The International Sustainability Standards Board's (ISSB) Past, Present, and Future: Critical reflections and a research agenda

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Please cite as:
De Villiers, C., Dimes, R., La Torre, M. & Molinari, M. 2024. The International Sustainability Standards Board's (ISSB) Past, Present, and Future: Critical reflections and a research agenda, Pacific Accounting Review, 36(2), 255-273. https://doi.org/10.1108/PAR-02-2024-0038

Abstract

Purpose: We critically reflect on the formation of the International Sustainability Standards Board (ISSB), its current agenda, and likely future direction. We consider the relationships between the ISSB and other standard setters, regulators, practitioners, and stakeholders, and develop a comprehensive research agenda.

Design/methodology/approach: We review and critically analyse academic and practitioner publications alongside the ISSB's workplans to identify the themes impacting the future of the ISSB, and to develop a research agenda.

Findings: Three key themes emerge from our analysis that are likely to influence the future of the ISSB: (1) the jurisdiction and scope of the ISSB – how far its influence is likely to extend, both geographically and conceptually; (2) the ongoing legitimacy challenge the ISSB is facing in terms of setting an agenda for sustainability reporting; and (3) the 'capture' of sustainability reporting by influential stakeholders including capital providers.

Originality: The formation of the ISSB is critical to the future of sustainability reporting. We provide a comprehensive and topical overview of the past, present, and potential future of the ISSB, highlighting the need for further research and providing a research agenda that addresses outstanding questions in the field.

Keywords: International Sustainability Standards Board; ISSB; Sustainability Disclosures

1. Introduction

The formation of the International Sustainability Standards Board (ISSB) in November 2021 marked a pivotal moment in the pursuit of universally accepted sustainability reporting standards. The ISSB's formation, alongside European regulatory efforts mandating sustainability reporting, fundamentally reshaped the landscape of international sustainability reporting. Before the ISSB was formed, there were numerous competing voluntary reporting frameworks. These frameworks were formed and developed as interest in mandating sustainability reporting and establishing globally recognised standards began to grow significantly (Giner and Luque-Vílchez, 2022; de Villiers et al., 2022).

The ISSB has swiftly emerged as a prominent standard-setter, introducing the IFRS S1 and S2 reporting standards which have garnered substantial global attention and are poised for adoption in multiple jurisdictions. However, the ISSB has faced substantial criticism, particularly for its perceived prioritisation of investor interests over those of other stakeholders (Adams and Mueller, 2022; Ali et al., 2023). While the ISSB's affiliation with the IFRS Foundation bolsters its credibility with investors, it has drawn widespread censure from diverse stakeholders. These stakeholders are critical of the ISSB's focus on how social and environmental matters affect the reporting organisation's risk and future prospects, rather than on how the reporting organisation's actions may affect the natural environment and society.

Despite asserting its commitment to developing standards serving the public interest and addressing various stakeholder needs, including those of employees and broader society, concerns persist regarding the undue influence of powerful stakeholders, notably capital providers, in shaping the reporting agenda (De Villiers et al., 2022). This dynamic raises concerns that sustainability reporting standards may disproportionately reflect the priorities and interests of influential financial stakeholders, sidelining broader social and environmental considerations (Carungu et al., 2021; De Villiers & Alexander, 2014). Mitigating this risk necessitates robust governance mechanisms, transparency, and stakeholder engagement to ensure that reporting standards encompass a balanced and comprehensive understanding of social and environmental sustainability, serving the interests of all stakeholders (Carungu and Molinari, 2023).

In this paper, we review and discuss how the ISSB was formed, its current plans, and its likely future directions. Our method is that of a critical reflection and analysis of the publicly available evidence, as represented in both the academic and professional literature, using these reflections/analyses to develop an agenda for future research (Alvesson and Deetz, 2000; Guthrie *et al.*, 2012). This involves a reflection on the consequences of the ISSB's foundation for researchers and practitioners. For the benefit of researchers, we outline a research agenda within the three main themes we identify, namely the scope and jurisdictions the ISSB's actions, the legitimacy challenges it is facing, and the financial capture that may shape its standard-setting agenda.

This paper is positioned within, and contributes to, the recent literature investigating the ongoing socio-political dynamics in international standard-setting for sustainability reporting and its influence on sustainability standards (i.e., Adams and Mueller, 2022; Afolabi *et al.*, 2023; Ali *et al.*, 2023; Giner and Luque-Vílchez, 2022; Leeson and Kuszewski, 2023; Rowbottom, 2023; Stolowy and Paugam, 2023). The paper makes several contributions. First, the paper offers a timely and comprehensive analysis of the role of the ISSB in sustainability reporting standard-setting. The formation of the ISSB under the umbrella of the IFRS Foundation means that the ISSB is now a critical player in sustainability reporting, and our paper provides an in-depth analysis of what represents a significant historical milestone in corporate reporting. Our second contribution is our analysis of the likely future of the ISSB, given recent developments. Rapid consolidation in the area of sustainability reporting has placed the ISSB in a key position, but other influential reporting bodies, such as the GRI, are essential to consider in this light. Our final contribution is to outline a research agenda to address in future.

The remainder of this article is structured as follows: Section 2 provides an overview of the past of the ISSB (how and why it was created and what its initial agenda was), and Section 3 considers the current work programme and stated aims of the ISSB. Section 4 considers the potential future of the ISSB, developing three key themes which are reflected on and discussed. This discussion leads to the research agenda in Section 5. Section 6 concludes.

