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GLOBAL STANDARDS PROPORTIONALITY (GSP) WORKING GROUP

INCLUSIVE GREEN FINANCE (IGF) WORKING GROUP

# ENHANCING FINANCIAL INCLUSION AND INCLUSIVE GREEN FINANCE THROUGH PROPORTIONATE SUSTAINABLE FINANCE STANDARDS

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# EXECUTIVE SUMMARY


The demand for sustainable finance has increased significantly in response to the escalating necessity to mitigate and adapt to climate change, enhance long-term economic stability, and facilitate the transition to a low-carbon economy.

As part of the global initiatives on climate change, international standard-setting organizations (SSBs) are beginning to adopt and encourage the implementation of **new standards for sustainable finance**, aiming to promote consistency and interoperability. By incentivizing financial institutions to identify, evaluate, and manage associated risks, these standards assist in directing capital towards the realization of international commitments, including the Sustainable Development Goals (SDGs) and the 2015 Paris Agreement.

The publication of the International Sustainability Standards Board's (ISSB) IFRS S1 and S2 disclosure standards in 2023 was a notable achievement, and has encouraged the integration of climate and sustainability information into governance and risk management procedures. Other key standards include the IAIS's Insurance Core Principles (ICPs) and the Basel Committee on Banking Supervision (BCBS), which developed a framework for voluntary disclosure of climate-related financial risks. While adoption is not mandatory, jurisdictions representing 57 percent of global GDP - and countries including at least 27 members - have already adopted or are in the process of adopting IFRS S1 and S2.

While vital for consistency and interoperability, **global sustainable finance standards** can challenge financial inclusion, especially in resource-limited regions. MSMEs and small financial institutions, notably in sectors like agriculture, often lack capacity or data for disclosure, reducing lending to climate-exposed sectors. Yet, MSMEs are crucial for jobs, growth, and emissions reduction in emerging markets. Therefore, Inclusive Green Finance (IGF) is essential for resilience and a just transition EMDEs.

Implementing global sustainable finance standards must be proportionate and flexible to prevent harming financial inclusion. Proportionality mechanisms help by tailoring standards to MSMEs and climate-exposed groups, aiding compliance and access. This Guideline Note provides AFI members research-based guidance on applying standards inclusively and proportionately, aligned with national financial inclusion priorities.

The increasing recognition of the unintended consequences of disproportionate standards has led some standard-setting bodies (SSBs) to **embed proportionality in their frameworks**. For instance, the ISSB designed IFRS S1 and S2 to account for differing institutional capacities, while the Financial Action Task Force (FATF) provides detailed guidance on applying AML/CFT measures proportionately using a risk-based approach. Many regulators, including AFI members, are now integrating proportionality, yet adoption remains constrained by capacity, data, and knowledge gaps.

The Guideline Note, based on over 20 expert interviews and existing practices, offers three tools for proportionate and inclusive implementation.

It categorizes measures into four groups: (i) time-bound mechanisms like grace periods; (ii) transition mechanisms such as voluntary disclosures; (iii) simplified requirements like templates; and (iv) incentives including regulatory and fiscal benefits. These can be integrated into national IGF strategies to support key building blocks: time-bound measures foster the IGF ecosystem; relief mechanisms reduce financial exclusion; simplified requirements improve reporting; incentives encourage sustainable finance, especially in underdeveloped markets.

Six principles guide designing standards:

> **Simplicity -** focus on relevant data
> **Scalability -** align with broader frameworks
> **Adaptability -** customize to local needs
> **Balance -** manage risks and stability
> **Stakeholder alignment -** coordinate with regulators and market players
> **Continuous improvement -** use proportionality to build capacity and implement more complex standards

Policy recommendations target three groups: policymakers and regulators should embed proportionality, leverage incentives, and promote inclusion. The broader finance community can support adoption via guidance, standards extension, and research. Global SSBs can aid by assessing vulnerabilities and engaging non-members.

Proportionate standards can help to ensure climate goals are achieved without compromising financial inclusion. Tailored mechanisms, incentives, and capacity-building help jurisdictions align global standards with local realities, fostering Inclusive Green Finance and resilient, low-carbon growth for all society.

## 1.1 INTRODUCTION

Since the 2008 Global Financial Crisis, there has been a greater focus on developing global standards for financial institutions and corporates. These standards aim to protect financial stability and integrity, responding to more sophisticated financial products and social and environmental risks, guided by commitments like the SDGS and Paris Agreement. They help market participants identify and manage risks, promote discipline and governance, and sometimes require risk mitigation measures like transition plans.

Many of these standards are now widely adopted and implemented by national regulators supervisors. Notably, Basel III (BCBS, 2017) provides an international set of banking regulations developed by the Basel Committee on Banking Supervision's (BCBS), including a framework for the voluntary disclosure of climate-related financial risks[1], the International Sustainability Standards Board's (ISSB) International Financial Reporting Standards (IFRS) S1[2] and S2[3] establish general requirements for disclosing sustainability- and climate-related financial information, and the International Association of Insurance Supervisor's (IAIS) Insurance Core Principles (ICPs) provide a globally accepted framework for insurance supervision.[4]

In doing so, there is also a growing concern that the disproportionate application of these standards at the country-level could lead to unintended consequences for financial inclusion for disadvantaged groups, especially in jurisdictions that are more resource-constrained, have limited data, and are climate-exposed.

Micro, small, and medium-sized enterprises (MSMEs) and small financial institutions serving disadvantaged groups like rural populations, women, youth, persons living with disabilities, and forcibly displaced persons may struggle to comply with global sustainable finance standards. These groups already have limited access to formal finance, which could worsen if standards aren't tailored to their needs. Including them in the development of these standards is crucial, as they are vital in the low-carbon transition—responsible for about 50% of global emissions[5] and around 60% of employment in emerging markets.[6] Excluding them risks slowing decarbonization and causing social and economic harm. Therefore, financial regulators should interpret and implement standards proportionately to support IGF, helping MSMEs meet standards and access formal financial services generally.

For the purposes of this Guideline Note, we refer to sustainable finance standards as IFRS S1 and S2 for the banking sector and as ICPs for the insurance sector. However, as national financial regulators and supervisors now have more significant experience incorporating proportionality mechanisms in the national adoption of other global standards – such as Basel III[7], and the FATF 40 Recommendations (global standards for Anti-Money Laundering/Countering Financing of Terrorism/ Countering Proliferation Financing (AML/CFT/CPF)) – these too are a useful reference for designing guidelines for the proportionate approach. We therefore draw on this experience in this Guideline Note.

This Guideline Note helps AFI members implement global sustainable finance standards proportionally and inclusively. It offers practical, research-based guidance on aligning these standards with national financial inclusion goals using flexibility mechanisms.

1 Basel Committee on Banking Supervision (BCBS). 2025. *A framework for the voluntary disclosure of climate-related financial risks*. https://www.bis.org/bcbs/publ/d597.pdf

2 International Financial Reporting Standards (IFRS). 2023a. IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. Standard 2023. https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/

3 International Financial Reporting Standards (IFRS). 2023b. IFRS S2 Climate-related Disclosures. Standard 2023. https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/

4 International Association of Insurance Supervisors (IAIS). 2024. *Insurance Core Principles and Common Framework for the Supervision of Internationally Active Insurance Groups*, December 2024. https://www.iais.org/uploads/2025/06/IAIS-ICPs-and-ComFrame-December-2024.pdf

5 International Trade Centre (ITC). 2021. *Empowering the Green Recovery. SME Competitiveness Outlook 2021*. https://www.intracen.org/file/itcsmeco2021pdfv2pdf

6 Ndiaye, N., Razak, L.A., Nagayev, R., Ng, A. 2018. *Demystifying small and medium enterprises' (SMEs) performance in emerging and developing economies*, Borsa Istanbul Review, 18(4), 269-281. https://doi.org/10.1016/j.bir.2018.04.003

7 Furthermore, climate-related risks are being integrated into the Basel standards as a voluntary component (BCBS, 2025).

## 1.2 RATIONALE FOR GLOBAL SUSTAINABLE FINANCE STANDARDS

A key component of efforts to strengthen financial stability in the banking sector by tightening global finance standards are the Basel III[8] reforms, first published in 2010 and implemented in 2013, although the full set of post-crisis reforms (Basel III Endgame) were only finalized in 2017. Implementation of final rules started in 2019 and will likely continue until at least 2028. Basel III enhances bank resilience by raising capital quality, requiring buffers for global Systemically Important Banks (SIBs), and introducing a three leverage ratio along with liquidity standards like the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

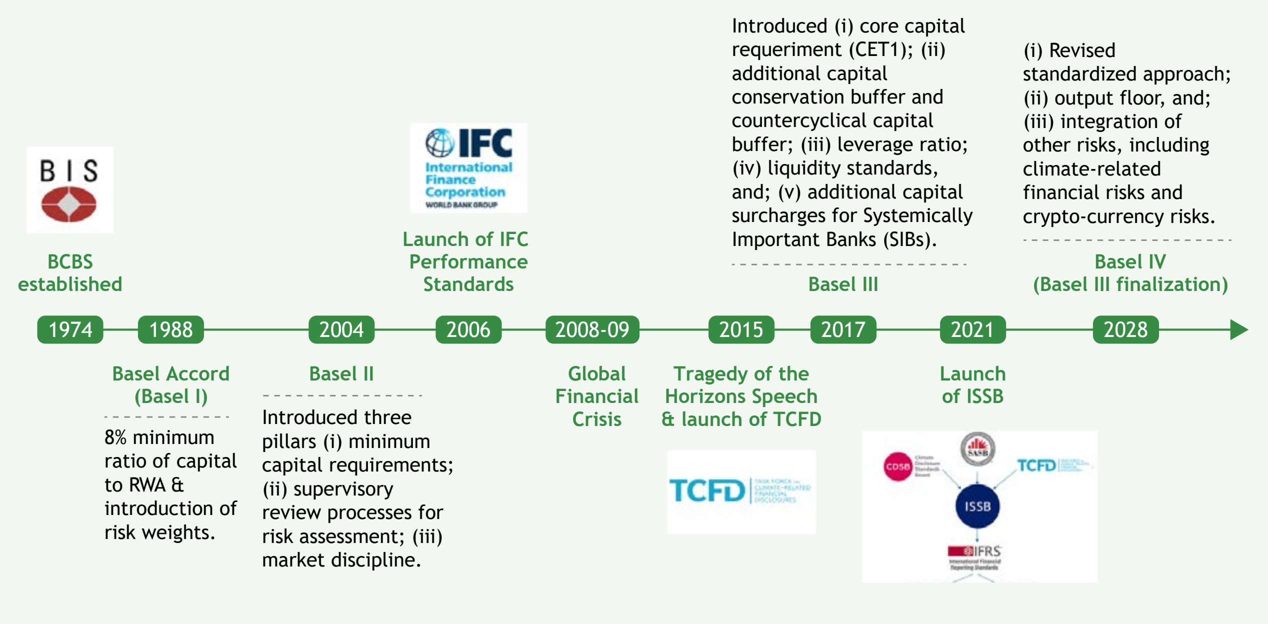
Basel III initiated a "Standard Setting Era" for global finance, later integrating sustainable finance. After tightening accounting standards, voluntary sustainability standards like those from the Taskforce for Climate-related Financial Disclosures[9] emerged following the 2015 UN Sustainable Development Goals and Paris Agreement. The IFC's Performance Standards, first adopted in 2006 and revised in 2012, set environmental and social risk management benchmarks, surpassing earlier Safeguard Policies. They align with frameworks such as ILO Conventions, UN Guiding Principles on Business and Human Rights, the Equator Principles, and the Paris Agreement, becoming a global benchmark for managing risks across sectors generally.

During the 2010s, financial institutions increasingly adopted sustainable and economic, social, and governance (ESG) standards due to consumer demand, regulatory pressure, and awareness of risks from unsustainable practices. This led to fragmented initiatives by groups like Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), International Accounting Standards Board (IASB), Carbon Disclosure Standards Board (CDSB), and International Integrated Reporting Council (IIRC). In 2021, SASB and IIRC merged into the Value Reporting Foundation (VRF), and IFRS formed the ISSB, consolidating sustainability disclosure efforts.

