

ISS1 & ISS2 – A TURNING POINT IN THE HISTORY OF SUSTAINABILITY REPORTING

Abstract

This article examines the newly released ISS1 (*General Requirements for Disclosure of Sustainability-related Financial Information*) and ISS2 (*Climate-related Disclosures*) standards, along with their accompanying guidance notes, issued by the Institute of Cost Accountants of India (ICMAI) on January 29, 2026. The objective is to analyse the technical architecture of these standards and their integration with Cost and Management Accounting (CMA) principles. By employing a comparative approach against global frameworks, the article illustrates how these standards provide a customized roadmap for Indian corporates to navigate mandatory ESG (Environmental, Social, and Governance) reporting. The intended contribution is to offer practitioners a structured implementation framework while highlighting the evolving role of CMAs in quantifying non-financial risks into strategic financial value.

“We make no apologies for setting high standards.”— Nancy L. Zimpher

BACKGROUND

The year 2026 marks a watershed moment for Sustainability Reporting in the Indian corporate world. Starting FY 2026 – 27, as per the glide path prescribed by SEBI, all the top 1000 listed entities by market capitalisation must mandatorily obtain assurance or assessment for their Business Responsibility and Sustainability Report. This shift elevates sustainability data from a voluntary disclosure to a core component of audited corporate reporting.



CMA (Dr.) Ashish P. Thatte
Council Member &
Chairman, Sustainability Standards Board
ICMAI
ashishpthatte@gmail.com



CMA A. Sekar
Corporate Law Consultant
Mumbai
a.sekar.cs@gmail.com



Dr. Ranjith Krishnan
Sustainability Consultant
Thane
ranjithk.iyer@gmail.com

In response, the SSB of ICMAI has come out with ISS1 (General Requirements for Disclosure of

Sustainability-related Financial Information) and ISS2 (Climate-related Disclosures) to provide a comprehensive structure for entities to communicate their ESG (Environmental, Social, and Governance) performance. From a CMA perspective, these standards represent a specialized toolset to deal with non-financial data and quantify resource efficiency and link environmental performance to financial resilience.

RATIONALE FOR PRESCRIBING ISS1 AND ISS2

The move towards a unified sustainability reporting landscape is not merely a regulatory requirement, it is necessary from a stakeholder point of view in a world where “greenwashing” and data fragmentation have become significant hurdles for stakeholders. The rationale for prescribing ISS1 and ISS2 stems from the following: -

a. Balancing the “Alphabet Soup” of Standards

For years, the sustainability space has been viewed as an “alphabet soup” of diverse standards—GRI, SASB, TCFD, and others, each with a different lens and focus, yet very much relevant in their respective sphere. This scenario makes it nearly impossible for investors to compare the performance of companies in different jurisdictions with each following different standard. Prescribing ISS1 and ISS2 provides a customised approach for the Indian Corporates, consolidating these various methodologies into a single framework that reduces reporting fatigue for companies and confusion for capital providers.

b. Balancing the Stakeholder interests

Stakeholder interests are rarely a monolith. Investors might focus on short-term financial resilience, while regulators look at medium-term systemic risks, and communities focus on long-term environmental impacts. ISS1 and ISS2 are designed to address this by requiring disclosures that span varying time horizons. By linking sustainability-related risks directly to a company’s prospects, these standards ensure that “non-financial” data is treated with the same rigor as traditional

balance sheets.

c. Framework vs. Standard

The professional accountants often confront the blurred line between a reporting framework (the structure or “container,” like India’s BRSR) and a reporting standard (the granular “recipe” or metrics, like IFRS S1 and S2).

- ⊙ Frameworks tell you *where* and *how* to report.
- ⊙ Standards tell you *what* specific data must be measured.

ISS1 and ISS2 read with the guidance notes provide the technical depth required to fill these frameworks with high-quality, auditable data, moving beyond “check-the-box” compliance towards meaningful disclosure.

d. Addressing Local Scenario with a global outlook

While the “global baseline” is essential, countries must often adapt these to fit local economic realities. Establishing country-specific applications of these standards ensures uniformity and acceptability. It allows a nation to align with international expectations—thereby attracting foreign investment—while ensuring the reporting requirements remain proportionate and relevant to the local business ecosystem.

