strong pushbacks.[231] Business groups, including the US Chamber of Commerce, filed a federal lawsuit challenging the laws on multiple grounds, including that they violate the First Amendment and exceed California's regulatory authority under the Dormant Commerce Clause and the Clean Air Act.[232] In November 2024, a federal district court upheld the laws, rejecting preliminary constitutional claims.[233] While legal challenges remain ongoing, the core provisions of both SB 253 and SB 261 are currently in effect, positioning California as a national leader in corporate climate disclosure and as a potential model for other states seeking to regulate beyond federal baselines.

d. The "Brussels Effect"?

As different jurisdictions adopt divergent approaches to climate disclosure, a central question emerges: which regime, if any, will shape the future direction of global sustainability reporting? The EU's early regulatory action on climate disclosure, combined with the breadth and ambition of its rules, initially positioned Europe as the likely driver of global convergence. This dynamic was widely anticipated as a manifestation of the "Brussels Effect," whereby the EU exports its regulatory preferences through market power and stringency.[234] The CSRD appeared to fit this model. By covering not only EU-based firms but also foreign companies with significant regional revenue, the CSRD was expected to compel multinationals, including large US corporations, to align with Europe's double materiality model and comprehensive disclosure requirements.[235]

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[228] Ibid.

[229] 'California SB 253 and SB 261: What Businesses Need to Know' (*Persefoni*, 14 November 2025) <https://www.persefoni.com/blog/california-sb253-sb261> accessed 15 May 2025.

[230] 'Leading Companies and Institutions Support the Climate Corporate Data Accountability Act (SB 253)' Letter to Assembly Appropriations Committee (14 August 2023) <https://www.ceres.org/sites/default/files/Asm%20Approps%20Major%20Companies%20and%20Institutions%20Support%20SB%20253.pdf> accessed 15 May 2025.

[231] 'Ongoing Legal Battle Over California's Climate-Related Disclosure Laws' (n 101).

[232] Complaint for Declaratory and Injunctive Relief at 1, *Chamber of Commerce of the United States v Randolph,* No 2:24-cv-00801 (CD Cal 30 January 2024) 1 <https://www.uschamber.com/assets/documents/FILED-Chamber-v.-CARB-Complaint.pdf> accessed 15 May 2025.

[233] Zoya Mirza, 'California's Climate Disclosure Laws Survive First Legal Challenge' (*ESG Dive*, 12 November 2024) <https://www.esgdive.com/news/california-climate-disclosure-laws-survive-first-legal-challenge/732698/> accessed 15 May 2025.

[234] Bradford (n 11).

[235] GRI, 'CSRD: Implications for Companies Outside the EU' (n 10).

In the months following the CSRD's adoption, many large multinational corporations began preparing to align with the EU framework, treating it as a de facto global benchmark.[236] The directive's reliance on double materiality and its emphasis on detailed climate disclosures—including Scope 3 emissions, biodiversity impacts, and climate transition planning—prompted significant adjustments in corporate governance and compliance systems. For example, US-based firms such as Microsoft, Salesforce, and Apple publicly signaled support for international alignment and created structures to comply with the new requirements.[237] Some even preemptively adopted practices consistent with CSRD expectations, such as publishing supplier emissions data or integrating climate risk into governance structures.[238] Legal memoranda, consulting firm guidance, and investor briefings during this period routinely treated the CSRD as the most consequential global development in climate disclosure.[239]

Yet that expectation has not fully materialized. As subsequent sections show, political recalibrations in Europe, resistance in the US, and the rise of the ISSB have reshaped the global disclosure landscape. While the Brussels Effect remains a powerful explanatory frame, it no longer operates alone, nor does it clearly define the future of global sustainability reporting.

V. Political Headwinds

Although the landscape initially signaled a possible convergence toward European regulation through the Brussels Effect, that alignment has since unraveled. Political pushbacks have triggered a series of retreats and recalibrations that have undermined the prospect of unified leadership around the EU—and instead accelerated a different kind of alignment: one centered on the ISSB's investor-focused, financially material framework. As political headwinds constrain the ambitions of regional regimes, the ISSB has quietly advanced, offering a technically credible and globally palatable standard.

a. SEC Abandons Defense of Climate Disclosure

The SEC's final climate disclosure rule, adopted in March 2024, already reflected a significant retreat from the agency's original 2022 proposal. As mentioned before, Scope 3 disclosures were removed, attestation requirements were softened, and several materiality

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[236] Ted Kail, 'CSRD in the US: What Companies Need to Know and How to Prepare' (*Forbes*, 5 March 2025) <https://www.forbes.com/councils/forbestechcouncil/2025/03/04/csrd-in-the-us-what-companies-need-to-know-and-how-to-prepare/> accessed 6 November 2025.