8 With the creation of the Basel Committee on Banking Supervision (BCBS) in 1974, and the implementation of its Basel Accord (Basel I) in 1988, the Standard Setting Body (SSB) set a general rule that banks should hold a minimum ratio of 8 percent of capital against their risk-weighted assets (RWA), a minimum capital standard that still holds today. Basel I also introduced risk weights for different types of credit, such as a 0 percent risk weight for sovereign bonds. The framework was revised in 1999 and 2004 to what would become known as Basel II. Among other revisions, Basel II notably introduced three pillars: (i) minimum capital requirements for credit, market and operational risks; (ii) supervisory review processes for risk assessment; and (iii) rules for supporting market discipline, including the use of accounting disclosures.

9 Task Force on Climate-Related Financial Disclosures (TCFD). 2017. *Recommendations of the Task Force on Climate-related Financial Disclosures*. June 2017. https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf

**FIGURE 1.1:** SUSTAINABLE FINANCE STANDARDS ADOPTION TIMELINE



Initially focused on social and governance risks, standards evolved to include climate risks following the Stern Report[10] and Carney's "Breaking the tragedy of the horizon" speech[11], which emphasized financial risks of climate change. The FSB's TCFD framework, established for disclosures, differentiates transition risks (high-emitting assets) from physical risks and offers[11] recommendations across four pillars: Governance, Strategy, Risk Management, and Metrics Targets.

10 Stern, N. 2008. *Stern Review Final Report*. HM Treasury. https://webarchive.nationalarchives.gov.uk/ukgwa/20100407172811/https:/www.hm-treasury.gov.uk/stern_review_report.htm

11 Bank of England. 2015. *Breaking the tragedy of the horizon - climate change and financial stability*. Speech by Mark Carney. Speech given at Lloyd's of London. https://www.bankofengland.co.uk/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability

The TCFD framework[12], including the four pillars, were carried over into the creation of the IFRS S1 and S2 Standards by the ISSB in 2023. In addition, IFRS S1 requires companies to consider SASB's industry-based disclosure topics[13] and metrics when reporting sustainability-related issues beyond climate. By consolidating and mainstreaming existing standards, IFRS S1 and S2 enables companies to disclose decision-useful, comparable information and consolidate voluntary sustainability-reporting initiatives that predated the standards.[14]

12 Task Force on Climate-Related Financial Disclosures (TCFD). 2017. *Recommendations of the Task Force on Climate-related Financial Disclosures*. June 2017. https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf

13 Sustainability Accounting Standards Board (SASB). 2023. *SASB Standards Navigator*. https://navigator.sasb.ifrs.org/login

14 International Financial Reporting Standards (IFRS). 2025a. *Introduction to the ISSB and IFRS Sustainability Disclosure Standards*. https://www.ifrs.org/sustainability/knowledge-hub/introduction-to-issb-and-ifrs-sustainability-disclosure-standards/

## BOX 1.1: IFRS S1 AND S2

IFRS S1 and S2 were developed by the ISSB and encompass general and globally harmonised requirements for the disclosure of broader sustainability- and climate-related financial information, respectively.

IFRS S1[15] covers the General Requirements for Disclosure of Sustainability-related Financial Information. It provides a set of disclosure requirements designed to enable companies to communicate to investors about sustainability-related risks and opportunities over a short-, medium- and long-term and across four content areas: (i) governance; (ii) strategy; (iii) risk management; and (iv) metrics and targets. In addition, ISSB recommends that companies refer to SASB industry-specific standards.

IFRS S2 covers Climate-related Disclosures. It fully integrates TCFD recommendations and therefore requires companies to disclose information about their climate-related risks and opportunities, covering both physical and transition risks. Along with governance requirements for overseeing these risks and opportunities, strategies and risk management process for managing them, IFRS S1 and S2 sets out metrics and targets for climate-related disclosures. These include cross-industry metric categories for Scope 1, 2 and 3 emissions in accordance with the GHG Protocol Corporate Standard on for transition risks, as well as climate-related scenario analyses to assess climate resilience to physical risks.[16]

15 International Financial Reporting Standards (IFRS). 2023a. *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*. Standard 2023. https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/

16 International Financial Reporting Standards (IFRS). 2023b. *IFRS S2 Climate-related Disclosures. Standard 2023*. https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/

IFRS S1 and S2 standards are also being integrated into Basel 3.1 on a voluntary basis (also known as Basel IV or the Basel "endgame"). Basel 3.1 proposes voluntary climate-risk disclosures that are broadly aligned with IFRS S2.

In 2023, the BCBS published a consultative document on the disclosure of climate-related financial risks[17] followed by a guideline on their voluntary adoption.[18] These are largely being integrated as part of the second (risk management processes) and third (market discipline) pillars of Basel III, broadly aimed at ensuring that financial institutions have governance structures and risk management procedures in place, and that the public has the information it needs to assess financial stability risks arising from climate change.

17 Basel Committee on Banking Supervision (BCBS). 2023a. C*onsultative document: Disclosure of climate-related financial risks*. 29 November 2023. https://www.bis.org/bcbs/publ/d560.pdf

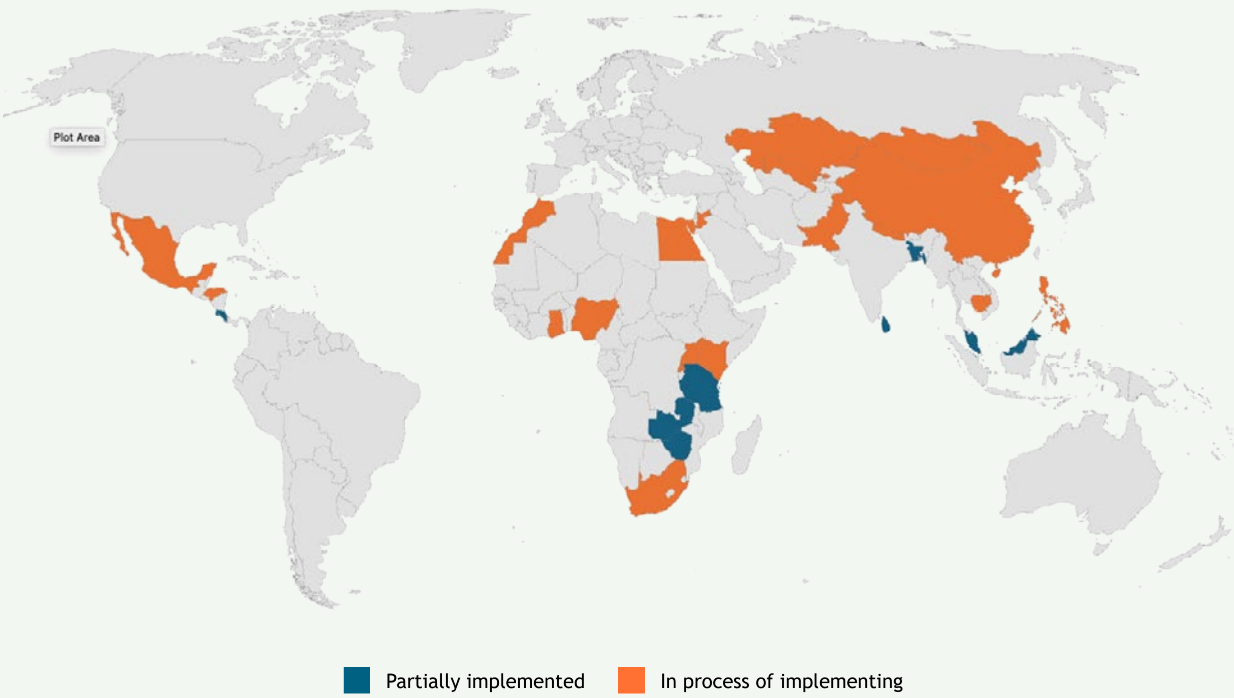
18 Basel Committee on Banking Supervision (BCBS). 2025. *A framework for the voluntary disclosure of climate-related financial risks*. https://www.bis.org/bcbs/publ/d597.pdf

The requirement to disclose financial information aligned with IFRS S1 and S2 standards is not mandatory. Rather, countries decide whether to adopt or endorse these sustainability disclosure standards. By 2024, the FSB estimated that jurisdictions representing 57 percent of global GDP had made progress towards the adoption or other use of IFRS S1 and S2, although it noted significant differences in the way it was adopted.

AFI's member countries have made significant progress in adopting IFRS S1 and S2, with partial implementation completed or in the process of being completed in at least 27 jurisdictions (Figure 1.2). By 2025, the IFRS Foundation had published jurisdictional profiles on progress towards the adoption and use of ISSB standards in Bangladesh, Costa Rica, China, El Salvador, Ghana, Jordan, Kenya, Malaysia, Mexico, Nigeria, Pakistan, the Philippines, Rwanda, Sri Lanka, Tanzania, Uganda, Zambia and Zimbabwe.[19]

19 International Financial Reporting Standards (IFRS). 2025b. *Use of IFRS Sustainability Disclosure Standards by jurisdiction*. https://www.ifrs.org/ifrs-sustainability-disclosure-standards-around-the-world/use-by-jurisdiction/

**FIGURE 1.2:** AFI'S MEMBER COUNTRIES THAT HAVE IMPLEMENTED OR ARE IN THE PROCESS OF IMPLEMENTING IFRS S1 AND S2




More details in Appendix 1 on page 32

However, of AFI's 85 member countries, 58 have not yet issued a formal endorsement of the ISSB standards or started implementation (full list in Appendix 1 on page 32). Many emerging markets and developing economies (EMDEs) have faced challenges in integrating ISSB IFRS S1 and S2 standards into their regulatory frameworks. Interviews conducted as part of the background research for this Guideline Note revealed that lack of capacity among both regulators and regulated entities, lack of reliable climate-related data, and the difficulty of assessing the impact of these standards on IGF policies and financial inclusion more broadly have hindered progress, including among AFI's member countries.

Global finance standards extend beyond banking, with climate shocks often first impacting insurers who help households and MSMEs recover. The IFRS 17 standards, issued in 2017, address high climate exposure in insurance. The IAIS is working to incorporate climate-related risks into its standards (ICPs). Coordination between banking and insurance regulators on climate risk disclosures is crucial sectors.

### BOX 1.2: GLOBAL STANDARDS FOR INSURANCE – IFRS 17 AND THE ICPS

Alongside IFRS S1 and S2, IFRS 17 was issued by the International Accounting Standards Board (IASB) in 2017, replacing IFRS 4 and setting out principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 became effective on 1 January 2023 following a 2-year delay caused by ongoing concerns about implementation.

Before IFRS 17, insurers followed various national standards. IFRS 17 simplifies comparisons for investors and analysts, introducing the Contractual Service Margin (CSM), representing unearned profit recognized over time.

It also mandates insurers to submit more detailed data and disclosures. While not explicitly covering environmental risks, these require consideration of future cash flows and risks, including sustainability risks. If covered by ISSB standards, insurers must report sustainability-related disclosures.

Alongside IFRS standards, the IAIS, under BIS, has created principles-based standards for insurance supervision. These include the Insurance Core Principles (ICPs), a global benchmark, a Common Framework (ComFrame) for group supervision, and the Insurance Capital Standard (ICS), a consolidated capital standard IAIGs.

The ICPs also cover sustainability and especially climate-related risks. In 2024, the IAIS updated the ICPs to explicitly integrate climate risk considerations into several principles. An Application Paper published in April 2025 further expanded this guidance and provided examples of how supervisors can address climate risk by applying the ICPs:

> Insurers are expected to incorporate climate-related risks into their enterprise-wide risk management and internal controls (ICP 8).
> By establishing governance structures that require boards and senior managements to actively oversee climate-related risks and embed these into strategic planning (ICP 7).
> By reflecting climate-related risks into their asset and liability valuations and investment strategies (ICP 14 and 15).
> By treating climate-related risks as material factors that influence an insurer's solvency, using scenario analysis and tress testing to assess the impact of these risks over the medium- to long-term as part of their Own Risk and Solvency Assessments (ORSA) (ICP 16).
> By expecting insurers to make reliable disclosures about material climate-related risks in line with recognized frameworks (ICPs 9 and 19).

