

DOES IFRS S1/S2 ENHANCE ESG DISCLOSURE QUALITY AND INVESTOR CONFIDENCE? A CONCEPTUAL SYNTHESIS



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Abstract

Weak comparability, limited credibility, and low decision-usefulness of ESG disclosures continue to undermine investor confidence despite rapid global growth in sustainability reporting. As IFRS S1 and IFRS S2 become the emerging global baseline for sustainability standards, there remains limited conceptual understanding of how these standards can enhance ESG reporting quality and market trust. This study conducts a systematic conceptual synthesis of 44 peer-reviewed articles (2021–July 2025) using SPAR-4-SLR and PRISMA frameworks to explain the mechanisms through which IFRS S1/S2 adoption improves ESG quality. The review shows that comparability, readability, and assurance serve as key channels to strengthen completeness, interpretive clarity, and credibility of sustainability reports, thereby increasing investor confidence. A mechanism-based model and four propositions are developed, highlighting contextual influences such as regulatory enforcement and industry sensitivity, and offering a structured agenda for future empirical research.

INTRODUCTION

The corporate world has long faced a fragmented sustainability reporting landscape, with overlapping frameworks such as the GRI, SASB, and TCFD yielding inconsistent and non-comparable ESG information (Auwal et al., 2024). In response, the International Sustainability Standards Board (ISSB), under the IFRS Foundation, issued IFRS S1 and IFRS S2 in 2023 to establish globally consistent sustainability reporting standards. These standards are designed to enhance the transparency, comparability, and decision-usefulness of ESG disclosures, aligning sustainability information with

investor-focused financial reporting systems (Carroll, 2023; ISSB, 2023a). By doing so, they aim to address the long-standing inefficiencies and information asymmetries in sustainability reporting practices.

Despite this regulatory milestone, the academic literature remains fragmented in explaining how standardisation under IFRS S1 and S2 translates into measurable trust and confidence in the market. While legitimacy and stakeholder theories provide well-established foundations for understanding why firms disclose sustainability information, less is known about the specific mechanisms through which these global standards improve the quality and credibility of ESG information. Existing studies (e.g., Grewal et al., 2021; Christensen et al., 2021) often emphasise reporting quantity or cross-framework comparisons, leaving the mechanistic linkages, such as comparability, readability, and assurance, less systematically integrated into a conceptual model.

Conceptual research is therefore particularly valuable at this early stage of IFRS S1/S2 adoption. Given that empirical data are still limited, a theoretically grounded synthesis can clarify the causal logic and boundary conditions underlying these standards' expected effects on ESG disclosure quality and investor confidence. The study thus develops a mechanism-based framework to explain how IFRS S1/S2 may strengthen disclosure completeness and credibility, while identifying institutional conditions that amplify or constrain these outcomes. This approach provides a foundation for subsequent empirical inquiry once more post-adoption data become available.

The review period of January 2021- July 2025 was deliberately chosen to capture the most relevant phase of scholarly development surrounding sustainability standardisation. The timeframe begins with the surge in pre-adoption discussions and policy consultations preceding the release of IFRS S1/S2 and extends through the first approximately two years following their issuance. This range ensures that the synthesis encompasses both anticipatory analyses of standardisation and early evaluations of its implications for ESG reporting and investor perceptions.

The study draws on legitimacy theory and stakeholder theory to explain how standardised sustainability reporting can enhance market confidence. Legitimacy theory views ESG disclosure as a mechanism through which firms align their actions with societal and regulatory expectations to preserve their social licence to operate (Deegan, 2002; Podayan & Charumathi, 2025). Stakeholder theory complements this by recognising that firms disclose not only to satisfy regulators but to respond to the diverse informational needs of investors, communities, and other stakeholders (Freeman & McVea, 2001; Fernando and Lawrence, 2014). Together, these theories provide a comprehensive foundation for examining the institutional and relational dimensions of IFRS S1/S2 adoption.

In light of these theoretical and contextual considerations, this study explores the following research questions: (1) How does the adoption of IFRS S1 and IFRS S2 influence the completeness, comparability, and credibility of ESG disclosures across different reporting contexts?; (2) In what ways does improved ESG disclosure quality under IFRS S1 and S2 strengthen investor confidence in sustainability reporting?; (3) What contextual and institutional factors, such as regulatory enforcement, industry environmental sensitivity, and assurance of ESG reports, moderate the relationship between IFRS S1/S2 adoption and investor confidence?.