OVERVIEW OF GLOBAL REPORTING STANDARDS

The global sustainability reporting landscape is in the process of moving away from the present “alphabet soup” into a more structured, three-pillar system, aimed at achieving **interoperability**—the ability for different reporting frameworks to use shared definitions and metrics to reduce the reporting burden while ensuring cross-jurisdictional comparability. Following are the three pillars:

- a. **The Global Baseline (ISSB):** IFRS S1 and S2 (developed by the International Sustainability Standards Board) have become the primary standards for financial materiality. They focus on how sustainability risks—specifically climate—affect a company’s enterprise value, primarily for investors.

- b. **The EU Powerhouse (ESRS):** In Europe, the ESRS (European Sustainability Reporting Standards) are mandatory under the CSRD. They use “double materiality,” requiring companies to report both how ESG issues affect their finances and how their business impacts the world.
- c. **The Impact Veteran (GRI):** The GRI (Global Reporting Initiative) remains the global leader for impact reporting. It is the go-to for companies wanting to communicate their broader social and environmental footprint to a multi-stakeholder audience beyond just investors.

OVERVIEW OF ISS1 AND ISS2

These standards were approved in July 2025 and became applicable for reporting periods starting August 1, 2025. They are designed to bring a uniquely Indian “Cost and Management Accounting” perspective to the global ESG landscape.

a. **ISS1: General Requirements for Disclosure of Sustainability-Related Information**

ISS1 serves as the foundational standard. It mandates that an entity disclose all material information regarding sustainability-related risks and opportunities that could reasonably affect its performance, prospects, and cash flows over the short, medium, and long term.

A key feature of ISS1 is its focus on “Stakeholders” rather than just “investors.” It requires a comprehensive view of the value chain—from inbound logistics and human resources to infrastructure and financing. By emphasizing accuracy, verifiability, and integrity, it ensures that sustainability data is not just descriptive but is backed by the same rigor as cost records.

ISS1 sets the stage for all sustainability disclosures. It follows the four-pillar structure established by the Task Force on Climate-related Financial Disclosures (TCFD):

- ⊙ **Governance:** The processes and controls used to monitor sustainability risks.
- ⊙ **Strategy:** The impact of risks/opportunities on the business model.

- ⊙ **Risk Management:** How the entity identifies, assesses, and prioritizes these risks.
- ⊙ **Metrics and Targets:** How performance is measured against set goals.

b. **ISS2: Sustainability Standard for Climate Risk Disclosures**

ISS2 focuses specifically on climate-related impacts. It provides the methodology for identifying, measuring, and disclosing:

- ⊙ **Physical Risks:** Direct impacts like extreme weather on assets.
- ⊙ **Transition Risks:** Economic shifts like carbon taxes or new air pollutant regulations.
- ⊙ **GHG Emissions:** Mandatory disclosure of Scope 1, Scope 2, and—crucially—Scope 3 emissions (value chain)

Unlike generic global standards, ISS2 is tailored to the Indian manufacturing and service sectors, requiring specific details about business processes, major inputs, and wastages.

c. **Role of Guidance Notes on ISS1 & ISS2**

ICMAI’s Guidance Notes on ISS1 and ISS2 provide guidance for effective implementation and can be regarded as the “operational manual” for these standards. Their primary objective is to operationalise the standards by providing clarity on identification, measurement, scenario analysis, judgement disclosures, and data governance. Rather than functioning as interpretative commentary alone, the Guidance Notes embed sustainability and climate considerations within established cost and management accounting frameworks such as Activity-Based Management, Resource Consumption Models, and cost–benefit analysis.

By doing so, the Guidance Notes reposition sustainability reporting as an extension of internal management decision-making and risk assessment, rather than as a parallel compliance exercise. This approach enhances comparability, verifiability, and assurance

readiness, particularly in the Indian regulatory context.

d. Alignment with BRSR and International Frameworks

ISS1 disclosures are largely aligned with BRSR Sections A and B, which focus on governance, commitments, targets, and performance. ISS2 is mapped specifically to BRSR Principle 6, addressing environmental responsibility through energy consumption, emissions, water usage, and waste management.