2. The formation of the ISSB (the 'past')

The ISSB's formation represents a crucial moment in the trajectory of sustainability reporting towards more comprehensive and standardised disclosures. Over the past decade, a multitude of non-financial reporting bodies emerged, driven by the recognition of the limitations of traditional reporting mechanisms in addressing the complex and interconnected challenges and increasing pressures facing organisations, including environmental degradation, social inequality, and governance failures. These challenges have significant implications for stakeholders ranging from investors to employees to communities at large (Carungu and Molinari, 2023). With the growing awareness of climate change, social inequality, and corporate responsibility, investors, regulators, and other stakeholders demand more transparency and consistency in how companies report their sustainability performance. The increasing recognition of the importance of sustainability challenges in corporate reporting has been the driving force behind the creation of the ISSB. Traditional annual reports aimed at investors have increasingly been criticised for failing to meet the information needs of stakeholders (Dumay *et al*., 2019). Annual reports contain predominantly historic information and fail to recognise the growing importance of intangible assets, including those outside of an organisation's control, for value creation (Rinaldi *et al*., 2018).

Over the past decade, multiple non-financial reporting bodies have emerged, each promoting slightly different frameworks and reporting guidelines to address the issue of organisational accountability to a broad range of stakeholders (De Villiers & Maroun, 2018). The reporting landscape has been criticised for being a confusing 'alphabet soup' of initiatives and standards, leading to calls for consolidation and harmonisation (Milne & Gray, 2013). This consolidation is now well underway, with major sustainability reporting bodies consolidating their operations and new reporting bodies emerging. Figure 1 summarises key recent developments leading to the formation of the ISSB, a critical development in the future of sustainability reporting.

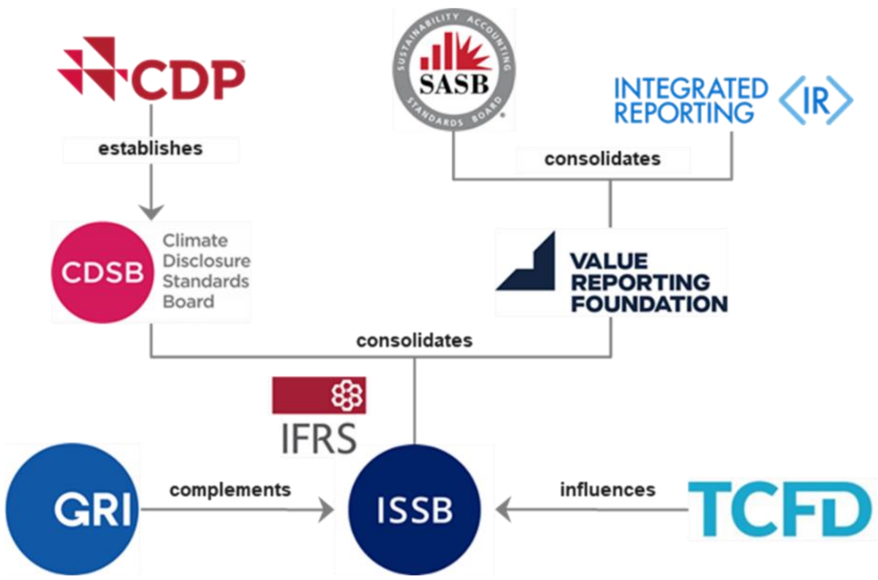

Figure 1: Convergence of Voluntary Sustainability Disclosure Standards (Kirkland & Ellis, 2022)

Figure 1 shows reporting bodies with different stakeholder interests, even though they all resort under the sustainability reporting umbrella. In 2020, the International Integrated Reporting Council (IIRC), the leading promoter of Integrated Reporting, merged with the Sustainability Accounting Standards Board (SASB) to form the Value Reporting Foundation (VRF). Integrated Reporting is a combined form of reporting that reports on six 'capitals' that organisations use to create, maintain and destroy value: financial capital, human capital, manufactured capital, natural capital, social capital and intellectual capital. Integrated Reporting (IR) aims to communicate an organisation's value creation story to stakeholders (Rinaldi *et al*., 2018). The SASB, formed in 2011, promotes detailed sustainability reporting standards that focus on the information requirements of investors (SASB, 2021). Therefore, the VRF's formation represented the merger of two bodies with different scopes and agendas, and news of the merger was met with criticism that IR had finally been 'captured' by investor interests (Deegan, 2020; Flower, 2020).

One year after the formation of the VRF, in 2021, the International Financial Reporting Standards (IFRS) Foundation, the standard-setting body for international financial reporting standards, announced the formation of a new standard-setting body, the International Sustainability Standards Board (ISSB), to sit under the IFRS Foundation. The newly-formed ISSB comprised the merger of the VRF with the Climate Disclosure Standards Board (CDSB). The CDSB is an international consortium of business and environmental non-governmental organisations (NGOs) aiming to provide investors with useful environmental information via mainstream annual corporate reports (CDSB, 2021). When the VRF was consolidated into the IFRS Foundation, the IASB and ISSB assumed responsibility for the IR Framework (ISSB, 2024, p7).

By acquiring the VRF and creating the ISSB, the IFRS Foundation entered as a new player into the broad sustainability standard setters arena, which already contained other standard setters with longstanding expertise in producing guidelines for sustainability reporting, for example, the GRI (De Villiers et al., 2022). Despite the early criticism toward the IFRS Foundation for its attempt to influence sustainability reporting and the competition with other sustainability standard setters, the IFRS Foundation founded the ISSB with the aim to "develop—in the public interest—standards that result in high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets" (IFRS, 2022, p1). The initial agenda of the ISSB involved establishing a set of globally accepted sustainability reporting standards that are comprehensive, consistent, and comparable across industries and regions. These standards were intended to cover a range of environmental, social, and governance issues, including carbon emissions, diversity and inclusion, human rights, and supply chain management. Since its formation, the ISSB has been quick to develop and release IFRS S1 and IFRS S2, global standards for sustainability reporting, taking advantage of its global influence under the IFRS Foundation. These two new standards aim to incorporate recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD) and include industry-based disclosure requirements derived from SASB Standards (IFRS, 2022c).