By addressing these questions through a systematic conceptual synthesis, this study advances understanding of how IFRS S1 and S2 can transform ESG reporting from reputational communication to credible, decision-useful information. It also offers a theoretically grounded framework that can guide future empirical investigations into the global adoption and effectiveness of sustainability disclosure standards.

The growing global expectations for transparent sustainability communication have intensified the need for high-quality environmental, social, and governance (ESG) disclosures. In response, the International Sustainability Standards Board (ISSB) issued IFRS S1 and IFRS S2 in June 2023 to establish a globally harmonised baseline for sustainability-related financial reporting. These standards are designed to mitigate the long-standing fragmentation in ESG reporting by integrating sustainability-related information into financial reporting systems to enhance investor decision-usefulness (PwC, 2024; ISSB, 2023b).

IFRS S1 requires disclosure of material sustainability-related risks and opportunities following the governance, strategy, risk management, and metrics and targets structure established by TCFD (Grant Thornton & MICPA, 2024). IFRS S2 applies the same reporting architecture specifically to climate-related disclosures, mandating reporting on climate risks, scenario analysis, and greenhouse gas emissions in alignment with the GHG Protocol (ISSB, 2023c). These standards thereby reinforce enterprise-value materiality and investor-focused sustainability information, which distinguishes them from frameworks like GRI that encompass broader societal materiality (Khamisu & Paluri, 2024; Mohy-ud-Din, 2024).

Global regulatory responses indicate that IFRS S1 and S2 are gaining traction. Jurisdictions such as the United Kingdom, Canada, Japan, and Australia have announced plans for phased incorporation into their regulatory environments, while emerging markets like Nigeria, Malaysia, and Singapore are consulting on potential adoption to enhance transparency and global investor confidence (IFRS Foundation, 2024; Bohn et al., 2025). The European Union, although advancing its own Corporate Sustainability Reporting Directive (CSRD), has committed to interoperability with ISSB standards to avoid duplication and reporting burden (Hummel & Jobst, 2024). While these developments signal a strong movement toward global alignment, they also highlight variation in institutional readiness, particularly within developing economies. As regulatory adoption proceeds, it becomes important to understand whether IFRS S1 and S2 will meaningfully improve the credibility and comparability of ESG disclosures in practice.

The concept of ESG disclosure quality is now central to sustainability reporting discourse. High-quality disclosure is characterised by completeness, comparability, consistency, and timeliness, attributes essential for supporting informed investor decision-making (Korca & Costa, 2021; Dewi et al., 2023). Completeness refers to providing all material ESG information without selective omission, while comparability facilitates benchmarking across firms and sectors. Consistency supports longitudinal assessment, and timeliness ensures relevance in rapidly changing sustainability landscapes (Christensen et al., 2021). Strong corporate governance further enhances disclosure quality; independent and diverse boards contribute to improved oversight of sustainability communication (Arayssi et al., 2020; O'Hare, 2022). Firms in socially or environmentally sensitive industries often disclose more due to legitimacy pressures and reputational concerns (Hoang, 2022; Arvidsson & Dumay, 2022; Galbreath, 2013).

Despite increased corporate engagement with ESG reporting, persistent inconsistencies reduce its decision-usefulness. Voluntary disclosure has shown limitations in credibility and comparability due to managerial discretion and selective transparency (Korca & Costa, 2021). Mandatory reporting interventions such as the EU Directive 2014/95/EU have improved transparency (Aluchna et al., 2023) and reduced symbolic reporting or “decoupling” between communication and action (Aboud et al., 2024). Nevertheless, research continues to reveal instances of impression-management behaviours and incomplete compliance (Di Tullio et al., 2020; Ottenstein et al., 2022). These challenges reinforce the need for uniform standards and third-party assurance.

IFRS S1 and S2 have the potential to improve disclosure quality through interconnected mechanisms: enhanced comparability reduces ESG information asymmetry (Heyden, 2025; Krueger et al., 2024); improved clarity increases readability and cognitive accessibility for investors (Misiuda & Lachmann, 2022; Baboukardos et al., 2024); and assurance activities improve credibility by reducing greenwashing concerns (Bondar et al., 2024). However, while their theoretical benefits are well articulated, empirical evidence of their real-world impact remains scarce due to their recent introduction, especially in developing jurisdictions where reporting capacity gaps may hinder implementation (Setyaningsih et al., 2024). This creates an important opportunity for research to assess whether and how IFRS S1 and S2 meaningfully enhance ESG disclosure quality.