[237] 'Sustainability at Salesforce' (*Salesforce*) <https://www.salesforce.com/company/sustainability/> accessed 15 May 2025.

[238] Apple, '2023 Environmental Progress Report' (October 2023) 5–6 <https://www.apple.com/environment/pdf/Apple_Environmental_Progress_Report_2023.pdf> accessed 10 May 2025. The company highlights corporate efforts to align with global ESG disclosure standards and implement emissions tracking and governance mechanisms.

[239] 'CSRD Creates New Era in Sustainability Reporting' (*PwC*, 6 December 2022) <https://www.pwc.nl/en/insights-and-publications/themes/sustainability/csrd-creates-new-era-in-sustainability-reporting.html> accessed 6 November 2025.

thresholds were narrowed to reduce compliance burdens.[240] Yet even this scaled-down rule proved politically unsustainable. On March 27, 2025, the Trump-appointed majority on the Commission voted to cease defending the rule in court, effectively abandoning it in the face of consolidated litigation in *Iowa v. SEC*.[241]

This institutional capitulation occurred amid broader deregulatory efforts by President Trump's second term, including a second withdrawal from the Paris Agreement,[242] a pause in the disbursement of climate funds under the Inflation Reduction Act (IRA),[243]and efforts to expand domestic oil and gas production.[244] It has also taken steps to limit the authority of federal regulatory agencies, particularly those involved in environmental and financial oversight.[245] These efforts were significantly bolstered by the US Supreme Court's June 2024 decision in *Loper Bright Enterprises v. Raimondo*, which overturned the long-standing *Chevron* doctrine.[246] By rejecting judicial deference to agency interpretations of ambiguous statutes, Loper Bright may weaken the legal underpinnings of more expansive administrative rulemaking, including, potentially, the SEC's climate-disclosure rules.[247] Given this political and legal environment, renewed federal leadership on climate disclosure is unlikely.

The geopolitical consequences of the SEC's retreat extended beyond the confines of US regulation. In the European Union, the absence of reciprocal obligations across the Atlantic intensified longstanding concerns that the CSRD's far-reaching climate reporting requirements would disadvantage European companies relative to their global competitors.[248] Without a comparable regime in the United States, firms subject to the EU's double materiality framework faced potentially higher compliance costs, increased litigation exposure, and reputational scrutiny in global markets, while US firms remained

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240 Tabuchi, Livni, and Gelles (n 214).

241 Yusuf Khan, 'SEC Votes to End Defense of Climate Disclosure Rules' (*Wall St J*, 28 March 2025) <https://www.wsj.com/articles/sec-votes-to-end-defense-of-climate-disclosure-rules-fc9091ba> accessed 6 November 2025.

242 Nate Perez and Rachel Waldholz, 'Trump is Withdrawing from Paris Agreement (Again), Reversing U.S. Climate Policy' (*NPR*, 21 January 2025) <https://www.npr.org/2025/01/21/nx-s1-5266207/trump-paris-agreement-biden-climate-change> accessed 6 November 2025.

243 'White House Says Order Pausing IRA Disbursements Only Applies to Some Programs' (*Reuters*, 22 January 2025) <https://www.reuters.com/sustainability/sustainable-finance-reporting/white-house-says-order-pausing-ira-disbursements-only-applies-some-programs-2025-01-22/> accessed 6 November 2025.

244 'Trump Administration Kicks Off Plan for Expanded Offshore Drilling' (*Reuters*, 18 April 2025) <https://www.reuters.com/sustainability/climate-energy/trump-administration-kicks-off-plan-expanded-offshore-drilling-2025-04-18/> accessed 6 November 2025.

245 Megan Messerly and Bob King, 'Trump Signs Order to Claim Power Over Independent Agencies' (*Politico*, 18 February 2025) <https://www.politico.com/news/2025/02/18/trump-order-power-independent-agencies-00204798> accessed 6 November 2025.

246 *Loper Bright Enterprises v Raimondo* 603 US 369 (2024).