The formation of the ISSB required collaboration and coordination among various stakeholders, including governments, regulatory bodies, standard-setting organisations, corporations, investors, and civil society organisations, along with consultation, negotiation, and consensus-building processes to develop and implement the standards. Key elements of the ISSB's standards include materiality assessment to identify and prioritise sustainability issues that are most relevant to a company's business and stakeholders, consistency across industries and regions to facilitate comparability and benchmarking, transparency to enable stakeholders to make informed decisions, and verification to enhance credibility and trust of sustainability reports.

In 2022, the ISSB signed a memorandum of understanding with the Global Reporting Initiative (GRI), an influential voluntary reporting body, to work together to harmonise the sustainability reporting landscape further (IFRS, 2022a). The GRI was formed in 1997 and has since developed a full set of reporting principles and standard disclosures for organisations' economic, environmental, and social performance. The GRI standards are the most widely used voluntary framework for reporting on sustainability in the world (Bebbington & Unerman, 2018), with organisations using GRI reporting as a way of enhancing their reputation (Wilburn & Wilburn, 2013). The GRI's primary objective was initially to establish the first accountability mechanism to ensure organisations adhere to responsible environmental conduct principles. Over time, this objective expanded to encompass social, economic, and governance issues (GRI, 2024). Since its inception, the GRI has garnered widespread attention from organisations globally, evolving into an international reporting framework (Federation of European Accountants, 2016). GRI remains the most utilised reporting standard, adopted by approximately two-thirds of N100 reporters and about three-quarters of G250 reporters (KPMG, 2020). The issuance of GRI reporting guidelines has significantly impacted sustainability accounting and reporting practices. The GRI standards have become institutionalised as sustainability reporting standards, gradually becoming integrated into existing institutional structures to address growing sustainability information needs (Larrinaga et al., 2020). This institutionalisation is evidenced by establishing shared terminology, such as stakeholder engagement, materiality assessment, triple bottom line reporting, and developing specific metrics (De Villiers et al., 2022). For example, the GRI has significantly contributed to popularising concepts such as inclusive multi-stakeholder processes, social impact indicators, and materiality.

Official recognition by national governmental agencies, such as the UN and OECD, has enhanced the prestige, visibility, and legitimacy of GRI, further institutionalising sustainability reporting as a standard practice (Brown et al., 2009). Moreover, GRI has adapted to emerging global challenges, such as climate change, technological advancements, economic inequality, and population growth, in its evolution towards promoting a sustainable economy (GRI, 2024). For instance, GRI initiated the 'Sustainability and Reporting 2025' project to address the information requirements for dealing with these global issues and explore the role of technology in facilitating organisations and stakeholders to effectively collect, verify, analyse, and manage non-financial data (Fiandrino, 2019).

The GRI has been conceptualised as an institutional entrepreneur (Brown et al., 2009; Levy et al., 2010), functioning as a political mediator with stakes in specific institutional activities. Levy et al. (2010) argue that GRI's entrepreneurship involved launching a reporting initiative that quickly gained approval from relevant actors, particularly large companies worldwide. They suggest that GRI's contribution involved a skilful combination of strategies, including the development of GRI as an organisation, the establishment of a network of relationships with influential actors, and the construction of discourses legitimising sustainability accounting and reporting practices globally (De Villiers et al., 2022). The GRI remains a key player in sustainability reporting, and the current and potential future relationships between the ISSB and the GRI are discussed in the following two sections.

3. The current work of the ISSB (the 'present')

In May 2023, the ISSB undertook a public consultation on its agenda priorities, with the comment period ending on 1 September 2023. The objective of the consultation was to get stakeholder feedback on the ISSB's strategic direction and to determine priorities for the ISSB's workplan over 2024-2025. The top priority emerging from this consultation was the need for the ISSB to support the implementation of IFRS S1 and S2. Successful implementation of these two initial standards will pave the way for developing several further standards, firmly establishing the ISSB as the key sustainability reporting body. It is critical for the future of the ISSB that these two standards are successfully implemented, or at least perceived to be. Another key point emphasised was to continue to enhance the SASB standards that IFRS S1 relies on for guidance. Other key priorities were the interoperability of ISSB standards with other jurisdictional and voluntary sustainability standards, materiality, and connectivity between financial and sustainability standards (ISSB, 2024, p15-16).

The IFRS Foundation's current work plan contains two specific projects relating to sustainability. The first refers to integration in reporting, and the second to connectivity in reporting (the ISSB also notes that during the consultation period, stakeholders thought that the terms 'integration' and 'connectivity' were interchangeable). Survey respondents called for a 'single report' or a 'framework' to align and combine reports, highlighting the potential contribution of the IR Framework and stressing the need for the IASB and ISSB to work together. This led to the development of an 'integration in reporting' project, to provide a more comprehensive understanding of an entity's approach to sustainability and to help implement IFRS S1 and IFRS S2, and this initiative is deemed a top priority.

The second project on connectivity in reporting relates to connectivity between the ISSB and the IASB. The ISSB states that connectivity between the ISSB and IASB requirements is "at the core of all the ISSB's activities and is fundamental to the ISSB's mission to deliver a comprehensive global baseline of sustainability-related disclosures." (ISSB, 2024, p4). An example is the recent working paper on Management Commentary, an Exposure Draft published in May 2021. Feedback on the Exposure Draft of the Management Commentary highlighted the need for the IASB and ISSB to work more closely together on connectivity between financial and sustainability reporting standards, and also highlighted potential complementarities with the IR Framework. The similarities between the IFRS Management

Commentary and the overarching principles of the IR Framework have been noted previously (Barker & Teixeira, 2020; De Villiers & Dimes, 2022), and deliberations about the purpose and scope of Management Commentary are ongoing.