Although the ICPs do not require the same granularity of climate-related risk disclosures as the ISSB, there is significant momentum to include such information as part of future updates of standards such as IFRS 17 or the ICPs for the insurance sector. Furthermore, insurance companies may already be in-scope for the implementation of IFRS S1 and S2 in some countries. This could lead to financial exclusion effects for the underdeveloped insurance sector in EMDEs.

IFRS S1 and S2 are benchmark standards focusing mainly on governance and risks, not the full scope of sustainable finance. Some regions, like the EU with CSRD and ESRS, adopt double-materiality, covering both risks and impacts, requiring companies to disclose how sustainability issues affect and are affected by the company impacts.

The integration of double-materiality into sustainable finance standards is best captured by the increased emphasis on the need for companies and financial institutions to develop and disclose transition plans. These demonstrate how organizations plan to align their business models with a sustainable and low-carbon future. The Transition Plan Taskforce's (TPT) Disclosure Framework[20] sets out good practice for robust and credible transition plan disclosures, such as the need to set ambitious, measurable targets aligned with global goals. While the disclosure of transition plans is not mandatory under IFRS S2, the IFRS Foundation has incorporated the TPT's recommendations and framework into its own guidance.[21] Transition plans are increasingly being considered within not just the ISSB but also the Basel III frameworks as they are seen as key tools for securing financial stability.

Despite ongoing initiatives to develop global standards for transition planning (e.g. ITPN) or nature-related risks (TNFD), the momentum that drove standard setting in the 2010s has somewhat declined. The focus among global SSBs and national supervisors is now being placed on refining and implementing existing standards while supporting capacity enhancements, rather than developing new standards or expanding existing ones.

Global standard setting bodies are also becoming increasingly aware of the risks of financial exclusion that arise from the full implementation of their frameworks. For example, well before the introduction of Basel III standards in 2018, the BCBS (2014) analyzed the risk of increased capital costs and charges for EMDEs. The Financial Action Task Force[22] took even greater initiative to launch a major review of the unintended consequences of its standards to combat money laundering and terrorist financing in 2021, and published guidance on how countries and the private sector could implement AML/CFT/CPF measures through a risk-based approach in 2025.[23]

However, there remains some differences in approach between SSBs when it comes to mitigating these risks and supporting the implementation of existing standards, especially among EMDEs that are not formally members of global SSBs such as ISSB or BCBS. This Guideline Note can therefore be seen as a useful and practical tool for supporting the implementation of global standards in AFI's member countries.

20 Transition Plan Taskforce. 2023. *TPT Disclosure Framework*. October 2023. https://www.ifrs.org/content/dam/ifrs/knowledge-hub/resources/tpt/disclosure-framework-oct-2023.pdf

21 International Financial Reporting Standards (IFRS). 2025a. *Introduction to the ISSB and IFRS Sustainability Disclosure Standards*. https://www.ifrs.org/sustainability/knowledge-hub/introduction-to-issb-and-ifrs-sustainability-disclosure-standards/

22 Financial Action Task Force (FATF). 2021. *High-Level Synposis of the Stocktake of the Unintended Consequences of the FATF Standards*. https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Unintended-Consequences.pdf

23 Financial Action Task Force (FATF). 2025. *Financial inclusion and Anti-Money Laundering and Terrorist Financing Measures*. https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Guidance-Financial-Inclusion%20-Anti-Money-Laundering-Terrorist-Financing-Measures.pdf.coredownload.pdf

# 2. HOW CAN GLOBAL SUSTAINABLE FINANCE STANDARDS AFFECT INCLUSIVE GREEN FINANCE (IGF)?

Global sustainable finance standards are transforming financial systems to manage climate and environmental risks, offering opportunities and challenges for emerging markets and developing economies (EMDEs). Adoption can boost resilience and attract investments, but poorly calibrated standards may limit financial inclusion by ignoring local capacities, data gaps, and institutional realities.

This section explores how these standards interact with Inclusive Green Finance (IGF), which promotes sustainability and inclusion, by discussing exclusion risks, reviewing evidence, and emphasizing proportionality to ensure standards support inclusive green finance growth.

## 2.1 THE IMPORTANCE OF INCLUSIVE GREEN FINANCE (IGF)

The global standards for sustainable finance are key for protecting financial systems from sustainability risks. Most EMDEs are disproportionately affected due to high exposure to climate change and environmental degradation. AFI members should thus support implementing sustainable finance standards.

EMDEs (excluding China) will require at least USD2.4 trillion per year to achieve their 2030 climate adaptation and mitigation goals.[24] At least USD1 trillion of this will need to come from international sources, including multilateral development banks (MDBs), bilateral aid and global financial institutions. The implementation of globally recognized and ambitious sustainable finance standards by EMDE supervisors will play an important role in achieving these figures, especially in facilitating cross-border finance flows from advanced economies that have already implemented IFRS S1 and S2.

The volumes of finance that will need to be mobilized from domestic private finance institutions in EMDEs is also significant, estimated at around USD550-630 million per year.[25] However, in many EMDEs the domestic financial sector remains underdeveloped and exclusive. AFI's Inclusive Green Finance (IGF) Framework[26] and subsequent Roadmap for Inclusive Green Finance Implementation[27] represent important tools for supervisors to extend financial inclusion in a way that builds resilience and adaptation to climate while lowering carbon emissions (Box 2.1).

24 Songwe, V., Stern. N. and Bhattacharya, A. 2022. *Finance for climate action: scaling up investment for climate and development*. November 2022. https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/11/IHLEG-Finance-for-Climate-Action-1.pdf

25 Bhattacharya, A., Songwe, V., Soubeyran, E. and Stern, N. 2024. *Raising Ambition and Accelerating Delivery of Climate Finance*. November 2024. https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2024/11/Raising-ambition-and-accelerating-delivery-of-climate-finance_Third-IHLEG-report.pdf

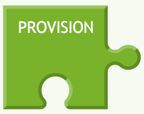
26 Alliance for Financial Inclusion (AFI). 2019. *Inclusive Green Finance: A Survey of the Policy Landscape*. https://www.afi-global.org/publication/inclusive-green-finance-a-survey-of-the-policy-landscape/

27 Alliance for Financial Inclusion (AFI). 2022. *Roadmap for Inclusive Green Finance Implementation*. https://www.afi-global.org/wp-content/uploads/2024/10/Roadmap-for-Inclusive-Green-Finance-Implementation_isbn.pdf

## BOX 2.1: AFI'S IGF FRAMEWORK (AFI, 2019, 2022)

The first AFI's Inclusive Green Finance (IGF) Framework was designed to support the development of green financial systems while promoting inclusivity and preventing financial exclusion. The framework is built around the 4Ps - Promotion, Provision, Protection and Prevention - that national supervisors can adapt to their specific country context to support vulnerable individuals and MSMEs to use and access financial services in a way that promotes low-carbon and climate-resilient development:


**Promotion:** covers the foundational stage for creating a market for inclusive green financial products. These policies are focused on capacity enhancements, such as trainings, awareness raising and data collection.




**Provision:** policies that ensure that financial resources are available for low-carbon or climate-resilient activities. Examples include mandatory lending targets, low-interest refinancing facilities and innovation funds to support clean technology.


**Protection:** protection policies such as financial risk-sharing mechanisms that help individuals and MSMEs create safety nets for climate-related events. Examples include microinsurance, index-based agricultural insurance products or credit guarantees.


**Prevention:** proactive measures and policies to lower sustainability-related risks, such as the implementation of Environmental and Social Risk Management (ESRM) guidelines for the financial sector.

In 2022, AFI published a Roadmap for Inclusive Green Finance (IGF) Implementation. The roadmap identifies IGF as a subset of sustainable finance, showing that a successful IGF framework rests on six building blocks:

- **Strategy on green or sustainable finance** should be accompanied by a governance structure and a coordinating entity in charge of implementing and ensuring the success of sustainable finance policies, including IGF and sustainable finance standards.
- **Prioritization of IGF inside both financial institutions and regulators** such as through sustainable banking principles and ESG-related risk frameworks.
- **Classification of IGF-compliant conduct, products and services**, for instance as part of a catalogue or taxonomy.
- **Data and models** should be at the heart of the IGF mission, given the challenges around data availability, capacity and methods for assessing ESG- or climate-related risks.
- **IGF ecosystem to deliver market-driven, successful sustainable finance approach**, including the availability of external auditors and other service provides.
- **Foundational infrastructure for a well-functioning IGF system**, such as technical resources and systems.

Furthermore, the roadmap specifies five policy tools that regulators can use to assemble these six building blocks and advance IGF:

- internal and external advocacy for IGF
- education and capacity-building of regulators, financial institutions and the overall ecosystem
- voluntary standards
- financial incentives (e.g. credit guarantees and other risk-sharing or green lending programmes, as well as capital relief for priority sectors)
- mandatory regulation (e.g. reporting and disclosure, capital provisioning or fiduciary duties)

**FIGURE 2.1:** ELEMENTS OF A HOLISTIC APPROACH TO IGF ("BUILDING BLOCKS")

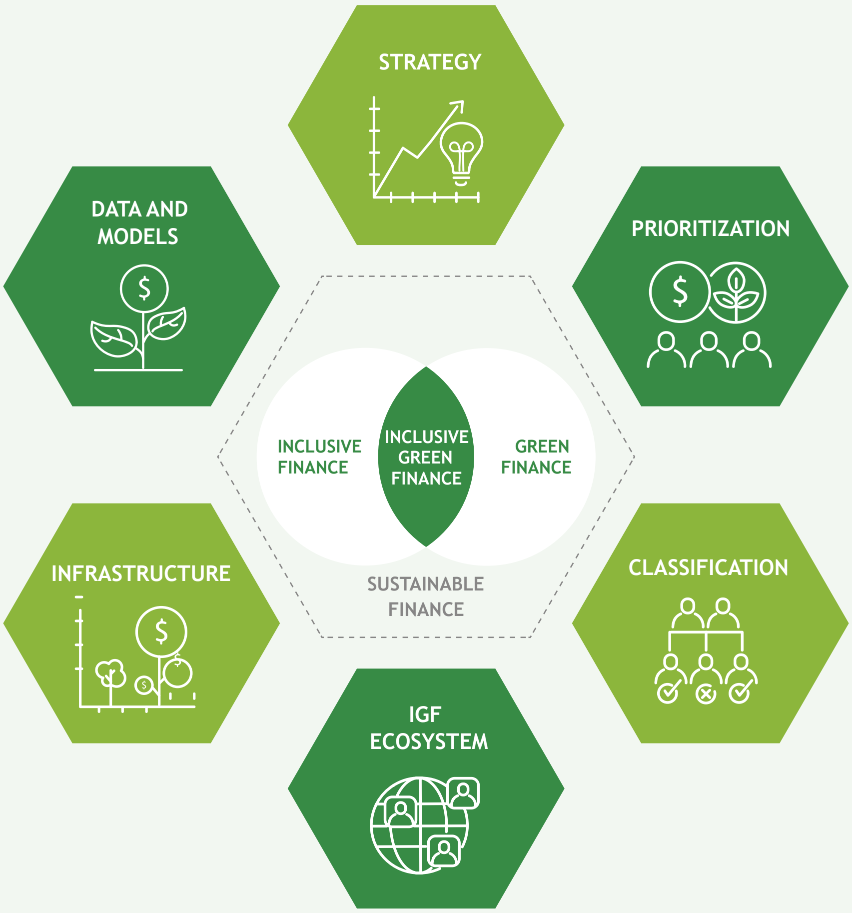
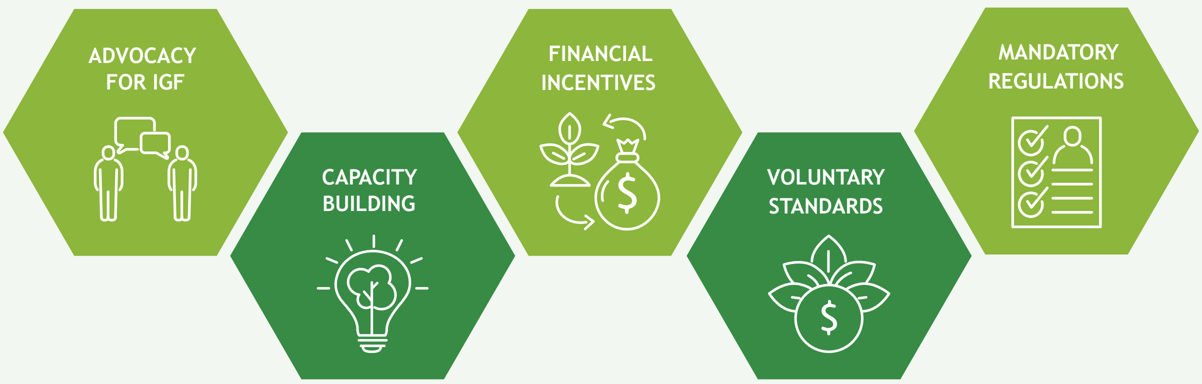



**FIGURE 2.2:** POLICY TOOLS OF AN IGF FRAMEWORK




Source: AFI (2022)

## 2.2 RISKS TO IGF

If global sustainable finance standards are not designed and implemented with financial inclusion in mind, their country-level implementation can slow or reverse efforts to develop a green, inclusive financial market. These risks manifest at macro-level, by inhibiting cross-border finance, and micro-level, by reducing access for vulnerable groups like women-led enterprises and MSMEs. Two main transmission channels exist at micro-level:

> **Banks shift away from financing sectors with high exposure to sustainability-related risks.** By requiring banks to disclose sustainability-related information on their assets and liabilities, sustainable finance standards could discourage banks from investing in sectors or groups which score poorly in terms of their exposure to ESG risks.