247 'How *Loper Bright* and the End of the Chevron Doctrine Impact the SEC' (*ProMarket,* 9 September 2024) <https://www.promarket.org/2024/09/09/how-loper-bright-and-the-end-to-the-chevron-doctrine-impact-the-sec/> accessed 18 November 2025; 'After Chevron: What the Supreme Court's Loper Bright Decision Changed, and What It Didn't' (*Cleary Gottlieb*, 11 July 2024) <https://www.clearygottlieb.com/news-and-insights/publication-listing/after-chevron-what-the-supreme-courts-loper-bright-decision-changed-and-what-it-didnt> accessed 18 November 2025.

248 Marianne Gros, 'Brussels Confirms Dramatic U-Turn on Corporate Green Rules' (*Politico*, 26 February 2025) <https://www.politico.eu/article/most-eu-firms-exempted-from-green-reporting-under-proposed-omnibus-bill/> accessed 6 November 2025; Yusuf Khan and Kim Mackrael, 'Europe Is Looking to Roll Back Climate Accounting Rules' (*Wall St J*, 7 February 2025) <https://www.wsj.com/articles/europe-is-looking-to-roll-back-climate-accounting-rules-32c72856> accessed 6 November 2025.

comparatively insulated. This asymmetry amplified internal political pressure within the EU to recalibrate its approach.[249]

The SEC's retreat also had practical consequences for companies navigating the increasingly fragmented global disclosure landscape. Large multinationals need to tailor their climate disclosures to meet the legal and regulatory expectations of each jurisdiction, reporting Scope 3 emissions under the CSRD, providing modified disclosures under California's laws, and omitting them entirely in SEC filings. This patchwork approach adds operational complexity and compliance risk, especially for firms operating across multiple legal regimes, increasing the appeal of a unified reporting architecture.

b. EU Retreats Amid Competitiveness Concerns

Another important headwind for climate disclosure came from Europe. In early 2025, the European Commission introduced the "Omnibus Simplification Package," a legislative initiative aimed at easing the regulatory burden of sustainability reporting.[250] The proposal reflects growing pressure from member states and industry groups to bolster economic competitiveness and mitigate the costs of ambitious disclosure rules.[251] This recalibration was driven in part by the regulatory asymmetry created by the United States' retreat from climate disclosure. With no comparable federal regime in place, many European firms feared being placed at a competitive disadvantage in global markets, particularly vis-à-vis US-based multinationals.[252]

A central component of the Omnibus Package is the significant revision of the CSRD. The proposed changes narrow the scope of companies required to comply with CSRD mandates, effectively removing approximately 80% of previously in-scope entities[253] In addition, the package proposes to ease the assurance requirements, replacing the previously contemplated requirement of reasonable assurance with limited assurance, thereby reducing compliance costs for affected firms.[254]

These regulatory rollbacks have elicited mixed reactions. Proponents argue that the measures are necessary to maintain the global market power of European businesses, especially in light of more permissive reporting regimes elsewhere. Critics, however, contend that the dilution of reporting requirements undermines the EU's commitment to transparency

[249] Frances Schwartzkopff and Ania Nussbaum, 'EU Set to Cut ESG Red Tape as France Adds to Mounting Pressure' (*Bloomberg*, 21 January 2025) <https://www.bloomberg.com/news/articles/2025-01-21/eu-is-set-to-cut-back-esg-reporting-rules-amid-french-demands-m66nq83f> accessed 6 November 2025.

[250] 'Commission Proposes to Cut Red Tape and Simplify Business Environment' (*European Commission*, 26 February 2025) <https://commission.europa.eu/news/commission-proposes-cut-red-tape-and-simplify-business-environment-2025-02-26_en> accessed 6 November 2025.

[251] Jenny Gross and Patricia Cohen, 'Europe's "Reason for Being" Is at Risk as Competitiveness Wanes, Report Warns' (*New York Times*, 9 September 2024) <https://www.nytimes.com/2024/09/09/business/europe-economy-competitiveness.html> accessed 6 November 2025.

[252] Eshe Nelson, 'Europe Relaxes Rules on Company Climate Reports' (*New York Times*, 26 February 2025) <https://www.nytimes.com/2025/02/26/business/europe-climate-sustainability-reporting.html> accessed 6 November 2025.

[253] Susanne Pankov and Yalcin Ölmez, 'The EU's Omnibus Proposal: What It Is Aiming For and What Lies Ahead' (*World Economic Forum*, 10 March 2025) <https://www.weforum.org/stories/2025/03/eu-omnibus-proposal-what-lies-ahead/> accessed 6 November 2025.