While the notes from IFRS Foundation meetings provide details of specific projects, other less formal comments made by members of the IFRS Foundation also shed light on potential future plans and mindsets within reporting bodies. At a speech made at the IFRS Foundation Conference in 2022, Andreas Barckow, Chair of the IASB, made reference to the 'accountancy side' of the IFRS Foundation working with the 'sustainability side', highlighting that at that stage the two were not operating together or considering complementarities and synergies as much as they might do (IFRS, 2022a). It is also notable that investors have urged the IASB to consult more with the ISSB and to take advantage of the IR Framework. Recent developments (in particular the two projects noted above) suggest that the IFRS Foundation has taken this feedback on board.

While much of the ISSB's current work relates to the development of standards and closer working relationships with internal partners such as the IASB, it is also essential to consider the ISSB's activities in relation to other reporting bodies. As discussed earlier, the other major reporting body with global influence is the GRI. Both the GRI and the ISSB are committed to working together in the recognition that a global reporting system for sustainability reporting is beneficial for all stakeholders. A memorandum of understanding between the two in March 2022 highlighted the importance of coordination, with the wording phrased to capture both investors and a broader range of stakeholders. A technical mapping of GRI standards with IFRS S1 and S2 is already underway (GRI, 2023). Again, within the memorandum of understanding, there is mention of two 'pillars' - the first investor-focused capital market standards and the second GRI sustainability reporting standards, described as "compatible with the first [and] designed to meet multi-stakeholder needs" (IFRS, 2022b). Figure 2 highlights how the IFRS

Foundation perceives its remit and definition of materiality to interact with the GRI and other jurisdictional initiatives.

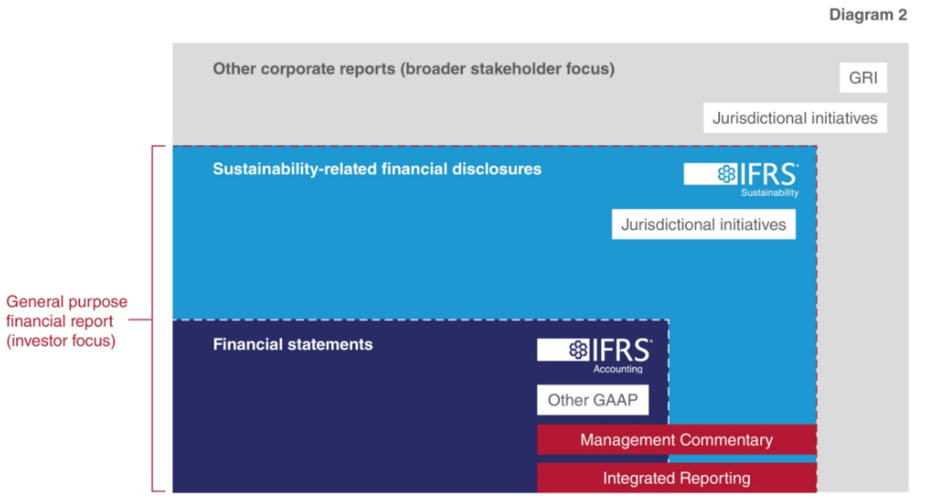

Figure 2: IFRS Foundation's conceptualisation of their scope compared to GRI (IFRS, 2023)

Other key external relationships for the ISSB include those with regulators. EFRAG has announced support for the ISSB disclosures, noting that the European Sustainability Reporting Standards (ESRS) have already incorporated the disclosures required by the ISSB (EFRAG, 2023b). In the US, the reception has been more mixed. Domestic US issuers report using US GAAP rather than IFRS, making the IFRS Foundation and its associated reporting bodies less influential. The key regulator in the US, the Securities and Exchange Commission (SEC), has finally issued rules requiring companies to disclose climate-related information as per the TCFD, as discussed later. However, they have been accused of delaying implementation, and there is still substantial debate about the disclosure of Scope 3 emissions. There is a growing anti-ESG movement in the US, with powerful lobbying and potential lawsuits against the standards (Ho, 2023). One consequence may be that some US organisations, many of which produce sustainability reports voluntarily, comply with ISSB standards in their voluntary reports to meet the information requirements of global investors and stakeholders seeking transparency and comparability.

The current workplan of the ISSB and its external relationships, highlight the central challenge that will be critical to its longevity, namely developing closer connections between the standard-setting bodies themselves, the standards they issue and other reporting bodies and regulators in the same field. Consolidation and collaboration will be essential to the future success and reach of the ISSB.

4. Critical reflections on the likely future of the ISSB and implications (the 'future')

The formation of the ISSB holds implications not only for the future of sustainability reporting but also for the broader landscape of international accounting standards. It is noteworthy that one of the vice chairs of the ISSB, Sue Lloyd, was previously the vice chair of the International Accounting Standards Board (IASB), indicating a significant connection between the two standard-setting bodies. This shared personnel raises intriguing questions regarding the potential influence of accounting principles and practices on sustainability reporting standards, as well as the synergies or tensions that may arise in the standard-setting process. Our analysis of the formation of the ISSB and its current workplans highlights three key themes that are critical to its future, which we discuss further in this section. Firstly, the scope of the ISSB in terms of developing a global baseline of sustainability standards, and how these standards are likely to interact with existing frameworks and mandates is critical to the ISSB having truly global reach. Secondly, the ISSB faces ongoing challenges due to its connection with the IFRS Foundation and the accounting profession. This will likely affect its future legitimacy, particularly in the eyes of non-investor stakeholders in sustainability information. Thirdly, while the ISSB consults widely on its future direction and current workplans, certain stakeholders are likely to have more influence than others, and those with more time and money (capital providers, for example) are likely to be able to exert more influence over the ISSB's agenda. In this section, we consider each of these themes and reflect on likely developments over the next decade.