Investor confidence has become strongly tied to the credibility and comparability of sustainability information. High-quality disclosures reduce information asymmetry, provide clearer insights into long-term risk exposure, and increase investor trust (Park & Jang, 2021). Investors now increasingly incorporate ESG considerations into valuation and capital allocation processes as sustainability performance is recognised as financially material (Giese et al., 2019; Reis et al., 2025). Improved ESG

reporting can lower the cost of equity capital and attract responsible investment, ultimately contributing to improved firm value (Dhaliwal et al., 2011; Mohy-ud-Din, 2024). However, where reporting lacks transparency or appears symbolic, investor scepticism and suspicion of greenwashing rise, undermining market confidence and potentially discouraging investment (Reis et al., 2025; Kim & Lyon, 2014). IFRS S1 and S2 are expected to reduce such uncertainty by embedding sustainability reporting into the broader financial reporting ecosystem and prioritising investor-relevant disclosures (Heyden, 2025).

Legitimacy theory offers an important explanation for firms' adoption of ESG disclosure practices. Organisations seek to maintain societal approval by ensuring their actions are perceived as consistent with social norms and expectations (Suchman, 1995). Firms in environmentally sensitive industries face heightened legitimacy threats and therefore engage in more extensive sustainability reporting to mitigate reputational risk and secure their social license to operate (Deegan & Blomquist, 2006; Riso et al., 2025). High-quality disclosures enhance substantive legitimacy; however, firms may also adopt disclosure practices symbolically to appear legitimate without altering actual sustainability performance (Arvidsson & Dumay, 2022; Kim & Lyon, 2014). Effective implementation of IFRS S1 and S2 may reduce symbolic tendencies by requiring more standardised disclosures and external assurance, thereby strengthening investor confidence in the reliability of reported information (Dhaliwal et al., 2011).

Stakeholder theory complements this by recognising that firms must address the needs of multiple stakeholder groups, including investors, regulators, employees, and communities (Freeman, 1984). High-quality ESG disclosures signal responsiveness to stakeholder demands and improve trust and engagement (Dewi et al., 2023; Korca & Costa, 2021). Governance structures such as board diversity foster better alignment between corporate reporting and stakeholder expectations (Mohy-ud-Din, 2024). Satisfying investor information needs is particularly crucial, as credible disclosures help reduce uncertainty and enhance access to capital (Khamisu & Paluri, 2024; Dhaliwal et al., 2011). Nonetheless, when stakeholder pressures conflict, firms may resort to symbolic reporting practices, again highlighting greenwashing concerns (Kim & Lyon, 2014). The global standardisation introduced by IFRS S1 and S2 may help balance these tensions by ensuring sustainability information serves both investor and broader stakeholder interests (Hummel & Jobst, 2024).

Overall, this study establishes that IFRS S1 and S2 provide a structured pathway to improve the credibility, comparability, and investor relevance of sustainability reporting. Yet, their impact depends on whether firms genuinely enhance disclosure quality rather than symbolically adopt standards in response to legitimacy and stakeholder pressures. Empirical assessment remains necessary, particularly in emerging markets where regulatory readiness and institutional capacity may differ. Consequently, the systematic conceptual synthesis methodology of this study is deployed to examine how the introduction of IFRS S1 and S2 influences ESG disclosure quality and investor confidence, drawing upon legitimacy and stakeholder theory to explain variations in reporting behaviour and disclosure outcomes across differing organisational and institutional contexts.

METHOD

Given the conceptual nature of this study, our methodological approach relied on a systematic synthesis of extant literature and theoretical perspectives rather than empirical testing. The study adopts a systematic conceptual synthesis approach to examine how the adoption of IFRS S1 and IFRS S2 may influence ESG disclosure quality and investor confidence. To ensure both conceptual robustness and methodological transparency, the research integrates two complementary frameworks. That is, the SPAR-4-SLR procedure proposed by Paul, Lim, and O'Cass (2021) and the PRISMA flowchart model developed by Page et al. (2020). The integration of these two frameworks allows the study to achieve a balance between theoretical depth (via SPAR-4-SLR) and procedural transparency (via PRISMA), thereby strengthening the credibility and replicability of the review. The SPAR-4-SLR procedure followed by this study involves four sequential stages of Structuring, Searching, Analysing, and Reporting. These were adapted to frame and execute the systematic conceptual synthesis approach.