[254] Ibid.

and sustainability, potentially eroding investor confidence and the bloc's leadership in ESG matters.[255]

National governments have also taken positions. France, in particular, has been vocal in its support for scaling back the CSRD requirements, arguing that the rules impose disproportionate obligations on companies.[256] Germany has also raised concerns, with its government supporting simplification and delay, though its sustainability advisory board publicly contradicted this position, emphasizing the importance of maintaining the directive's original timeline and scope.[257] Italy has supported the application of CSRD for large companies but called for delayed implementation and reduced burdens for smaller enterprises.[258] Similarly, Spain has proposed phasing in the requirements for smaller companies.[259] The Omnibus Package highlights the EU's attempt to balance regulatory ambition with economic feasibility.

c. EFRAG Explores Alignment with ISSB

In reassessing its own standards, the EU has also signaled its intention to further address interoperability. As the ISSB gains global traction, European institutions are increasingly compelled to reconcile their approach with international standards. While the CSRD mandates disclosure under the expansive ESRS, EFRAG—the technical advisor developing the ESRS—has acknowledged the importance of global alignment, particularly for smaller firms.

In February 2024, EFRAG stated that it would "look into the ISSB standards in the context of developing future guidance for non-listed SMEs" to facilitate global comparability while reducing administrative reporting burdens.[260] By April 2025, this approach had expanded: as part of the EU's Omnibus Package, EFRAG launched a formal review to "substantially reduce" the nearly 1,100 ESRS datapoints. Its updated work plan lists several

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[255] Carol Adams, 'Comment: By Easing Sustainability Reporting Rules, Europe Risks Undermining Green Growth' (*Reuters*, 28 February 2025) <https://www.reuters.com/sustainability/boards-policy-regulation/comment-by-easing-sustainability-reporting-rules-europe-risks-undermining-green-2025-02-27/> accessed 6 November 2025; Richard Gardiner, 'The Cost of Uncertainty: Why Europe Undermining Its Own Sustainability Framework Will Have Global Impacts' (*Investor Alliance for Human Rights*, 9 June 2025) <https://investorsforhumanrights.org/news/cost-uncertainty-why-europe-undermining-its-own-sustainability-framework-will-have-global> accessed 17 November 2025.

[256] Schwartzkopff and Nussbaum (n 251).

[257] Dominic Webb and Fiona McNally, 'Germany's Sustainability Advisers Contradict Government on EU Omnibus' (*Responsible Investor*, 18 February 2025) <https://www.responsible-investor.com/germanys-sustainability-advisers-contradict-government-on-eu-omnibus/> accessed 6 November 2025.

[258] Kate Abnett, 'EU Countries Split Over Whether to Delay Green Reporting Rules' (*Reuters*, 19 February 2025) <https://www.reuters.com/sustainability/eu-countries-split-over-whether-delay-green-reporting-rules-2025-02-19/> accessed 6 November 2025.

[259] Nikolaus J. Kurmayer, 'EU: Spanish Govt. Says Watering Down Sustainability Reporting Rules Risks Sending "Dangerous Signal" of Backtracking on European Values' (*Business & Human Rights Resource Centre*, 18 February 2025) <https://www.business-humanrights.org/en/latest-news/eu-spanish-govt-says-watering-down-sustainability-reporting-rules-risks-sending-dangerous-signal-of-backtracking-on-european-values/> accessed 6 November 2025.

[260] Elza Holmstedt Pell and Fiona McNally, 'Details Emerge on Initial EFRAG Options for Slashing ESRS' (*Responsible Investor*, 29 April 2025) <https://www.responsible-investor.com/details-emerge-on-initial-efrag-options-for-slashing-esrs/> accessed 6 November 2025.

streamlining "levers," including closer alignment with international standards like the ISSB.[261] One proposal under discussion involves converting a significant number of "shall" and "may" disclosures into voluntary guidance, especially for companies that may fall under both the EU and ISSB regimes due to cross-border operations.[262]

While interoperability concerns are not new—the EU and the ISSB have already committed to this path[263] and have published a joint guidance clarifying how companies can comply with both requirements[264]—these recent EU moves show that it can transition from conceptual alignment to operational reform. One of the reasons why ISSB alignment is now a live topic is that the revised CSRD thresholds would limit EU sustainability reporting to firms with more than 1,000 employees; many of those firms are now likely to be subject to ISSB requirements in other jurisdictions. This dual exposure has made harmonization more urgent.

d. California Floats ISSB Interoperability

In California, while implementing regulations remain in development, the enforcement authority, CARB, has signaled an interest in allowing compliance through internationally recognized frameworks such as the ISSB. In December 2024, CARB issued a formal Solicitation for Information requesting stakeholder input on how best to implement SB 253 and SB 261.[265] Among the key questions posed were concerns about interoperability: it explicitly asked how to "minimize duplication of effort" for entities already subject to other GHG emissions or climate risk disclosure mandates.[266] This request reflected an early acknowledgment that many companies potentially covered by California's law already report under frameworks like the ISSB and that regulatory alignment could ease compliance burdens.