4.1 The scope and jurisdiction of the ISSB

Like all new private standard setters, the first challenge the ISSB faced was positioning itself within the existing sustainability standard-setting arena. This arena was already flourishing with (often competing) initiatives for regulating sustainability reporting and justifying their work. For some, the IFRS Foundation's interest in sustainability reporting could appear surprising and irrational at first glance due to two main rationales: first, the IFRS Foundation was well-known around the world for its interest in financial reporting and its scope as a financial accounting standard setter; second, since there were already influential private standard setters with more expertise producing global standards for sustainability reporting, why was another standard setter necessary?

As De Villiers et al. (2022) note, the IFRS Foundation justified the ISSB's creation in response to the "growing calls for the urgent need for further consistency in reporting and comparable information", believing that the best option was to create a new standard setter instead of maintaining the status quo or facilitating existing initiatives. Despite this rhetorical justification, we propose at least three other interconnected rationales explaining the IFRS Foundation's interest in sustainability standard setting, namely: its self-interest toward extending its jurisdiction, the technical necessity for financial reporting preparers to use its other standards, and its attempt to influence sustainability reporting rules in favour of a more financial capital ideology.

First, the IFRS Foundation's self-interest rationale for creating the ISSB was to leverage the international landscape, which had been moving towards mandatory sustainability reporting. The ISSB formation occurred when the European Union (EU) was drafting and close to emanating the new Corporate Sustainability Reporting Directive, which extends the scope of the previous Non-Financial Reporting Directive and will impact a significant number of companies in Europe. Thus, the need for reporting standards to comply with the new Directive was a great opportunity for any private standard-setter to create mandatory standards to be applied in all the European Member States, thereby extending their jurisdiction.[1]

The IFRS Foundation no doubt expected to receive the European Commission's endorsement as the new European standard setter, as it was already the standard-setter for financial reporting in Europe. Such an endorsement would create synergy between the IASB and the ISSB, reducing unnecessary duplication. As argued in the IFRS Foundation consultation paper for sustainability reporting, through the ISSB, "stakeholders could also benefit [from] a single organisation developed requirements in financial reporting and sustainability reporting" (IFRS, 2020, p. 9). Thus, the IFRS Foundation's aim was to consolidate its jurisdiction in Europe by joining the rule-making process for sustainability reporting in Europe. Yet, regardless of these potential benefits, the European Union instructed EFRAG to develop the European mandatory standards for sustainability reporting instead.

Although the race for being the sustainability reporting standard setter in Europe resulted in EFRAG primacy, the game at the global level still looks to be open. The ISSB's intended action seems to be to overcome European boundaries, as the IFRS Foundation's aim is likely to extend its jurisdiction in other countries worldwide, regardless of European law and policy. As it states in the IFRS Foundation's consultation paper on sustainability reporting, "the calls [for international harmonisation and standards] suggest that the IFRS Foundation's track

[1] To highlight this point, in 2022, the EFRAG, delegated to developing the European Standards for sustainability reporting, received more than two million euros more than it did in 2020: 8,061,000 euros in 2020 and 10,895,000 euros in 2022 (EFRAG, 2022, p. 54, 2023, p. 56).

record and expertise in standard-setting, and its relationships with global regulators and governments around the world, could be useful for setting sustainability reporting standards" (IFRS, 2020). The IFRS Foundation's influence currently extends worldwide, as 160 jurisdictions globally have a commitment to IFRS Accounting Standards and have adopted its standards[2], and, therefore, may be impacted by IFRS sustainability standards. Additionally, through SASB, now controlled by the IFRS Foundation through the Value Reporting Foundation, the IFRS Foundation may likely influence sustainability disclosure standards-setting developments in the United States.

The global adoption of the IFRS Accounting Standards leads us to the second reason motivating the ISSB's foundation. International regulations on sustainability information have begun to influence the way financial reports are prepared. Sustainability issues have entered the financial accounting domain and have imposed the need to measure and report how social and environmental factors influence firms' value and financial performance. For example, the European regulation on double materiality requires the application of financial materiality in reporting sustainability issues for applying the "outside-in" perspective of double materiality (Abhayawansa, 2022; La Torre et al., 2020). Additionally, early empirical evidence demonstrates a significant need for clarity on how to apply these approaches to materiality (Jørgensen et al., 2022). Thus, financial reporting preparers will soon be required to reflect on how to report the financial risks and opportunities from sustainability issues, requiring adjustments in accounting standards to align financial reporting with sustainability reporting regulations.

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[2] IFRS Foundation, Analysis of the IFRS Accounting jurisdiction profiles, (https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/)

Organisations already adopting the IFRS accounting standards will be directly influenced by changes in IFRS financial accounting standards. Financial and impact (or social and environmental) materiality reflect different concepts of materiality and require different reporting standards (Abhayawansa, 2022). Thus, the ISSB's work to set standards on sustainability-related financial disclosure is not only a strategic choice to position it within the sustainability reporting arena (De Villiers et al., 2022) but also a response to the need to prepare financial reports.

The IFRS Foundation's plan to extend its jurisdiction globally in relation to the sustainability disclosure requirements was recently realised further with the SEC's adoption of rules requiring climate-related disclosure. In April 2024, the SEC adopted rules requiring companies to adopt the climate-related disclosure standards emanated by the TCFD, which is the sphere of influence of the IFRS Foundation[3]. Meanwhile, the Financial Stability Board has charged the IFRS Foundation with monitoring the progress of companies' climate-related disclosures from the TCFD, transferring this responsibility to the ISSB starting from 2024[4]. The rationale behind this decision is that the ISSB's standards (IFRS S1 and S2) encompass and incorporate the TCFD recommendations[4]. Thereby, the IFRS Foundation enhanced its power to regulate and control corporate sustainability information for investors. Accordingly, the IFRS Foundation's strategy seems to be based on conquering jurisdictions through multiple standard bodies or local organisations operating within the sustainability standards while centralising the power afterwards.