Arguably, this is the *intended* behavioral effect that the disclosures are aiming to achieve in order to enforce market discipline, and should act as an incentive for financial institutions to mitigate these risks and thereby lower their exposure. However, this may also lead banks and other financial institutions to divest from high-risk sectors rather than taking measures to mitigate the risks in their portfolios. By doing so, there is a danger that publicly-listed banks may shift high-risk assets to non-banked or non-regulated financial entities in the shadow-banking sector, which could exacerbate economic and financial risks rather than reducing them.[28]

A second transmission channel through which sustainable finance standards can unintentionally reduce access to finance is if:

> **Banks shift financing away from sectors with low capacity or data coverage.** Banks may divest from sectors or groups due to poor data coverage (Dias et al., 2024). Without sustainability information, they cannot meet disclosure standards, risking financial exclusion for households, MSMEs, and other groups that lack awareness, capacity, or data infrastructure, especially in rural or regionally isolated areas like Mongolia or Peru. Even where data exists, asymmetries may persist if data is not granular or collected with consistent methods standards.

Sustainable finance standards may discourage banks from financing sectors or groups needing decarbonization or climate resilience, risking increased financial exclusion for vulnerable groups like households and MSMES in high-risk, climate-exposed regions. Disclosure standards on physical climate risks could worsen exclusion since disadvantaged groups in EMDEs face more exposure to extreme weather events change.

At the macro-level, global financial institutions may find it challenging to lend to or invest in assets that are located in EMDEs that have not yet reached peak emissions because their per capita emissions are still low and they are undergoing rapid economic growth.[29] For example, if a financial institution based in London or Frankfurt has a transition plan in place to lower its financed emissions, it may not be able to justify investing in assets located in EMDEs where emissions are still growing despite low emissions per capita.

## 2.3 EVIDENCE OF FINANCIAL EXCLUSION EFFECTS

There is nascent empirical evidence but growing interest in the impact of sustainable finance disclosures on financial inclusion. Several publications have already noted that disclosure requirements for environment-related risks or ESG metrics could drive capital away from EMDEs because these jurisdictions tend to lack data or score poorly on ESG metrics (MOBILIST, 2023; Attridge et al., 2024; TFMR, 2024). The increased emphasis on transition plans has also been highlighted as a risk to financial inclusion if requirements to disclose such detailed plans do not take note of the needs of climate-exposed segments. A survey conducted by the NGFS found that while close to 70 percent of financial institutions in high-income countries collect information about GHG emissions from large corporates, only 40 percent of financial institutions in EMDEs did the same. Poorly implemented disclosures for transition plans could therefore restrict financial access, worsen social inequalities, lead to job losses and contribute to economic instability (NGFS, 2024).

28 Battison, S., Dafermos, Y. and Monasterolo, I. 2021. Climate risks and financial stability. Journal of Financial Stability, 54. https://doi.org/10.1016/j.jfs.2021.100867; Basel Committee on Banking Supervision (BCBS). 2023b. *The effects of climate change-related risks on banks: a literature review*. Working Paper 40. https://www.bis.org/bcbs/publ/wp40.pdf; Smoleńska, A., Feyertag, J., Reitmeier, L. and Dikau, S. and van't Klooster, J. 2024. *Submission to the BCBS consultation on a disclosure framework for climate-related financial risk*. March 2024. https://cetex.org/wp-content/uploads/2024/03/BCBS-Pillar-3-Commentary-CETEx-2.pdf; Deku, S.Y. and Morris, D. 2025. *Climate change and the rise of shadow banking: A global analysis. International Review of Financial Analysis*, 104(A). https://doi.org/10.1016/j.irfa.2025.104275.

29 Transition Finance Market Review (TFMR). 2024. *Scaling Transition Finance: Findings of the Transition Finance Market Review*. https://www.theglobalcity.uk/PositiveWebsite/media/Research-reports/Scaling-Transition-Finance-Report.pdf

However, the evidence base remains relatively weak due to data constraints and methodological challenges in assessing finance flows. Despite over 10,000 academic and policy-related articles having been published on the potential impact of Basel III on finance flows to EMDEs, only a handful have found meaningful empirical findings or proved causality in terms of the impact that one specific piece of regulation has.[30] Data on who holds and owns credit is not always publicly available, and it is often difficult to isolate the impact of the announcement or adoption of a standard on credit flows from more general macroeconomic conditions, headwinds and developments (e.g. Kammourieh and Devie, 2025).

MSMEs face increased financial exclusion risks due to sustainable finance standards. Under Basel III, SME loans attract higher risk weights if they lack external ratings or are lower-rated, which is common (Beck and Rojas-Suarez, 2019). IFRS S1 and S2 disclosure requirements may raise compliance costs for MSMEs, which are already higher than larger firms. They might also struggle to report complex data like Scope 3 emissions or afford green credentials needed for green finance labels, such as third-party sustainability assessments schemes.

Evidence shows MSMEs face exclusion due to strict global standards. The FSB (2019) reports Basel III's risk-based capital requirements slow SME lending among less-capitalized banks, a trend also seen in non-financial firms.[31] Fišera et al. (2019) from the World Bank find Basel III temporarily negatively impacts SME lending by increasing complexity and cost, especially for SMEs with bank accounts but no credit loans before Basel III. Later research confirms that higher pre-Basel bank capital reduced this negative effect.[32] Gjergji et al. (2020) note ESG disclosures raise SME capital costs, except for family-owned firms.

These effects may be indirect and challenging to observe. In Brazil, Miguel Liriano et al. (2022) from the World Bank show that a 2017 requirement for large banks to include climate risks in their ICAAP led to divestment from big polluters. Smaller banks then absorbed this finance gap, crowding out MSMEs and reducing jobs. It's also argued that Basel III might disadvantage domestic banks in EMDEs compared to their international subsidiaries, potentially further excluding SMEs, since domestic banks are often their main lenders 2014).

30 Jones, E. and Zeitz, A.O. 2017. *The Limits of Globalizing Basel Banking Standards, Journal of Financial Regulation*, Volume 3, issue 1. 89-124. https://doi.org/10.1093/jfr/fjx001

31 Marek, P. and Stein, I. 2022. *Basel III and SME bank finance in Germany*. Deutsche Bundesbank Discussion Paper, No 37/2022. https://www.econstor.eu/bitstream/10419/265433/1/1819325326.pdf

32 Fišera, B., Horváth, R. and Melecký, M. 2025. *The effect of basel III implementation on SME access to financing in emerging markets and developing economies*. The Quarterly Review of Economics and Finance, 100. https://doi.org/10.1016/j.qref.2024.101956

# 3. PROPORTIONALITY IN PRACTICE

Applying proportionality to policy frameworks ensures effective, inclusive sustainable finance standards. It allows regulators and institutions to adapt standards to their contexts, balancing ambition with practicality. Within Inclusive Green Finance strategies, proportionality helps smaller and underserved groups access sustainable finance, reducing compliance burdens while maintaining policy integrity.

Four approaches—time-bound, relief, simplified, and incentive mechanisms—assist supervisors in calibrating requirements, promoting gradual implementation, and developing resilient, inclusive green financial systems.

## 3.1 THE IMPORTANCE OF APPLYING PROPORTIONALITY

Proportionality practices or flexibility mechanisms can help prevent global sustainable finance standards from causing financial exclusion, especially in economies with high exclusion rates. In such areas, adopting global standards may be short- to medium-term unfeasible due to capacity issues, missing data, and knowledge gaps. Regulated entities may be unfamiliar with sustainability info or lack the governance and staff needed for disclosures. Additionally, global standards meant to safeguard stability might not suit smaller banks or transactions with limited impact on global finance stability.

There is already some empirical evidence about the positive effects of proportionality mechanisms. In Asia, the adoption of differentiated regulations for SME financing resulted in a significant increase of credit to new SMEs, as well as an increase in the average size of loans to existing SMEs, with only a small increase in the non-performance ratio.[33] In the EU, the introduction of the SME Supporting Factor - which was designed to counteract the detrimental impact of Basel III on the credit ratio for SME lending – led to positive effects on credit supply.[34]

Global SSBs have started recognizing the importance of proportionality. The BIS and BCBS have provided some brief but useful guideline notes (see Box 3.1). These guidelines aim to clarify that global standards are largely focused on global and systemically-important banks, and that jurisdictions have the discretion to decide how to apply global standards beyond international banks. In part guidelines are also needed because jurisdictions were beginning to applying standards in their own, disconnected way, including through the practice of "goldplating", where national regulators introduced more stringent standards than required by international standard setting bodies. The need for proportionality has also risen in the agenda of SSBs as a result of the 2024 Brazilian G20 Presidency prioritizing the needs of SMEs e.g. FGV Sao Paulo Law School, ITS Rio and iCS, 2024).

There are limited practical policy guidelines on how national regulators can implement proportionality clauses or flexibility mechanisms (hereafter called "proportionality mechanisms"). The next two sections will review existing guidance by examining how selected countries manage proportionality and flexibility in implementing sustainable finance standards, along with offering practical best-practice principles for AFI members. These guidelines were developed through a combination of: (i) a desk review of AFI's member countries' approaches; (ii) interviews with 8 national regulators about their experiences; and (iii) interviews with 12 international organizations and standard-setting bodies on global standards and proportionality (see Appendix I).

33 Wu, Y. and Huang, B. 2021. *Differentiated Bank Regulation and Small and Medium-Sized Enterprises Financing*. ADB Background Paper. https://www.adb.org/sites/default/files/institutional-document/691951/ado2021bp-differentiated-bank-regulation-sme-fin.pdf

34 Izquierdo, J.F., Muñoz, A.R. and Ulloa, C. 2017. Impact of capital regulation on SMEs credit. BBVA Working Paper 17/01. https://www.bbvaresearch.com/wp-content/uploads/2017/01/WP-17-01.pdf; Dietsch, M., Fraisse, H., Lé, M. and Lecarpentier, S. 2019. Lower bank capital requirement as a policy tool to support credit to SMEs: evidence from a policy experiment. Banque de France. https://acpr.banque-france.fr/system/files/import/acpr/medias/documents/sme_sf.pdf.

### BOX 3.1: GUIDELINES ON PROPORTIONALITY BY THE BCBS AND ISSB

The BCBS (2022) has recommended proportionate approaches to climate-related regulations, including segmentation approaches and metrics, specific approaches for large exposures, differentiated treatment of capital when calculating risk-weighted assets, and adjusting the content and level of disaggregation and details of disclosure requirements. The application of proportionality as part of the supervisory review process is also recommended.