Both standards demonstrate broad convergence with IFRS S1 and S2, while incorporating India-specific regulatory and operational considerations. The Guidance Notes assist the listed entities in avoiding duplication by clarifying how ISS based disclosures can be embedded within BRSR reporting structures.

THE “CARVE-OUT” PHILOSOPHY: IFRS S1 AND S2 VS. ISS1 AND 2

While the International Sustainability Standards Board (ISSB) developed IFRS S1 and S2 as a global baseline, it was a “one size fits all” approach which did not succeed in emerging economies. ICAI’s standards are a sophisticated carve-out, retaining the structural integrity of the international standards while making the necessary adjustments to cater to the Indian context.

The following are the Key Deviations and Adaptations: -

- a. **Stakeholder Inclusivity:** IFRS S1 is primarily investor centric. ISS1, however, adopts a broader view, acknowledging that in India, a company’s “social license to operate” depends on employees, local communities, and the supply chain.
- b. **Resource Consumption Logic:** ISS1 integrates the Resource Consumption Model (RCM). Unlike IFRS, which looks at climate as a financial risk, ISS1 encourages CMAs to look at it as a *resource management* challenge.

- c. **Proportionality and Capability:** The guidance notes for ISS allow for “proportionality,” meaning the depth of disclosure can vary based on the entity’s size and resources, preventing an undue burden on MSMEs.

THE MATERIALITY SYNTHESIS: WHERE GRI MEETS ISSB

The most significant feature of the ISS1 and ISS2 is the adoption of Double Materiality.

Historically, companies were struggling to decide between GRI and ISSB because of the inherent difference in their focus as explained below: -

- ⊙ **IFRS S1 and S2 (Financial Materiality):** How does the environment affect the company’s profit? (Outside-In).
- ⊙ **GRI Standards (Impact Materiality):** How does the company’s operations affect the environment and society? (Inside-Out).

ISS1 bridges this gap by mandating that an entity identifies risks that are material from both a financial and an impact perspective. This alignment ensures that a company’s BRSR (Business Responsibility and Sustainability Reporting) filings are consistent with their sustainability disclosures.

COST AND MANAGEMENT ACCOUNTING DIMENSIONS IN ISS1 & 2

The transition to ISS1 and ISS2 is not just a regulatory shift; it is a shift in the very definition of “profit.” By adopting these standards, CMAs help the move from being “historians of cost” to “architects of value.”

The “carve-out” approach taken by ICAI ensures that Indian companies are globally competitive yet locally relevant. By focusing on resource consumption and double materiality, it is possible to ensure that the Indian corporate sector does not just survive the climate transition—it thrives in it.

The ICAI Sustainability Standards (ISS1 and ISS2) are pioneering because they move beyond traditional “qualitative” ESG reporting. Instead, they embed the rigor of Cost and Management Accounting (CMA) to ensure sustainability data is as measurable and auditable as the financial

balance sheet.

Here are the key cost and management accounting dimensions within these standards:

a) Value to Cost Balancing (ISS1)

ISS1 introduces the principle of Value to Cost Balancing, which prescribes that value creation must be measured against the resources consumed. In management accounting terms, this means that every “green” initiative is analysed through a cost-benefit lens. It ensures that sustainability is not just an expense but is traced to enterprise value, allowing management to see the direct correlation between sustainability investments and long-term financial resilience.

b) Strategic Cost Analysis (SCA) and Value Chain (ISS1)

ISS1 requires entities to apply Strategic Cost Analysis across the entire value chain—from inbound logistics to product disposal. This dimension shifts the focus from “internal” costs to “lifecycle” costs. By identifying sustainability risks at their source (e.g., high-emission raw materials), CMAs can provide data-driven insights on how to optimize costs throughout the product life cycle rather than just at the production stage.

c) Classification of Environmental Costs

A significant CMA dimension in ISS1 is the standardized classification of environmental costs into four specific categories:

- ⦿ Prevention Costs: Investing in “green” tech to avoid pollution.
- ⦿ Detection Costs: Monitoring and auditing environmental compliance.

- ⦿ Internal Failure Costs: Handling waste and inefficiencies within the plant.
- ⦿ External Failure Costs: Managing the impact of pollution on the community or legal penalties.