Firstly, our assessment method focused on structuring the review by defining the scope, study research questions, and theoretical foundations. This focus was guided by the theoretical lenses of legitimacy and stakeholder theories, and structured around three central constructs: (i) *IFRS S1/S2 adoption* as the global standardisation mechanism, (ii) *ESG disclosure quality* as the mediating mechanism, and (iii) *investor confidence*.

Secondly, Systematic searches were conducted in Scopus and Web of Science (WoS) databases to identify relevant peer-reviewed literature published between January 2021 and July 2025. The search utilised keyword combinations such as “IFRS 1 OR IFRS S2 OR IFRS sustainability standards AND ESG disclosure quality”, “ESG disclosure quality AND investor confidence”, “ESG disclosure quality AND legitimacy theory OR stakeholder theory”. It was equally limited to journal articles and conference papers written in English and focused on the subject area.

Thirdly, analysing and synthesising insights was performed by evaluating the retrieved studies for conceptual relevance, theoretical grounding, and contribution to understanding the IFRS S1/S2–ESG–investor confidence nexus. The selected articles were then organised into thematic clusters, and insights were synthesised, linking empirical findings to theoretical constructs and identifying conceptual gaps for future inquiry.

Finally, the last stage of reporting and dissemination involved integrating the synthesised insights into a conceptual framework that delineates the relationships among IFRS S1/S2 adoption, ESG disclosure quality, and investor confidence. The framework identifies key mediators (credibility, comparability) and moderators (regulatory enforcement, industry sensitivity, assurance) to explain the underlying mechanisms. This stage also includes the formulation of research propositions that can guide future empirical investigations into IFRS-aligned sustainability reporting. Our adopted search protocol is shown in Table 1 below.

Table 1. Search Protocol

Element	Steps Adopted
Databases	Scopus and Web of Science databases
Search String	TITLE-ABS-KEY (("IFRS S1" OR "IFRS S2" OR "ISSB") AND ("ESG disclosure quality" OR "sustainability report*") AND (“investor” OR “confidence”) AND (“legitimacy theory” OR “Stakeholder theory”))
Time Frame	January 2021 and July 2025.
Inclusion Criteria	Peer-reviewed journal articles (January 2021- July 2025) published in English that focus on corporate sustainability reporting and provide conceptual or theoretical insights into ESG disclosure quality and investor confidence.
Exclusion Criteria	Publications that are non-peer-reviewed, pre-2021, non-English, or unrelated to the investor relevance of sustainability disclosure.
Screening	Titles and abstracts screened for relevance; full-text review of shortlisted articles.

The search process conducted in stage two started with an initial comprehensive search to get an overview of all relevant literature. This was then narrowed down to searching for recent records of interest, and thus covered the period January 2021 to July 2025. The initial records were screened, removing duplicates, and tailored to the period under consideration. This review was to identify which articles and papers are suitable for the study. These processes are summarised on the PRISMA flow model in Figure 1 below.