The BCBS developed the Basel Core Principles (BCPs) in 2006, updating them in 2012 to include proportionality. These Principles guide supervisors to assess banks' risk management based on their risk profile and systemic importance, promoting a broader risk assessment beyond individual balance sheets (macroprudential) versus microprudential). In 2016, detailed guidance was issued, emphasizing proportionate reporting for new or innovative institutions. The 2024 revised BCPs retain Principles 8 and 9, encouraging standards tailored to each bank's risk. The BCBS is working on follow-up guidelines for these updates BCPs.

The BCBS conducted a Survey of Proportionality Practices[35] which captures 45 different approaches to proportionality in the implementation of the Basel III standards across capital requirements, liquidity requirements, disclosures and supervision. Reduced, adjusted or simplified reporting and disclosure requirements were reported by 29 of the 45 respondents.

The ISSB has followed BCBS' lead and designed IFRS S1 and S2 requirements in a manner appropriate to a company's circumstances, recognizing they may not have the skills, capabilities or resources to provide granular disclosure data. A Factsheet (IFRS, 2025c) specifically focused on proportionality was published in January 2025 providing an overview of the two proportionality mechanisms included in IFRS S1 and S2:

- The first mechanism recognizes that companies should consider "reasonable and supportable information" when reporting sustainability-related information, and that the effort required to obtain such information does not require "undue cost or effort".
- The second mechanism allows a company to adjust its approach to providing disclosure requirements proportionately to the skills, capabilities and resources that are available to the company.

Both proportionality mechanisms recognize the resource constraints, lack of data availability and specialist availability that companies – and especially SMEs – face when disclosing sustainability-related financial information. In addition, ISSB grants "transition reliefs" (see Figure 3.2 on page 17).

35 Basel Committee on Banking Supervision (BCBS). 2019. *Proportionality in bank regulation and supervision - a survey of current practices.* https://www.bis.org/bcbs/publ/d460.pdf

## 3.2 APPLYING PROPORTIONALITY TO POLICY FRAMEWORKS

Overall, proportionality mechanisms allow organizations of varying sizes, capacities and maturity levels to adapt standards in proportion to their context. These mechanisms can be structured in four different ways according to the needs of the organization and depending on which of the building blocks[36] a supervisor wants to assemble as part of its IGF strategy (Figures 3.1 and 3.2):

36 Building block 1 around "strategy" is excluded from this diagram because implementing a proportionality policy framework is part of this building block.

- **Time-bound mechanisms** can help the **IGF ecosystem** develop by allowing time to create sufficient demand that triggers the supply of specialized services.
- **Relief mechanisms or classifications** can be used to refine the **classification of** products and services. For example, by determining which disclosures apply to different classifications of products based on the risk of financial exclusion arising from the enforcement of global standards. Relief mechanisms or classifications can also help entities to build a **technical infrastructure** if they lack capacity.

> **Simplified requirements** enable entities that lack capacity to develop their **technical infrastructure**, as well as allowing them to improve **data reporting and modelling**.

> **Incentive mechanisms** can help financial institutions establish sustainable finance standards and IGF as a **priority**.

**FIGURE 3.1:** PROPORTIONALITY POLICY FRAMEWORK

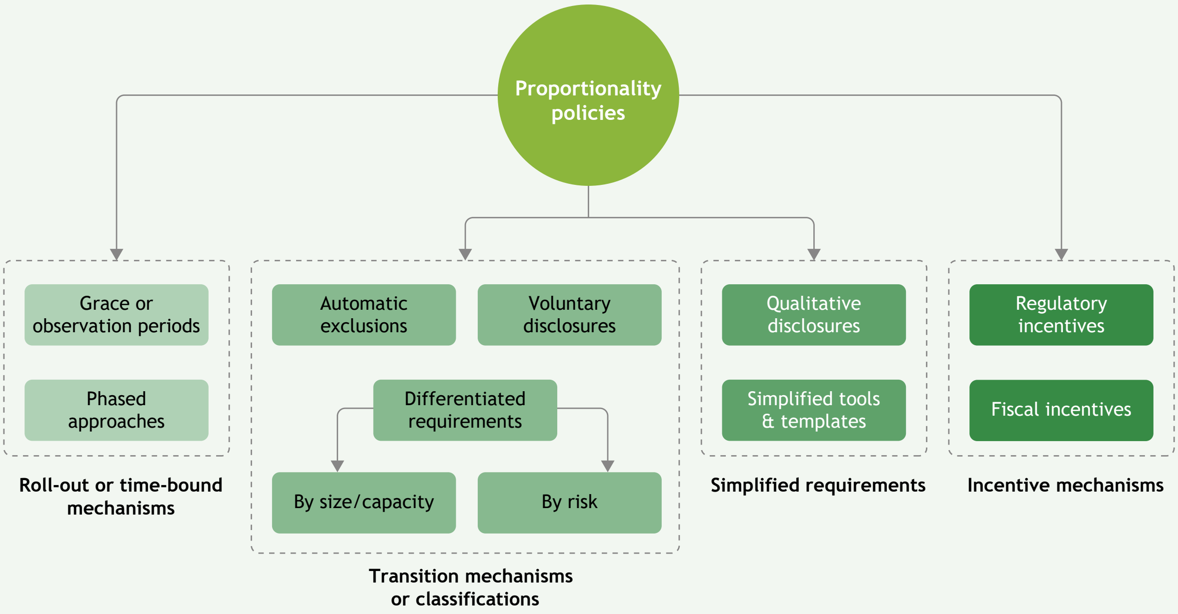
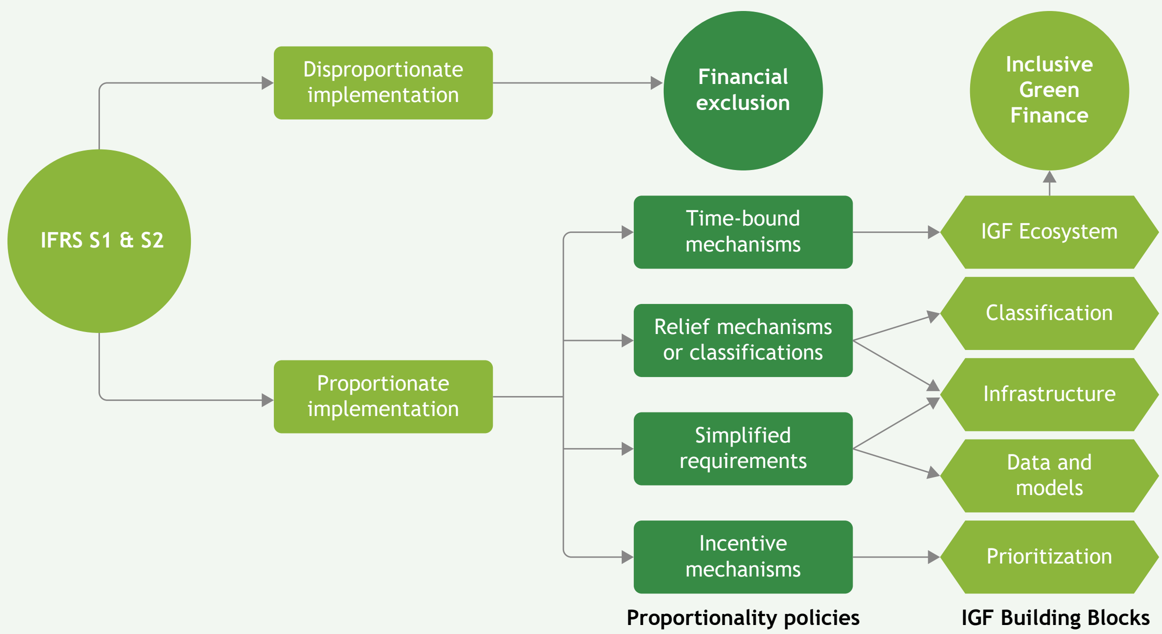



**FIGURE 3.2:** HOW PROPORTIONALITY POLICIES SUPPORT IGF VIA BUILDING BLOCKS



## 3.3 ROLL-OUT TIME-BOUND MECHANISMS

### GRACE OR OBSERVATION PERIODS

Grace or observation periods offer flexibility for organizations adopting climate standards, allowing a smoother transition without pressure. They give regulated entities time to adjust, often accompanied by a regulator's roadmap or circular detailing mandatory disclosures and applicable entities.

Additionally, these periods, as illustrated above, help develop a domestic market for climate reporting services such as assurance and data provision.

#### BOX 3.2: ISSB'S TRANSITION RELIEFS

The ISSB implemented a package of "transition reliefs" in the first year to support entities applying standards. During the first year they use the ISSB Standards, entities do notneed to provide disclosures about sustainability-related risks and opportunities beyond climate-related information as well as a host of other exemptions.[37]

### PHASED APPROACHES

Grace or observation periods can be structured in a phased way. That means that full requirements may only apply to a certain segment - such as large publicly-listed banks – before they are applied to smaller financial sector participants such as small cooperative banks or MFIs.

#### BOX 3.3: BANGLADESH'S PHASED APPROACH TO ISSB IFRS S1 AND S2

In December 2023, Bangladesh Bank issued Guidelines on Sustainability and Climate-related Financial Disclosure for Banks and Finance Companies, based on the ISSB's IFRS S1 and S2 standards.[38] The Guidelines cover banks and non-banked financial institutions and requires them to report information in annual reports using a regulatory template.

In its Guidelines, Bangladesh Bank indicated that the rollout of full sustainability-related disclosures will be phased. An initial phase will emphasize climate-related risks and opportunities, whereas disclosures on other sustainability-related risks and opportunities will be voluntary for the time being. The Guidelines will be updated to make more types of sustainability disclosures mandatory once the ISSB issues further topic-specific standards.

37 International Financial Reporting Standards (IFRS). 2025d. *Educational material: Applying IFRS S1 when reporting only climate-related disclosures in accordance with IFRS S2.* https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/applying-ifrs-s1-reporting-only-climate-related-disclosures-accordance-ifrs-s2.pdf

38 Bangladesh Bank. 2023. *Guidelines on Sustainability and Climate Related Financial Disclosure for Banks and Financial Institutions.* December 2023. https://www.bb.org.bd/aboutus/draftguinotification/guideline/sustainabilityreport.pdf

## 3.4 APPLYING RELIEF MECHANISMS, PARTICULARLY FOR MSMES

### AUTOMATIC EXCLUSIONS OR QUALIFICATIONS

SMEs engaged in certain economic activities – such as “green” activities as defined by a national green taxonomy – could qualify for being excluded from reporting sustainability-related information. Vice versa, some companies – such as those that are “brown” or engaged in high-risk economic activities – could automatically be required to adopt specific reporting requirements that others do not have to meet. The EU has applied an automatic exclusion to most SMEs for reporting sustainability-related data under the Corporate Sustainability Responsibility Directive (CSRD).

### BOX 3.4: THE EU’S EXCLUSION OF SMES UNDER THE CSRD

The CSRD mainly targets large companies and listed firms, excluding most SMEs. Although SMEs are in scope, transitional opt-outs and special treatments often exempt many unless they meet certain size or listing criteria. Listed SMEs can opt-out temporarily with limited disclosures, and smaller subsidiaries of parent groups are exempt from individual sustainability reports statements. Furthermore, the European Financial Reporting Advisory Group (EFRAG) has developed a simplified European Sustainability Reporting Standards (ESRS) for Listed SMEs (LSMEs) to report consistent, comparable and transparent sustainability data.[39]

Similarly, standards can automatically include everyone, but institutions could apply or make the case to opt out of those standards. Both Peru and the Philippines apply similar approaches when applying Customer Due Diligence (CDD) and ESG risk management requirements (Box 3.5).

### BOX 3.5: CASE STUDY – BANGKO SENTRAL NG PILIPINAS’ (BSP) SIMPLIFIED CUSTOMER DUE DILIGENCE (CDD), FATF’S RISK-BASED APPROACH (RBA) AND PERU’S “COMPLY OR EXPLAIN” APPROACH

In the Philippines, the BSP allows financial institutions to use simplified Customer Due Diligence (CDD) to customers and transactions that are assessed as low/lower-risk for money laundering, terrorist financing, and proliferation financing. Financial institutions must establish their own risk-based framework to determine where simplified requirements are appropriate following Guidelines provided by the BSP.