This regulatory direction has drawn strong support from institutional investors. In a March 2025 comment letter, the California State Teachers' Retirement System (CalSTRS) explicitly interpreted SB 261 as allowing compliance through ISSB-aligned reporting and urged CARB to "prioritize interoperability with the ISSB standards."[267] The letter emphasized that requiring companies to comply with multiple distinct frameworks would create

[261] Ibid.
[262] Ibid.
[263] 'European Commission, EFRAG and ISSB Confirm High Degree of Climate Disclosure Alignment' (*IFRS*, 31 July 2023) <https://www.ifrs.org/news-and-events/news/2023/07/european-comission-efrag-issb-confirm-high-degree-of-climate-disclosure-alignment/> accessed 6 November 2025.
[264] EFRAG, 'IFRS Foundation and EFRAG Publish Interoperability Guidance' (n 21).
[265] California Air Resources Board (CARB), 'Information Solicitation to Inform Implementation of California Climate-Disclosure Legislation: Senate Bills 253 and 261, as amended by SB 219' (16 December 2024) <https://www.skadden.com/-/media/files/publications/2024/12/california-seeks-public-input-on-climate-reporting-requirements/carb-seeks-comments.pdf> accessed 6 November 2025.
[266] Ibid.
[267] California State Teachers' Retirement System (CalSTRS), 'Letter to Liane Randolph, Chair, California Air Resources Board' (21 March 2025) <https://www.calstrs.com/files/c843e5df9/CARBCommentLetterSB253And261Implementation.pdf> accessed 6 November 2025.

unnecessary complexity and cost, and pointed to the growing global uptake of ISSB standards as justification for aligning California's rules with international norms.[268]

Other stakeholders echoed this position. In public comment letters submitted in early 2025, organizations such as Ceres and XBRL US explicitly encouraged CARB to accept ISSB-compliant reports to satisfy California's disclosure requirements. Ceres highlighted that many companies already use ISSB standards and urged the agency to formally recognize them as a pathway to compliance.[269] XBRL US similarly argued that adopting the ISSB would reduce regulatory duplication.[270]

Though CARB has not formally endorsed ISSB as a compliance option, these discussions reflect a growing recognition of ISSB's role as a de facto global baseline, even within jurisdictions that have adopted their own mandatory frameworks. Moreover, SB 261 explicitly allows disclosures based on TCFD, which forms the foundation of ISSB's climate standard.[271] As a result, a company preparing an ISSB-aligned report could already satisfy the substantive requirements of SB 261, an interpretation that stakeholders have urged CARB to formalize. In this way, California's approach reflects the same broader trend observed in Europe: even ambitious regulators are beginning to treat ISSB standards not as a competing framework, but as a globally credible anchor for disclosure alignment.

VI. Conclusion and Discussion: The ISSB as the Leading Driver of Global Convergence

In a fragmented and politically contested global landscape for climate-related disclosures, the ISSB has emerged as the most viable foundation for global convergence, driven by a combination of institutional and market dynamics. Narrower in scope than the EU's double materiality model, the ISSB has so far proven to be more implementable, broadly supported, and globally scalable. It succeeded not by regulatory imposition, but by offering a credible, investor-focused framework grounded in pre-existing market practice.

One key driver of its appeal is the operational burden created by the proliferation of varied disclosure regimes. As jurisdictions like the EU, US, and California institutionalized their own climate rules, companies found themselves dealing with a complex patchwork of reporting requirements and voluntary standards, each with different thresholds, metrics, and legal consequences. Investors, too, faced challenges in comparing data across firms and markets. The ISSB responded with a streamlined, investor-oriented baseline that promised interoperability without regulatory reinvention.

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268 Ibid.