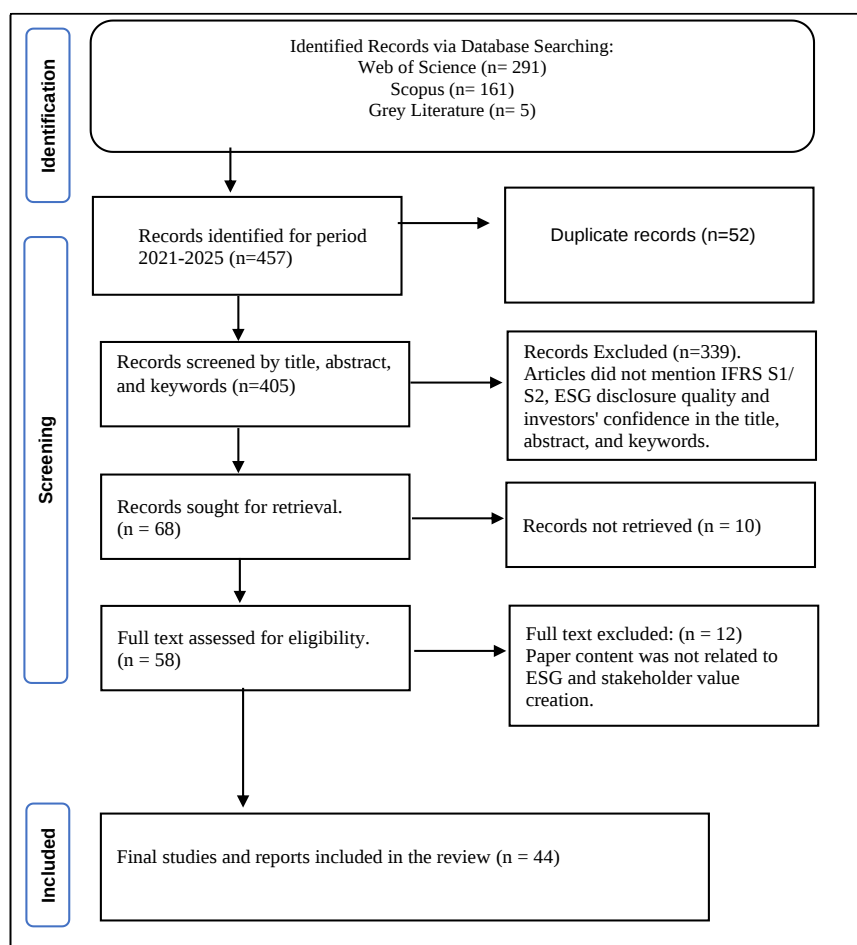


Figure 1. PRISMA flowchart model of article review process, adapted from Page et al. (2020)

A structured thematic analysis was conducted using a coding framework developed from the research questions, IFRS S1/S2 reporting objectives, and the theoretical foundations of Legitimacy and Stakeholder Theory. The coding process followed three stages. First, open coding on a pilot set of articles identified recurring concepts linked to ESG disclosure quality and investor confidence. Second, thematic coding grouped these into mechanism-related themes (comparability, credibility, readability, assurance) and contextual themes (regulatory enforcement, industry sensitivity, assurance level). Third, selective coding mapped how each theme contributed to the proposed causal pathways.

To ensure reliability, 15% of the articles were independently double-coded, and discrepancies were resolved through discussion. The synthesis proceeded by aggregating coded findings into thematic clusters and integrating them using theory-driven interpretation, enabling the development of propositions that explain how IFRS S1/S2 adoption enhances ESG disclosure quality and investor confidence.

RESULTS

Figure 2 below illustrates the annual distribution of the 44 reviewed articles based on their publication year (2021-2025). Research output rose from 6 articles in 2021 to 11 in 2022, dropped sharply to 2 in 2023, and peaked at 16 in 2024 following the issuance of IFRS S1 and S2. In 2025, the publications of 9 articles in the first 7 months indicated a sustained scholarly interest. The post-2023 increase underscores the standards' influence in shaping the global research agenda on ESG disclosure harmonisation and legitimacy-driven transparency. Overall, the trend highlights increasing academic

attention to IFRS S1/S2 and ESG disclosure quality, especially after the standards' global introduction.