Peru’s regulation of ESG risks for pension funds and insurance companies is primarily managed through a “comply or explain” approach. The Securities Market Superintendency (SMV) mandates that companies listed on the Lima Stock Exchange (BVL) are subject to mandatory sustainability reporting under this approach. Companies must provide information on their environmental and social impacts in their annual report, or provide a clear justification if they choose not to report on certain aspects.

39 European Financial Reporting Advisory Group (EFRAG). 2024. *ESRS for Listed Small- and Medium-Sized Enterprises (ESRS LSME)*. Exposure Draft. January 2024. https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/ESRS%20LSME%20ED.pdf

### VOLUNTARY DISCLOSURES

Voluntary approaches can help financial institutions and corporates test and prepare for hard regulation. Several jurisdictions, including India, have announced that they will first introduce IFRS S1 and S2 standards using voluntary disclosures (Box 3.6).

### BOX 3.6: CASE STUDY - THE RESERVE BANK OF INDIA'S VOLUNTARY CLIMATE-RISK DISCLOSURE FRAMEWORK

The Reserve Bank of India (RBI) issued its draft disclosure framework for climate-related financial risks in 2024. Recognizing that many regulated entities lack the data systems, governance and methodologies to report such information, the RBI intends to make disclosures voluntary from 2027 with the view of making them mandatory from 2027 to give banks time to pilot and align systems before enforcement. The voluntary window is also being used to gather information and create comparability before hard regulation.

Supervisors in China, Ghana, Jordan, Morocco, South Africa, Tanzania, Uganda and Zambia have similarly adopted voluntary disclosures as part of their strategy to implement ISSB IFRS S1 and S2, in some cases only applying these voluntary requirements to certain segments (e.g. non-listed companies) or in combination with time-bound reliefs.

### DIFFERENTIATED REQUIREMENTS OR SEGMENTATION APPROACHES

Many jurisdictions have introduced differentiated requirements for different types of firms. These allow firms that fall below certain thresholds or meet other criteria to apply simplified reporting, governance or risk management requirements.

Thresholds for differentiated requirements are generally applied according to the size of the transaction or the financial sector participant. However, proportionality may also be applied based on whether the standard is commensurate to the risk of the consumer (e.g. for AML), the institution (e.g. Basel III) or depending on the skills, capacity and needs of the institution it is applied to.

Ensuring that standards are applied in a way that is commensurate to broader environmental and financial stability risks is especially important in the case of implementing ISSB IFRS S1 and S2, since the purpose of these disclosures is to safeguard broader financial stability. This need is recognized in existing guidance issued by both BCBS and ISSB (see Box 3.1).

In some cases, differentiated requirements can also be applied based on certain characteristics, such as whether the institution is located in a certain geography (e.g. rural).

### BOX 3.7: CASE STUDY - SEGMENTATION APPROACHES IN PERU AND COSTA RICA

Peru's Superintendencia de Banca (SBS) applies a segmentation approach for environmental and social risk management requirements. Under a Resolution enacted in 2015, the SBS does not require E&S risk management for every loan or for every client. Instead, specific thresholds determine when more rigorous E&S obligations apply. For micro-credits (below USD7,000), simplified regulation and documentation requirements focus on collecting simple but highly-relevant data.

Similarly, Costa Rica's ESRM standards apply to financial institutions but explicitly exclude small and less complex cooperative banks as well as financial products such as corporate loans below a certain size (roughly USD1 million). Small cooperatives (<$160 million) do not have the same requirements as larger banks, but they do not get a full exemption from disclosures, but are mandated to report simplified disclosures with the view of mandating full disclosures over a medium- to long time period.

Other AFI members have adopted differentiated requirements as well. In the Philippines, transactions that fall below USD3 million pesos do not have the same requirements. In implementing the Basel III standards, the BSP also applied simplified rules for liquidity and leverage ratios to "simple" banks compared to complex banks, which were mandated to meet the full standards.

These classifications can be adapted to ISSB implementation as well. Both Malaysia and the Philippines first implemented mandatory reporting of IFRS S1 and S2 for large and publicly listed entities whose revenue was above a certain threshold. In both cases, the roadmap for implementation will gradually be extended by lowering those thresholds and thereby combining a phased approach with a classification approach.

## 3.5 DEVELOPING RISK-BASED, SIMPLIFIED REQUIREMENTS

### QUALITATIVE STANDARDS

These standards are made for companies that cannot disclose the detailed quantitative data that global sustainable finance standards require.

#### BOX 3.8: CASE STUDY - BRAZIL'S COMISSÃO DE VALORES MOBILIÁRIOS (CVM) FRAMEWORK

Brazil's market regulator - the Comissão de Valores Mobiliários (CVM) - has developed specific provisions for qualitative disclosure of ISSB-aligned reporting, which began for listed companies in 2026.

Under the framework, a company could explain how climate change influences its long-term risk strategy. For example, it might disclose identifying physical risks like water scarcity and flooding via annual assessments. It could also outline adaptation plans, such as investing in water recycling or sea walls assets.

ISSB IFRS S1 and S2 disclosures on risk management and governance are qualitative. They require companies to explain how climate-related risks are integrated into risk management, including assessment and management processes, and describe the roles of the board and management in overseeing these risks, such as monitoring climate targets issues.

### SIMPLIFIED TOOLS AND TEMPLATES

Instead of offering full reliefs or exemptions, supervisors could offer simplified tools and templates for reporting sustainability-related risks. These could be aligned with IFRS SRe1 and S2 requirements with the view of fleshing them out to meet the full set of requirements in the future. China and India have adopted simplified templates for the disclosure of sustainability-related risk disclosures:

#### BOX 3.9: CASE STUDY - CHINA AND INDIA'S SIMPLIFIED DISCLOSURES

In May 2024, China's Ministry of Finance issued an Exposure Draft for the "Sustainability Disclosure Standard for Business Enterprises - Basic Standard". The Basic Standard unifies China's Sustainability Disclosure Standards based on ISSB Standards.

The Securities and Exchange Board of India (SEBI) mandates that the top 1 000 publicly listed companies provide ESG disclosures as per the Business Responsibility and Sustainability Reporting (BRSR) framework. Although not yet aligned with ISSB, these disclosures include information about ESG risks and opportunities, including emissions data. SEBI recently developed a simplified tool called "BRSR Core", which contains a limited set of Key Performance Indicators (KPIs) and ESG disclosures for listed entities under certain thresholds.

## 3.6 IMPLEMENTING INCENTIVE MECHANISMS

### REGULATORY INCENTIVES

Supervisors can also encourage the adoption of sustainable finance standards by offering microprudential regulation that provides regulatory incentives, for instance by lowering risk weights and liquidity requirements on loans. This could be attached to the uptake of proportionate sustainable finance standards, such as simplified requirements, rather than their full adoption (Box 3.10).

### BOX 3.10: CASE STUDY - REGULATORY INCENTIVES IN EGYPT, THE PHILIPPINES, MONGOLIA AND PERU

The Central Bank of Egypt exempts any deposits against which loans are extended to SMEs from the Legal Reserve Requirement (LRR).

Banko Sentral Pilipinas (BSP) provides banks with an additional 15 percent single-borrower limit for loans, credit accommodation and guarantees to finance eligible green or sustainable projects. BSP also reduces the reserve requirement rate from 3 to 0 percent for existing and new issuances of green, social, sustainability and sustainability-linked bonds.

In Mongolia, Non-Banked Financial Institutions (NBFIs) can raise external finance of up to 80 percent of total equity instead of 60 percent if green loans represent at least 5 percent of their total loan portfolio.

A final example involves the use of subsidized credit lines. In Peru, KfW provides subsidized lending through various programmes that support sustainable finance, including financing for energy-efficient housing and climate-friendly investments. These subsidies only apply when lending to projects or activities that meet certain pre-defined standards, e.g. related to energy efficiency. A similar product could be applied to SMEs that disclose climate-related information that is aligned with IFRS S1 and S2 standards, and thereby support IGF.

### FISCAL INCENTIVES

To stimulate the uptake of sustainable finance standards, governments can also provide fiscal incentives in the form of tax reductions, tax incentives and direct subsidies. This may be particularly applicable for the uptake of sustainable finance standards for insurance contracts such as micro-insurance products, which governments can support by cover part of or all of the premia.

### BOX 3.11: CASE STUDY - FISCAL INCENTIVES FOR CROP INSURANCE IN INDIA

Through the Pradhan Mantri Fasal Bima Yojana (PMFBY) programme, the Government of India provides subsidized crop insurance to farmers to help them manage and adapt to climate change risks. Under PMFBY, farmers pay a low, fixed premium while the Government covers the remaining actuarial premium and releases subsidies to insurance companies.

Similar programmes could be used to encourage the uptake or issuance of insurance among farmers and insurance companies that meet sustainable finance standards, such as IFRS S1 and S2 or the ICPs.

# 4. PRINCIPLES FOR DEVELOPING PROPORTIONATE, INCLUSIVE, AND ACTIONABLE SUSTAINABLE FINANCE STANDARDS

The following six principles have been formulated based on a review of existing evidence and literature (Section 3), as well as a series of twenty key informant interviews (KIIs) conducted between May and October 2025 (Appendix II). These interviews encompassed a diverse group of stakeholders, including international standard-setting bodies (SSBs), capital market regulators, insurance supervisors, banking authorities, and broader financial market supervisors from various countries and regions worldwide.

## 4.1 SIMPLICITY

Classifications effectively group companies, financial firms, products, and transactions, enabling simple proportionality. Countries like Mongolia, Costa Rica, and Peru have predefined classifications to implement various proportionality measures, including phased, simplified, or differentiated requirements, and policy incentives for segments at high risk of financial exclusion. Peru's experience shows that in diverse markets, developing product-level classifications can prevent market segmentation, promote fairness, and boost competitiveness, such as micro-credits offered by both MFIs and large banks. Regulating simplified sustainability standards for micro-credits rather than MFIs can foster competition and support financial inclusion innovation.

## 4.2 SCALABILITY

Supervisors must ensure their approaches are interoperable with other jurisdictions. Reliefs or simplified standards can support an IGF ecosystem if part of a regional or international framework. IOSCO's 2023 endorsement of ISSB standards required balancing proportionality with global comparability of information 2023).

## 4.3 ADAPTABILITY

Proportionality mechanisms should be adapted to the constraints and circumstances faced by financial market participants, as well as the IGF building blocks that a supervisor seeks to assemble and prioritize (see Figure 3.2). For example:

- Where there is a lack of specialized service providers (e.g. for assurance), supervisors can adopt a time-bound phased approach that relaxes requirements for assurance, while also giving the market the time it needs to develop.
- Where data or capacity constraints exist, simplified requirements, relief mechanisms or risk-based classifications can help the financial sector build the technical infrastructure it needs to report relevant data.
- Where there are high rates of financial exclusion and high levels of exposure to climate risks, regulatory or fiscal incentive mechanisms may help to ensure that financial institutions prioritize IGF and sustainable finance.

## 4.4 BALANCE

The BCBS and ISSB already recommend that existing accounting or sustainable finance standards balance materiality (relevance of risks) with financial stability, including risks posed by climate resilience and financial inclusion.

This is important when considering the nexus of sustainability standards and financial inclusion because the exposure of smaller and rural banks to sustainability-related risks - in particular physical climate risks - tends to be much higher. However, their role in the financial system is, by their very nature, still very small.

### BOX 4.1: CASE STUDY – APPLYING AML/CFT/CPF REQUIREMENTS IN THE PHILIPPINES AND PERU AND THE FATF'S RISK-BASED APPROACH (RBA)

Bangko Sentral ng Pilipinas applies proportionality commensurate to the actual risks faced in the implementation of its AML/CFT/CPF standards.

BSP conducts risk assessments every three years to ensure that AML/CFT/CPF requirements are commensurate with actual risks. It monitors the risk profile of financial institutions using an ongoing market survey.