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[3] US Securities and Exchance Commission, "The Enhancement and Standardization of Climate-Related Disclosures for Investors" https://www.sec.gov/rules/2022/03/enhancement-and-standardization-climate-related-disclosures-investors

[4] IFRS Foundation, IFRS Foundation welcomes culmination of TCFD work and transfer of TCFD monitoring responsibilities to ISSB from 2024

The third potential reason for creating the ISSB relates to the financial market interests represented by the IFRS Foundation and the ideological network supporting it. The IFRS Foundation and the ISSB benefit from the support of an extensive international network of institutions. As Giner & Luque-Vílchez (2022) highlight, the IFRS Foundation already benefits from the support of leading international institutions and market-oriented actors like the IOSCO and the World Economic Forum. At the international level, although it does not have the power to impose its standards on its own, the IFRS Foundation was able to impose its standards in many jurisdictions with the support of IOSCO, which also supported the establishment of the ISSB (Giner & Luque-Vílchez, 2022).

Prior literature demonstrates that the IFRS's adoption at the international level is often revealed in political positions inspired by and oriented to achieving neoliberalism and capitalist ideology for the sake of protecting the interests of markets (Hartmann et al., 2020; Laaksonen, 2022; Mantzari & Georgiou, 2019). Regarding sustainability reporting standard setting, the IFRS Foundation received pressure from the business community to take action through the ISSB (Giner & Luque-Vílchez, 2022). Lobbying activities from reporting preparers and investors exerted pressure on the IFRS Foundation, intended to ensure financial market actors were represented and to protect their interest in standard setting. Thus, the IFRS Foundation's initiative of extending its jurisdiction through the ISSB geographically and enlarging its standard-setting scope in other fields can be seen as a political-oriented process aiming at imposing and safeguarding the hegemonic interest of capital market actors. In this regard, the future will unveil which jurisdictions will be influenced and how the ISSB can apply its standards to single countries.

4.2 Legitimacy challenges for the ISSB

When it was founded, the first challenge the ISSB had to face was to demonstrate that there was a need for a new standard setter to develop international standards for sustainability reporting (Adams & Mueller, 2022; De Villiers et al., 2022). As a new player in the sustainability field, its primary aim was to get the legitimacy to act as a standard setter in a competing arena where there were already private standard setters with more legitimacy and worldwide acceptance, such as the GRI. As De Villiers et al. (2022) argue, the GRI already had legitimacy, having a distinguished global position as the primary standard setter for multi-stakeholder sustainability reporting – a legitimacy which came from the market (De Villiers et al., 2022). Instead, the ISSB attempted to leverage a different source of legitimacy: structural power coming from its global structure in financial reporting standard-setting (De Villiers et al., 2022). This structural legitimacy is not based on the results achieved in the field but on its structure, procedural setting and ties with regulators and authorities, through which the IFRS Foundation seeks to demonstrate that it is the proper organisation to govern global sustainability standard-setting (De Villiers et al., 2022).

Despite this attempt at establishing legitimacy, the ISSB initiative has not been welcomed as expected and still faces legitimacy problems in some quarters. The dissenting voices and their arguments were unveiled in the consultation process. Adams and Mueller (2022) analyse the responses to the IFRS Foundation consultation process introducing the ISSB initiative, finding that most responses from leading researchers in the field of sustainability reporting academics did not support the IFRS Foundation's proposals. The academic community has shown scepticism about the work of the ISSB and its potential implications for organisations, society, and the environment. This has raised serious concerns for the ISSB's mission.

In particular, academics have raised concerns about the ISSB's focus on investors, its lack of alignment with the UN Sustainable Development Goals and the governments' commitment, and its lack of expertise in sustainability (Adams & Mueller, 2022). While Adams and Mueller (2022) argue that the missing support from academics could be due to the IFRS Foundation's mistake of not having consulted the scientific community before the publication of the consultation paper, we believe that debate is rather more political and lies in the different ideological positions. Realistically speaking, the IFRS Foundation did not consult the accounting academic community because it does not need its support.

The ISSB has been labelled as representing the capture of the standard-setting process by powerful groups such as large accounting firms and asset managers (Adams & Mueller, 2022). Kulik & Dobler (2023) find that preparers and users of sustainability reports, along with the accounting profession, are the largest groups of participants in the ISSB consultation process, while, surprisingly, there was little participation of investors (as the ISSB claims to be developing standards that aims to meet investors' needs). The authors conclude that such an imbalance in stakeholder participation poses potential threats to the ISSB's legitimacy and its standard-setting process (Kulik & Dobler, 2023). Yet, we believe that such an imbalance in stakeholder groups' participation is always likely to exist in the standard-setting consultation process and mirrors the ideological ground that inspires and supports the standard-setter.

The ISSB will likely keep attempting to shape its legitimacy by strategically choosing its best supporters. For example, the Memorandum of Understanding between the ISSB and the GRI aimed at aligning their work programmes seems to be a step in this legitimating strategy (Adams & Mueller, 2022). The discursive battle between supporters and dissenting stakeholders will continue in both practitioner and academic contexts, and this battle will definitely affect the ISSB's legitimacy (Adams & Mueller, 2022). The ISSB will likely attempt to get consensus from the stakeholders that matter most. Meanwhile, academics and other interested stakeholders are called to defend the broader meaning of sustainability and wide participation in the standard-setting process by reverting to the deep sense of the longstanding claimed public interest (Leeson & Kuszewski, 2023).