This allows for variance analysis, where management can track “budgeted vs. actual” environmental spending.

d) Activity-Based Management (ABM) for Climate Risk (ISS2)

ISS2 leverages Activity-Based Costing (ABC) and ABM to manage climate-related risks. Instead of treating carbon taxes or energy hikes as general overheads, ISS2 encourages companies to attribute these costs to specific activities or products. This provides a granular view of “carbon-intensive” profit centres, allowing for better strategic decisions regarding product pricing and process re-engineering.

e) Resource Efficiency and Waste Measurement

Aligned with the Cost Accounting Records Rules, ISS2 places heavy emphasis on measuring material yields, energy consumption, and wastage. By treating “emissions” as a form of “process loss,” the standard uses traditional costing principles to drive environmental goals, framing carbon reduction as a quest for operational efficiency.

Suggested Implementation Checklist for ISS1 & ISS2

For implementing and ensuring compliance with ISS1 and ISS2, professionals may follow this suggested checklist for the phased roadmap.

Phase	Category	Action Items & Key Activities
Phase 1	Diagnostic & Governance	<p>Identify Sustainability Lead: Set up a cross-functional ESG committee reporting to the Board.</p> <p>Gap Analysis: Compare current BRSR disclosures vis-à-vis ISS1/ISS2 requirements.</p> <p>Education / Training: Conduct Workshops for Board /KMP / Senior Management Personnel on “Double Materiality.”</p>
Phase 2	Materiality Assessment	<p>Stakeholder Mapping: Identify key investors, employees, regulators, and communities.</p> <p>Impact Assessment: List significant “Inside-Out” environmental impacts.</p> <p>Financial Risk Assessment: Identify “Outside-In” climate risks affecting cash flows.</p> <p>Materiality Matrix: Plot priorities on a Double Materiality matrix.</p>

Phase 3	Data Strategy	Resource Mapping: Use Cost Accounting Records for energy, water, and raw materials. Scope 1 & 2 Inventory: System for real-time tracking of direct/indirect emissions. Scope 3 Engagement: Gather data from top-tier suppliers (75% in value). Internal Carbon Pricing (ICP): Set shadow prices for new capital projects.
Phase 4	Strategy & Analysis	Scenario Testing: Model qualitative and quantitative scenarios as per ISS2. Resilience Strategy: Develop mitigation plans for transition risks (e.g., carbon taxes). Target Setting: Define Science-Based Targets (SBTi) for reduction.
Phase 5	Reporting & Assurance	Drafting Disclosures: Use ISS1 structure (Governance, Strategy, Risk, Metrics). Verifiability Check: Ensure an audit trail for every data point. Internal Audit: Conduct “pre-assurance” checks for data consistency.

Source: Conceptualised by the authors and designed using AI tools

THE PATH AHEAD

The transition towards global sustainability disclosure through IFRS S1 and S2 represents a change in thinking from traditional financial reporting to a comprehensive value-creation model. ICAI serves as a critical facilitator, bridging the gap between financial performance and environmental impact. The SSB’s ongoing commitment to professional development should ensure that practitioners remain at the forefront in ESG initiatives followed in the Indian corporate sector. The SSB gives priority in capacity building amongst the members and other stakeholders by varied methods like conducting webinars and workshops, regular updates through its newsletter “Sukhinobhavantu” and the ESG Certificate Course. Further, CMA members must leverage their unique expertise in strategic cost leadership and green accounting to transition from traditional roles into “Chief Value Officers”. By ensuring data integrity and providing objective measurements of environmental footprints, CMAs are uniquely positioned to protect against greenwashing while driving long-term sustainability for enterprises globally. The constructive collaboration between ICAI’s institutional support, the SSB’s standard-setting initiatives, and the specialized technical competencies of CMA members will be instrumental in crafting a cost-competitive and ethically responsible future for the profession and the nation.

It is not only that “behind every successful business decision, there is always a CMA,” but also there is also a need and scope of CMAs behind every sustainability initiative for ensuring continued success. It is also seen in the recent years that the scope and opportunities in this field cross geographical boundaries, recognising the fact that the Cost and Management Accounting principles are inherent in any meaningful sustainability initiative. The authors are hopeful that the decision makers of future will give due emphasis, the sustainability initiatives deserve. CMA

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