In Peru, simplified know-your-customer (KYC) requirements can be used to onboard customers even if they do not have formal ID, and thereby support financial inclusion. The SBS applies three regimes for AML/CFT/CPF: (i) simplified; (ii) normal, and; (iii) reinforced. Institutions can apply for the simplified regime by presenting the case for why the product faces a lower risk (e.g. of money-laundering). A similar approach has been in place in Mexico since 2011.

The BSP's approach aligns with recommendations from the FATF, which issued Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures in 2025[40]. The guidance encourages countries to implement its standards through a proportionate and risk-based approach (RBA) in order to protect financial inclusion objectives. Practical examples provided in the materials include Sweden and Singapore, which include an RBA to extend financial services to migrants or ex-offenders in serious financial crimes.

40 Financial Action Task Force (FATF). 2025. *Financial inclusion and Anti-Money Laundering and Terrorist Financing Measures*. https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Guidance-Financial-Inclusion%20-Anti-Money-Laundering-Terrorist-Financing-Measures.pdf.coredownload.pdf

## 4.5 STAKEHOLDER ALIGNMENT

Unlike most regulation imposed on financial sector participants, the impetus for ISSB IFRS S1 and S2 disclosures comes from the participants themselves. Key informant interviews and case studies showed that financial institutions ask supervisors for guidance on implementing sustainable finance standards to ensure a level playing field, mitigate greenwashing, and keep jurisdictions attractive to international investors. Some banks have started implementing IFRS S1 and S2 standards before regulation is in place, especially if they are domestic subsidiaries of multinational banks.

For supervisors, adopting sustainable finance standards and proportionality mechanisms will require a different consultation process. Stakeholders should be involved early in legislation drafting, not just during public consultation. This helps incorporate experience from banks already implementing standards. After implementation, supervisors should seek ongoing feedback to address concerns and refine regulations, as Peru's SBS did with a "readiness questionnaire" to assess needs and capacity entities.

Alignment is needed among regulators and supervisors implementing sustainable finance standards. Capital market supervisors have experience with green and sustainable bond frameworks and other products. Accounting supervisors have led efforts with standards like IFRS S1 and S2, as in Costa Rica. While these standards may lack proportionality, banking supervisors should align their standards with other supervisory efforts. The role of government ministries and agencies, such as those developing climate finance taxonomies, should also be considered, potentially requiring fiscal coordination. Recent work on sustainable finance has brought regulators into contact with government agencies like Ministries of Environment, Water, Energy, or Natural Resources that they are less familiar with Resources.

## 4.6 CONTINUOUS IMPROVEMENT

Proportionality does not serve as relief for banks; it balances regulation goals with financial institutions' needs, not as an excuse for leniency. Supervisors must carefully choose language, avoiding terms like "exemptions" or "reliefs" that suggest banks can relax efforts on sustainable standards. Instead, they should "adapt" regulation to fit institutions' circumstances, implying future complexity. Setting targets can promote ongoing improvement. (Box 4.2).

### BOX 4.2: CASE STUDY – SETTING TARGETS IN MONGOLIA

In the case of Mongolia, the FRC identified targets for the issuance of green or sustainable loans. These were set at 10 percent for banks and 5 percent for non-banked financial institutions. The targets have helped the capital markets supervisor to monitor progress on the effectiveness of their IGF policies, including with respect to the introduction of proportionate sustainable finance standards.

When offering transition reliefs, phased compliance or exclusion thresholds, steps measures should be put into place for continuous improvement:

- Where there are capacity constraints, efforts should be focused on awareness raising and training among banks, MFIs or SMEs that benefit from the proportionality mechanism. Banks often have ample risk management capacity, but environmental and social risks are poorly understood or even misunderstood by financial institutions. The materiality of these risks is not recognized, nor are the long-term financial benefits of adopting sound environmental and social risk management practices.
- Technical support may be required where financial institutions are not confident with methodological innovations imposed by sustainable finance standards. Scope 3 greenhouse gas emissions and social risks are notoriously difficult to quantify and require deep levels of specialization and expertise.
- Where data availability and granularity constraints are an issue, regulators can focus efforts to enhance the data infrastructure, including through the use of A.I. (Box 4.3) and other digital solutions (see also FGV Sao Paulo Law School, ITS Rio and iCS, 2024).
- As recognized by the ISSB, "serviceability" may also be an issue, for example where there is a lack of local verifiers for green and sustainable finance instruments.

Finally, one of the main constraints is that central banks and financial supervisors themselves may have limited capacity to oversee the development and implementation of sustainable finance standards. Collecting and managing the enormous volumes of data generated by disclosure standards requires additional resources and technical expertise which may take time to develop. International SSBs such as ISSB, BCBS or IAIS could play an important role in building this capacity among national supervisors, but they do not always have the resources or mandate to do so themselves. Where training and resources have been provided by the SSBs, interviewees generally considered them to be extremely useful.

### BOX 4.3: CASE STUDY – MAS GPRNT AND CIPC'S XBRL TAXONOMY

Gprnt is an integrated digital platform launched by the Monetary Authority of Singapore (MAS) in November 2023. It aims to simplify ESG reporting, particularly for SMEs, by automating data collection and reporting processes. The platform is designed to bridge the data gap in sustainability reporting, making it easier for businesses to comply with ESG standards and access green financing opportunities. For example, it enables SMEs to generate basic Scope 1 and 2 emissions reports using smart data integration and artificial intelligence, significantly reducing the time and effort required for reporting in resource-constrained environments.

A similar tool focused on ISSB has been developed by South Africa's Companies and Intellectual Property Commission (CIPC). In October 2024, the CIPC updated its Extensible Business Reporting Language (XBRL) taxonomy to include a new module for sustainability disclosures that aligns with the IFRS S1 and S2 standards. The update allows companies to report their ESG data in a standardized and digital format, making it easier for companies and users to analyze and compare information.

# 5. ACTIONABLE AND STRATEGIC RECOMMENDATIONS

**Combine proportionality with AFI's IGF Approach.** Different proportionality approaches can be used to assemble building blocks for IGF. Supervisors can conduct stakeholder surveys to identify constraints faced by financial institutions. Their IGF strategies can then be adapted with proportionality policies to support the adoption of IGF and sustainable finance standards by addressing those constraints challenges.

**Combine mandatory disclosures with regulatory incentives.** Instead of penalizing entities for not adopting sustainable finance standards, supervisors can offer incentives like simplified requirements, automatic qualifications, lower risk weights, reserve requirements, and capital reliefs for IGF-aligned portfolios, taxonomy-compliant products, or sectors exposed to climate risks, which can cause financial exclusion. These incentives are especially useful in EMDEs with limited fiscal space and increasing climate impacts challenges.

**Utilize technical assistance and peer-learning opportunities.** Supervisors can work with accountancy firms or consultancies for technical expertise to implement sustainable finance standards. They can also collaborate with organizations like the IFC, IMF, AfDB, GIZ, or the World Bank, as well as global SSBs. Capacity-building, especially for large international organizations, should focus on practical needs of smaller institutions by providing templates, sector examples, simplified tools, helpdesk support, and proportionate reporting to lower compliance costs manageable.

There are also many opportunities for peer-learning - Mexico's proportionate approach to KYC requirements has been applied in several other countries around the globe, including the Philippines. Several central banks consulted also adopted learnings from Colombia, Nigeria or Ghana. These opportunities can be extended to proportionality, gender-responsive and technology-enabled green financial supervision.

**Incorporate gender and social inclusion into proportionality approaches.** Women-led MSMEs and vulnerable groups face higher financial exclusion and climate risks. Climate data should be sex-disaggregated to inform proportionality policies, especially risk-based, simplified requirements or regulations incentives.

**Leverage the role of technology to address financial exclusion risks related to the adoption of global sustainable finance standards.** The BIS and several central banks are already using artificial intelligence to automate the extraction of climate-related data from corporate reports. Together with ongoing efforts to improve the data ecosystem for climate-related information in EMDEs, these efforts should be expanded to those jurisdictions that are most exposed to the impacts of climate change, and thereby improve the analysis of financial stability and financial exclusion risks. Supervisors can support these efforts by focusing on the development of a small, standardized core dataset to highlight sustainability or climate-related information. They can also deploy DFS/KYC innovations from case studies such as the Philippines to support the application of technologies.

**Expand the focus of proportionate sustainable finance standards to non-banks.** Many countries have adopted phased ISSB implementation starting with large, public entities. In coming years, focus will shift to non-banked financial institutions and private companies. Before full ISSB standards are mandatory by 2030, global bodies should review current efforts and promote peer learning through reports or workshops. Supervisors could initially mandate sector-specific metrics on governance and risk before fully implementing IFRS S1 and S2 standards.

**Expand the knowledge base around Inclusive Financial Stability.** Global standard setting bodies should perform impact and vulnerability assessments both before and after implementation to evaluate the link between climate risks, financial stability, and inclusion in middle and low-income countries. Currently, most focus is on G20 economies, but risks are more significant in highly-exposed low- and middle-income nations with little insurance. For example, IAIS has expanded to frontier economies, and the FSB could begin vulnerability assessments there contexts.

**Increase the understanding of the role of insurance supervisors in supporting IGF via the adoption of sustainable finance standards.** The focus is shifting to climate change's impact on global financial stability through the insurance sector (see e.g. G20 South Africa, 2025). Currently, climate risks are only a small part of global standards like IFRS 17 or ICPs. Proper integration could help identify and manage risks, close protection gaps, and boost financial inclusion. There's potential to develop sustainable finance standards further before implementation. IAIS can lead this by testing premium-support mechanisms linked to risk-reduction actions (e.g., resilient farming) to address protection gaps without negative effects results.

**Further incorporate EMDE experiences and perspectives in the global standard setting process.** Membership in IFRS and IAIS provides central banks and supervisors with valuable data, resources, and assistance. Extending these benefits to non-members requires better outreach and engagement, helping incorporate EMDE experiences into future knowledge products guidance.

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# APPENDIX I – STATUS OF IFRS S1 AND S2 IMPLEMENTATION AMONG AFI'S MEMBER COUNTRIES

## STATUS OF IFRS S1 AND S2 IMPLEMENTATION AMONG AFI'S MEMBER COUNTRIES

| Country | Status | Notes |
|---|---|---|
| **Armenia** | No public information available about implementation | IFC is supporting capacity-building on IFRS S1 and S2 as part of Sustainable Stock Exchanges Initiative |
| **Bangladesh** | Implemented. Mandatory reporting of IFRS S1 and S2 standards started on January 1, 2024 | Initiative led by Bangladesh Bank (BB) and Financial Reporting Council. Reporting required for annual reports. Full implementation expected by 2027, but with limited assurance on reporting information. |
| **Cambodia** | In process of implementing IFRS S1 and S2 | National Accounting Council (NAC) formally endorsed IFRS S1 and S2 and is overseeing implementation |
| **China** | In process of implementing IFRS S1 and S2 | Ministry of Finance released draft Corporate Sustainability Disclosure Standards in May 2024. Standards will initially be voluntary but will aim to become mandatory and aligned with ISSB by 2030, with certain exceptions (e.g. voluntary Scope 3 emissions and scenario analysis). |
| **Costa Rica** | Implemented. Mandatory reporting of IFRS S1 and S2 standards started on January 1, 2025 on a "comply or explain" basis | Colegio de Contadores Publicos announced ISSB adoption in 2023. |
| **Egypt** | In process of implementing IFRS S1 and S2. | The Egyptian Stock Exchange has signaled that listed companies will be required soon to adopt IFRS S1 and S2 standards. |
| **Ghana** | In process of implementing IFRS S1 and S2. Voluntary adoption began in 2024 with mandatory requirements likely beginning in 2027 for public interest entities | The Institute of Chartered Accountants of Ghana (ICAG) published a roadmap for the adoption of IFRS S1 and S2 in 2024, with mandatory adoption from 1 January 2027 for significant public interest entities (SPIEs) and from 1 January 2028 for other mandatory adopters (OMAs). |
| **Honduras** | In process of implementing IFRS S1 and S2. Mandatory application will begin on January 1, 2028 | Honduran Accounting and Auditing Standards Board (JUNTEC) officially adopted ISSB and oversees its implementation, starting with annual reporting from 2028 following a transitional period. |
| **Jordan** | In process of implementing IFRS S1 and S2. | The Amman Stock Exchange (ASE) has permitted the voluntary use of IFRS S1 and S2 standards by all listed companies, and will begin mandatory application on 1 January 2026 for companies on its ASE20 index. |
| **Kazakhstan** | In process of implementing IFRS S1 and S2 | The Astana International Financial Centre (AIFC) introduced mandatory ESG reporting for the banking sector in 2024 and is supporting capacity-building efforts. |
| **Kenya** | In process of implementing IFRS S1 and S2. Mandatory reporting to begin in January 1, 2027 | The Institute of Certified Public Accountants of Kenya (ICPAK) has issued a roadmap which sets out mandatory disclosures for public interest entities from 1 January 2027 and for non-public interest entities from 1 January 2028. |