These legitimacy challenges may appear to be the legacy of the longstanding IFRS Foundation's and IASB's legitimacy problems and criticisms due to, for example, the lack of national representatives of its diverse jurisdictions in their governance structure and due process procedures (Danjou and Walton, 2012; Wingard *et al.*, 2016), the pressures from public authorities (Moscariello and Pizzo, 2022) or the lack of empirical evidence of the economic benefits coming from its accounting standards (Chua and Taylor, 2008). Yet, in the case of the ISSB, it is the ideology grounding its standards that reinforces and distinguishes the legitimacy challenge of the IFRS Foundation. The open letter sent from many international Professors of accounting to the Chair IFRS Foundation Trustees in response to the IFRS Foundation's Consultation Paper on Sustainability Reporting highlights the academic concern that "there has been little or no engagement with the extensive body of published accounting research on the topic of sustainability accounting and reporting" in the proposed project of the ISSB[5]. Thereby, the IFRS Foundation and the ISSB ignored decades of scientific research into sustainability accounting and reporting.

Moreover, one of the critical challenges facing the ISSB pertains to its legitimacy in setting an agenda for sustainability reporting standards. Interestingly, while some countries, such as New Zealand, have opted to pursue independent sustainability reporting initiatives, others, like Australia, are considering adoption of ISSB standards alongside existing regulatory frameworks, particularly in light of developments in the European Union. This divergence in

[5] Adams, Carol (2020) "Research supporting submission to IFRS from Professors of Accounting researching Sustainability Accounting and Reporting" (https://drcaroladams.net/research-supporting-ifrs-submission-from-professors-of-accounting-researching-sustainability-accounting-and-reporting/)

national stances towards ISSB adoption underscores the complexity of the legitimacy issue and prompts further inquiry into the underlying factors influencing countries' decisions regarding standard-setting bodies for sustainability reporting.

4.3 From the powerful stakeholders' influence to the potential financial 'capture' of sustainability information

As argued above, both the IFRS Foundation's background in financial accounting and the pressures from accounting professional groups and financial capital market participants have led the ISSB to develop standards that meet investors' needs (Adams & Mueller, 2022). This purpose relies on an ideological rationale as it is a strategic choice that reflects and takes care of stakeholders' interests and supports both the IFRS Foundation and the ISSB.

The ISSB's standards aim to privilege the reporting of sustainability-related information that may meet investors' interest. As stated in IFRS S1 (General requirements) issued by the ISSB, the material information an entity should disclose is "about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects", and this information is material "if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports" (par. 17-18). Thus, from a materiality perspective, the ISSB embraces the primacy of financial materiality, which comes from the shareholders' value perspective and matches the "outside-in" dimension of the double materiality (Abhayawansa, 2022; La Torre et al., 2020). Materiality has always been a controversial and contested concept with ambiguous applications (Bolt & Tregidga, 2023; De Villiers et al., 2022; Jørgensen et al., 2022; Raith, 2023). Investors argue that sustainability disclosures should relate to the potential impact of environmental and social issues on firms. For example, firms should disclose their potential risks from climate change so that investors can make more informed decisions about whether or not to invest. On the other side of the debate, environmentalists argue that sustainability disclosures should be about the impact that firms have on society and the environment, with sustainability disclosures improving organisational accountability by focusing firms on actions to reduce damage (Adams & Mueller, 2022). For example, firms should disclose carbon emissions so that they are held accountable for reducing them. The two sides of the argument are unlikely to be able to reconcile their ideologies (Eccles, 2021), and there have been calls for more pragmatism across the entire field of ESG (Eccles, 2022).

While it is increasingly recognised that a shareholder primacy model no longer fits comfortably with growing concerns about climate change and inequality, there needs to be a way for firms to generate wealth. Influential bodies such as the World Economic Forum (WEF) promote stakeholder capitalism as a potential solution. Stakeholder capitalism (also known as inclusive capitalism) recognises that organisations are accountable to a broad group of stakeholders yet acknowledges that firms need to generate profits to survive (WEF, 2022). This notion is also arguably captured by IR, which recognises a broad group of stakeholders, including capital providers (Adams, 2015; De Villiers *et al*., 2014). However, evidence from the past demonstrates that when prioritising conflicting stakeholders' interests, the primacy of shareholders' power always prevails (La Torre *et al*., 2020). Thus, the ISSB initiative will likely contribute to the financial capture of sustainability information (De Villiers *et al*., 2022).

The ISSB's approach to financial materiality and the financial capture of sustainability will influence how firms report sustainability information and, therefore, their behaviour towards managing sustainability issues. This may influence practitioners in how reporting standards are understood and practised. For example, there is evidence that practitioners can form their interpretations of reporting to align with their own understanding of sustainability (Gibassier et al., 2018). Yet, the financial capture may also result in a "financialisation of sustainability issues" that may cause firms to focus on their financial implications in the short term while overlooking priorities and goals for sustainable development, such as environmental challenges. Tregidga & Laine (2022) argue that long-term oriented environmental accounting has failed so far to prevent ecological crisis and urgency, and, therefore, there is a need for environmental accounting that balances the long-term with the short-term horizon associated with traditional accounting. Yet, the financial capture of sustainability information may cause the risks of privileging the reporting of short-term financial implications from sustainability issues while marginalising non-financial and long-term goals. At the moment, we still know little of such potential impacts on sustainability reporting and disclosure, but they will likely manifest shortly and hopefully will be unveiled in future accounting research.

5. Research agenda

The research agenda below comes from the critical reflections on the three themes discussed in Section 4. Each section reflects on key outstanding research questions and how these might inform and develop the field. We also consider research themes of likely interest to practitioners.

5.1 Scope and jurisdictions of the ISSB

We argued that while the ISSB represents an initiative by the IFRS Foundation to extend its scope of activities in other standard-setting fields, it also represents an action to widen its expansionist aims globally, overcoming European boundaries. Meanwhile, such an aim of extending its jurisdiction geographically and finding a position in the sustainability standard-setting arena seems to result from a politically oriented process aimed at imposing and safeguarding the hegemonic interest of capital market actors.