269 Ceres, 'Comment Letter to the California Air Resources Board: Implementation of Senate Bills 253 and 261' (17 March 2025) 9–11 <https://ww2.arb.ca.gov/form/public-comments/submissions/21706> accessed 18 November 2025.

270 XBRL US, 'Comment Letter to CARB on SB 253 and SB 261 Implementation' (19 March 2025) <https://xbrl.us/wp-content/uploads/2025/03/XBRL-US-Response-to-CARB-Solication-Senate-Bills-523-and-261.pdf> accessed 6 November 2025.

271 SB 261 (n 227) § 2(e).

Its traction also reflects its grounding in market-driven practice. Before being formalized by the IFRS Foundation, the ISSB's main principles, such as financial materiality, industry specificity, and forward-looking risk, had already gained legitimacy through widespread voluntary adoption of SASB and TCFD standards. By consolidating this infrastructure, the ISSB offered a disclosure system that felt familiar and practical, enabling quicker integration into corporate reporting systems.

Another critical factor was the political contestation that derailed other regulatory efforts. While the US SEC climate rule was weakened by legal and partisan resistance, and the EU diluted its disclosure mandates under pressure from member states and business groups, the ISSB advanced with little controversy. Its emphasis on financial materiality, not the broader EU's double materiality, allowed it to operate beneath the radar of more polarized debates.

Institutional design further bolstered its credibility. Anchored in the IFRS Foundation, which already governs global accounting standards, the ISSB inherited legitimacy and administrative infrastructure. For many countries, extending IFRS into the sustainability domain made logistical and regulatory sense. The ISSB did not require building a new governance structure from scratch; it leveraged one that was already trusted by financial regulators and deeply embedded in global capital markets.

Strategically, the ISSB also positioned itself not as a competing framework but as a baseline that others could build upon. Its emphasis on interoperability enabled jurisdictions with disclosure mandates to align rather than diverge. Collectively, these developments help explain why the ISSB has come to occupy a central position in the evolving global architecture of climate-related disclosure. The ISSB is increasingly treated as a compliance pathway (as in California), a simplification benchmark (as in the EU), and a regulatory foundation (as in jurisdictions adopting it outright). Although challenges remain around enforcement and adoption, its rapid institutionalization marks a significant step toward the formation of a global regime.

Yet this success reflects a political and institutional choice: framing sustainability through capital markets. The ISSB's focus on investor needs has facilitated global acceptance, but it may be too narrow to address the multi-stakeholder and systemic nature of climate change. This tension invites further inquiry, particularly into how it shapes corporate behavior and how financial materiality aligns, or conflicts, with broader public interest goals.

At the same time, the ISSB highlights how legal authority can form outside treaty-based mechanisms. Rather than multilateral negotiation or hegemonic export, its influence rests on market alignment, private governance infrastructure, and technocratic credibility. This hybrid model of transnational governance, formally open through consultations yet shaped by investor priorities, complicates traditional theories of institutionalization, showing that in technical domains like sustainability reporting, authority may emerge from functional market solutions as much as from formal law.

This dynamic also opens an agenda for future research. While the ISSB aspires to serve as a global baseline, its adoption will likely vary: some jurisdictions may fully integrate its standards, others may layer additional disclosure requirements, make compliance voluntary, or choose not to adopt them at all. Understanding how and why different countries position themselves relative to the ISSB—whether driven by investor pressures, regulatory capacity, political priorities, or domestic market needs—can shed light on the mechanisms of global norm diffusion. Studying this variation would deepen our understanding of how technocratic standards appeal to diverse jurisdictions for different reasons, and how this fragmented uptake shapes the evolving architecture of global sustainability governance.

Equally important is examining how competing regimes will coexist and interact. The divergence between the ISSB and the EU's double materiality approach raises critical questions about institutional dynamics, strategic positioning, and competing political interests. Analyzing how these frameworks co-evolve, compete, or accommodate one another will be essential for assessing the long-term trajectory of international governance and the tensions embedded within emerging regulatory architectures.

Finally, the ISSB's rise shows that international legal convergence remains possible, even amid geopolitical fragmentation. By positioning itself as a pragmatic baseline aligned with investor needs and anchored in the IFRS Foundation's established authority, the ISSB reflects an emerging shift in global governance toward solutions grounded in functionality and expertise rather than traditional state-led negotiation. This dynamic calls into question prevailing accounts of state rivalry in shaping international law, while also pointing to a pathway toward regulatory coordination in a fractured world and inviting closer scrutiny of how authority is exercised.

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