| Country | Status | Notes |
|---|---|---|
| **Malawi** | No public information available about implementation | Study found that 33 percent of listed companies in Malawi have disclosed compliance with IFRS S1 and S2 (Kampanje, 2025). |
| **Malaysia** | Implemented. Mandatory reporting for main market listed issuers with market cap of >RM 2 billion from January 1, 2025 | National Sustainability Reporting Framework (NSRF) launched in September 2024. Implementation is being phased between 2025 and 2030 using a "climate-first strategy", which prioritizes climate-related disclosures with full compliance later. |
| **Maldives** | In process of implementing IFRS S1 and S2 | Institute of Chartered Accountants of the Maldives approved adoption in 2025, but no timeline for implementation has been specified. |
| **Mauritania** | No public information available about implementation | |
| **Mauritius** | No plans to implement IFRS S1 or S2 yet, but actively preparing to do so | Mauritius hosted a meeting with 23 African countries to discuss ISSB adoption in May 2024. The Chairman of the Stock Exchange of Mauritius has urged both listed and unlisted companies to start incorporating ESG factors into their strategies in anticipation of the new standards. In December 2023, the IFRS Foundation noted that Mauritius was among the jurisdictions supporting the ISSB's work and considering how to integrate the standards into its regulatory framework (IFRS, 2023c). |
| **Mexico** | In process of implementing IFRS S1 and S2, with mandatory disclosure starting on January 1, 2026 | Assurance by external auditor is still optional, but mandatory assurance will become mandatory from 1 January 2027 as part of a separate annual sustainability report submitted to CNBV. Private companies must use new Mexican Financial Reporting and Sustainability Standards (NIS) developed by the Mexican Council for Financial Reporting Standards (CINIF). Mexican Sustainable Taxonomy is also under development. |
| **Mongolia** | In process of implementing IFRS S1 and S2 | Full IFRS for financial reporting has already been implemented through its Accounting Law, although specific adoption of IFRS S1 and S2 is not specified. |
| **Morocco** | In process of implementing IFRS S1 and S2 | Voluntary adoption is encouraged since 1 January 2024. |
| **Nepal** | In process of implementing IFRS S1 and S2 by aligning its draft Nepal Sustainability Reporting Standards (NSRS) with them | Accounting Standards Board (ASB) launched public consultation in July 2025. Implementation plan includes a phased approach and relief measures (e.g. temporary exemptions for Scope 3 emissions). |
| **Nigeria** | In process of implementing IFRS S1 and S2. Mandatory reporting for public interest entities from January 1, 2028 | The Financial Reporting Council (FRC) released a roadmap in March 2024, including transitional reliefs (e.g. Scope 3 emissions, separate sustainability reporting). |
| **Pakistan** | In process of implementing IFRS S1 and S2, with first phase of reporting for large listed companies starting July 1, 2025 | Subsequent phases will be implemented in 2026 and 2027, including of unlisted public interest entities. |
| **Peru** | Actively looking into implementation | Active steps are being taken in the context of the Latin American Partnership for sustainability and SDG reporting, which Peru will chair in 2026. |

| Country | Status | Notes |
|---|---|---|
| **Philippines** | In process of implementing IFRS S1 and S2, with mandatory reporting starting on January 1, 2026 for large publicly listed companies (>PHP 50 billion) | Philippine Sustainability Reporting Committee (PSRC) endorsed IFRS S1 and S2 in March 2024. The Securities and Exchange Commission (SEC) has released draft guidelines for consultation, proposing a phased implementation for publicly listed and large non-listed companies. |
| **Rwanda** | In process of implementing IFRS S1 and S2, with first reporting due in 2026 | The Institute of Certified Public Accountants of Rwanda (ICPAR) formed a steering committee and published a draft roadmap for implementing a phased approach. Full implementation with assurance requirements is scheduled for 2029. |
| **South Africa** | In process of implementing IFRS S1 and S2 | IFRS S1 and S2 reporting is currently voluntary, but the Financial Sector Conduct Authority (FSCA) and the National Treasury are actively considering incorporation of ISSB standards into regulatory framework. The Companies and Intellectual Property Commission (CIPC) updated its XBRL taxonomy to include an ISSB-aligned disclosure module to enable digital reporting in a standardized format. |
| **Sri Lanka** | Implemented. Mandatory disclosures started on January 1, 2025. | The Institute of Chartered Accountants (CA Sri Lanka) published its own versions of the IFRS S1 and S2 standards (SLFRS S1 and SLFRS S2, respectively) and began mandatory application on 1 January 2025 for certain companies. |
| **Tajikistan** | No public information available about implementation | The Association of Chartered Certified Accountants (ACCA) has hosted capacity-building workshops in Tajikistan to support IFRS S1 and S2 implementation |
| **Tanzania** | Implemented. Mandatory reporting started on January 1, 2025 | The National Board of Accountants and Auditors (NBAA) adopted ISSB and made minor amendments to Tanzania Financial Reporting Standard 1 (TFRS 1) to aligned with IFRS S1 and S2. Voluntary reporting began in 2024 and were made mandatory for Public Interest Entities (PIEs) and public sector entities, with other entities encouraged to adopt the standards. |
| **Uganda** | In process of implementing IFRS S1 and S2. Voluntary reporting for Public Interest Entities (PiEs) to start in 2026, with mandatory reporting to follow on 1 January 2028 | Adoption announced by the Institute of Certified Public Accountants of Uganda (ICPAU) in September 2024. Roadmap launched in September 2025 (ICPAU, 2025). |
| **Uzbekistan** | In process of implementing IFRS S1 and S2 | Active steps have been taken to implement IFRS S1 and S2 since 2021 (KPMG, 2024). |
| **Zambia** | Implemented for publicly accountable entities (PAEs) on 1 January 2025 | Implemented by the Zambia Institute of Chartered Accountants (2023). Voluntary for other entities.<br><br>See also IFRS profile (IFRS, 2025e) |
| **Zimbabwe** | Implemented for listed companies on Zimbabwe Stock Exchange (ZSE) and Victoria Falls Stock Exchange (VFEX) on 1 January 2024 | The Public Accountants and Auditors Board (PAAB) is developing a roadmap for extending ISSB S1 and S2 adoption to all other companies. |

# APPENDIX II – KEY INFORMANT INTERVIEWS

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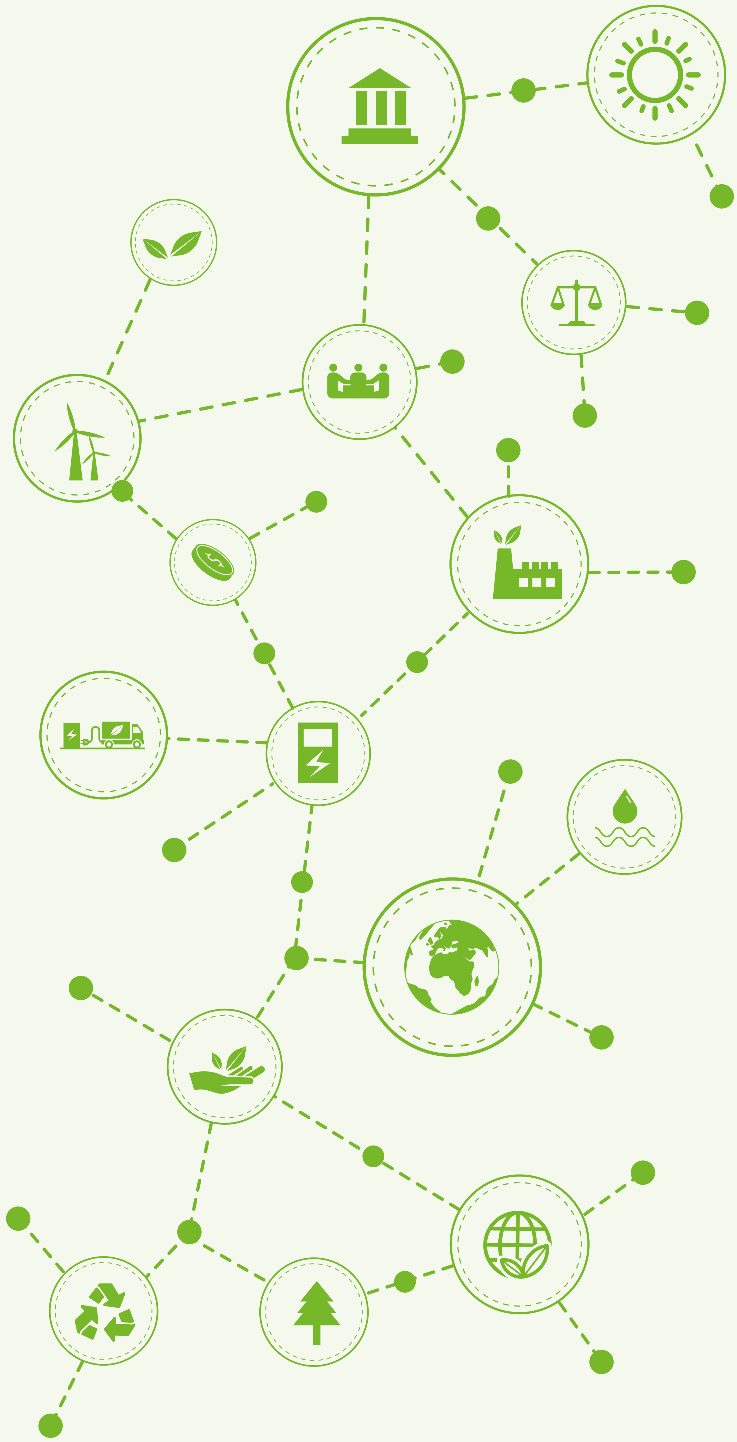
| Basel Committee on Banking Supervision (BCBS) |
| Financial Stability Board (FSB) |
| International Association of Insurance Supervisors (IAIS) |
| International Transition Plan Network (ITPN) |
| Central Bank of the Gambia |
| Superintendencia de Banca, Seguros y AFP (SBS) Peru |
| Bangko Sentral ng Pilipinas |
| Superintendencia General de Entidades Financieras |
| Financial Regulatory Commission of Mongolia |
| Securities and Exchange Board of India |

# ACRONYMS

| | |
|---|---|
| **AML/ CFT/CPF** | Anti-Money Laundering/Countering Financing of Terrorism/Countering Proliferation Financing |
| **BCBS** | Basel Committee on Banking Supervision |
| **EMDE** | emerging markets and developing economies |
| **ESG** | environmental, social, and governance |
| **FSB** | Financial Stability Board |
| **GSPWG** | Global Standards and Proportionality Working Group |
| **ICP** | Insurance Core Principles |
| **IFC** | International Finance Corporation |
| **IGF** | Inclusive Green Finance |
| **IGFWG** | Inclusive Green Finance Working Group |
| **ISSB** | International Sustainability Standards Board |
| **KYC** | Know-Your-Customer |
| **LCR** | Liquidity Coverage Ratio |
| **MDB** | Multilateral development bank |
| **MSMEs** | Micro, Small and Medium Enterprises |
| **NSFR** | Net Stable Funding Ratio |
| **SDGs** | Sustainable Development Goals |
| **SMEs** | Small and Medium-sized Enterprises |
| **SSB** | Standard-setting bodies |
| **TCFD** | Task Force on Climate-Related Financial Disclosures |



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