Jurisdictions including Brazil, Costa Rica, Sri Lanka, Nigeria and Turkey have already announced decisions to adopt or otherwise use the ISSB Standards. Exploring the adoption plans of different countries regarding ISSB standards reveals valuable insights into the potential research settings for studying the impact of ISSB-driven disclosures. For instance, the decision of countries like Nigeria to closely adopt ISSB standards presents an opportunity to examine how such standards influence sustainability reporting practices and stakeholder perceptions within specific national contexts. By analysing the experiences of countries with varying approaches to ISSB adoption, researchers can gain a nuanced understanding of the drivers, challenges, and outcomes associated with the implementation of international sustainability reporting standards.

The research interest in investigating such a jurisdictional conquer extends worldwide, involving local/national contexts and occurring also in developing countries due to their increasing interest in international accounting rules and their jurisdictional differences (Moses and Hopper, 2022). Thus, we call for future research unveiling such a global and local political process and the jurisdictions influenced by addressing the following research questions:

- How does the ISSB's work affect other jurisdictions and countries besides Europe?
- How are the ISSB's standards translated into other jurisdictions?
- How, if any, may certain forms of resistance against ISSB's standard manifest in national contexts, especially in developing countries?
- How do local/national (e.g. in the USA) lobbying activities affect ISSB standard-setting and their application to the local context?

5.2 Legitimacy challenges with the ISSB

In establishing its global position as a sustainability standard setter, the ISSB will continue to face legitimacy challenges. While emerging research provides empirical evidence of stakeholder participation in the ISSB's early consultation process (Adams & Mueller, 2022; Kulik & Dobler, 2023), the ISSB will keep attempting to get stakeholder consensus through further consultation processes and collaborations. Thus, future research may be directed to unveil its legitimacy strategies and the ideological support coming from it. Some research questions belonging to this research route are:

- How do stakeholders view the ISSB and its aims, and particularly its IFRS Foundation links?
- Who are the stakeholders supporting and dissenting with the ISSB, and why?
- How does the ISSB prioritise its stakeholders?
- How does ISSB respond to dissenting voices?

5.3 Investor 'capture' of the ISSB

The ISSB's current standards and future workplans privilege the reporting of sustainability-related information that may be of interest to investors. Other stakeholders are likely interested in a broader notion of accountability, particularly firms' environmental accountability. This represents one of the critical future challenges for the ISSB and is an area which would benefit from empirical research addressing the following questions:

- How does the board composition of the IFRS Foundation (all IFRS Foundation board members, their other board positions and likely contacts) affect the development of the standards and sustainability information required?
- How do a broad range of stakeholders perceive the ISSB and the first two standards?
- What are the practical implications of the new ISSB standards on reporting and sustainability information management?
- How do different stakeholders interpret the intertemporal nature of organisational sustainability strategies?

6. Conclusion

This paper critically reflects on the influence of the ISSB on the future direction of sustainability reporting. The formation of the ISSB in 2021 was a key step in consolidating multiple global bodies towards developing widely accepted sustainability reporting standards.

Our analysis of the formation of the ISSB, its current work, and its likely future considers not only the body itself but also some critical relations between the ISSB and other reporting bodies, regulators, and stakeholders. While there has been criticism of the ISSB, in particular its 'capture' by investor-focused bodies, the current and potential influence of the ISSB as a global reporting body is substantial.

Our analysis reveals how the ISSB is being pulled in multiple directions. The ISSB was formed of bodies with competing interests, and now sits under the IFRS Foundation umbrella, positioning itself alongside other reporting bodies that have historically focused on financial information for investors. The ISSB's current workplans highlight how it needs to decide how to work effectively alongside these investor-focused bodies and other bodies, which are focused on broader stakeholder groups. While there is encouragement from both investors and other stakeholders for the ISSB and financial reporting bodies to work more closely together, this may take time. In particular, the IFRS Foundation is well-established and heavily focused on the investor community. The ISSB needs to work alongside such financial accounting standard setters while trying to appeal to a broader stakeholder base, a tricky position for a relatively new reporting body. This challenge is exacerbated by the influence that certain existing stakeholders already have over the standard-setting process in general.

Our paper also highlights broader fundamental tensions that are at the heart of sustainability reporting. Can a reporting body focused on sustainability reporting sit successfully under the banner of the IFRS Foundation (a body focused on investor needs) without being unduly influenced by the needs of capital providers? Or does the formation of the ISSB represent an essential step in financial and sustainability standard setters working more closely together, no matter how difficult this might be? How can the short-term information requirements of investors align with the longer-term information requirements of other stakeholders, and is there a way of connecting these? These essential questions have long been the focus of academic research, and the formation of the ISSB serves to highlight their increasing importance. Therefore, we suggest the need for further research on these matters.

Our paper examines the formation of the ISSB at a critical stage, following the issue of the global sustainability reporting standards IFRS S1 and S2. By its very nature, our paper comments on developments at this particular point in time. Given the dynamic nature of this field, there are likely to be major new developments in this area over the next few years, which will have to be assessed. Future research could, e.g., consider to what extent actual developments either follow or diverge from our reflections, and the consequences of these developments for sustainability reporting.

Our paper's first contribution is a historical reflection on developments that led to the ISSB's formation, its current agenda, and its likely future. Our comprehensive analysis is timely and will likely be of interest to both academics and practitioners. Our analysis of the potential future of the ISSB is our second key contribution. Analysing key themes from the formation and current positioning of the ISSB, we outline potential future developments and their consequences. Third, we outline a research agenda for academics that serves to provide answers to the multiple outstanding challenges in the field.

In terms of a practical contribution, our paper provides useful information for practitioners. Multiple recent developments in the field of sustainability reporting could have made some practitioners cynical about the longevity of certain reporting initiatives. Given the scope of the work of the ISSB and its global influence, our paper provides a useful reference point, as well as highlighting potential future developments that may be useful for planning practical responses.

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