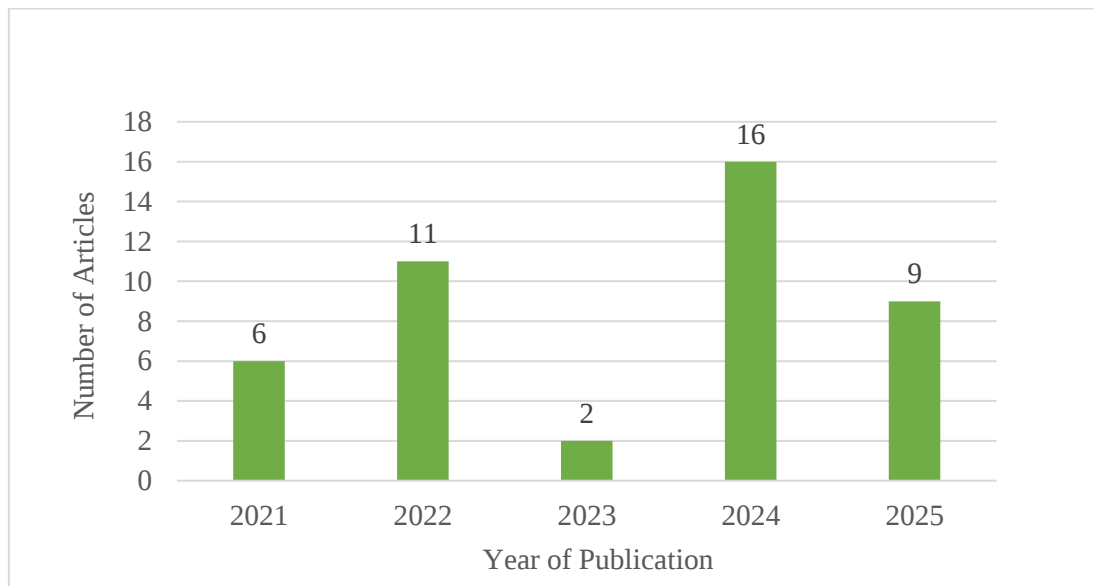


Figure 2. Retrieved Articles Publication Trend

Furthermore, the review synthesised 44 studies drawn from 35 peer-reviewed journals. The *Meditari Accountancy Research* journal contributed the highest number of studies (5), followed by *Business Strategy and the Environment* (3), and *Cogent Business & Management* and *Journal of Applied Accounting Research* (2 each). Other journals, including *Journal of Cleaner Production*, *Sustainability*, and *Corporate Social Responsibility and Environmental Management*, each contributed one study. This broad journal spread indicates the multidisciplinary nature of the IFRS S1/S2 and ESG disclosure discourse, spanning accounting, finance, and sustainability management literature.

The geographical distribution and analysis revealed that most studies were concentrated in *emerging markets* like India, Nigeria, Egypt, Brazil, Pakistan, Vietnam, Indonesia, and Ghana (Dayanandan, Donker & Kuntluru, 2024; Abdelmoneim & El-Deeb, 2024; Malaquias et al., 2025; Nwaigwe et al., 2022; Hoang, Phan & Nguyen, 2023; Pratama et al., 2024). Also, additional contributions came from *developed regions* such as the United Kingdom, Australia, and the European Union (Moses et al., 2025; Aboud, Saleh & Eliwa, 2024; Arif, Gan & Nadeem, 2022; Aluchna et al., 2023). Thematically, emerging-market studies focus on *ESG disclosure quality*, *IFRS readiness*, and *reporting integration*, while developed-market studies emphasise *mandatory sustainability disclosure* and *regulatory enforcement*. Notably, cross-regional and global studies (e.g., Krueger et al., 2024; Heyden, 2025) examined IFRS S1/S2 adoption and investor confidence at an international scale, reinforcing the global significance of the topic.

The reviewed literature was categorised into three interrelated thematic clusters:

Standardisation and Disclosure Quality: Studies analysing how the introduction of uniform sustainability frameworks such as IFRS S1/S2, ISSB, or EU Directives improves the completeness, comparability, and credibility of ESG disclosures (e.g., Christensen et al., 2021; Aboud et al., 2024; Korca & Costa, 2021).

Disclosure-Investor Linkages: Works examining how improved ESG disclosure quality enhances investor confidence, market trust, and capital allocation decisions (e.g., Giese et al., 2019; Park & Jang, 2021; Reis et al., 2025).

Moderating and Mediating Mechanisms: Analyses exploring the influence of regulatory enforcement, industry environmental sensitivity, and third-party assurance on the disclosure-confidence nexus (e.g., Aluchna et al., 2023; Ottenstein et al., 2022; Bondar et al., 2024).

These clusters collectively demonstrate that IFRS S1 and S2 serve as global harmonisation tools

that enhance ESG disclosure quality through standardisation, which in turn strengthens investor trust through mechanisms of credibility and comparability.

To move beyond descriptive results, the findings were synthesised into a structured analytical mapping as shown in Table 2 below, linking literature clusters → transmission channels → mechanisms → investor-confidence proxies.

Table 2. Synthesis Mapping of Literature, Mechanisms, and Investor Confidence

Literature Cluster	Primary Channels (How IFRS S1/S2 Improves ESG Quality)	Underlying Mechanisms (How ESG Quality Builds Investor Confidence)	Investor-Confidence Proxies Identified in Literature	Key Supporting Studies
Standardisation & Regulation (e.g., ISSB, EU Directive 2014/95/EU)	Mandatory disclosure frameworks enhance the <i>completeness</i> and <i>comparability</i> of ESG information.	Improved comparability and reliability reduce information asymmetry and signal transparency.	Investor trust, perceived reliability, and cost of capital reduction.	<i>Christensen et al., 2021; Korca & Costa, 2021; Aboud et al., 2024; Krueger et al., 2024; Aluchna et al., 2023; ISSB, 2023b; Hummel & Jobst, 2024</i>
Corporate Governance & Assurance (Audit committee independence, external assurance, governance quality)	Governance mechanisms and third-party assurance improve the <i>credibility</i> and <i>consistency</i> of ESG disclosures.	Credible and verified disclosures enhance investors' perceptions of managerial accountability and reliability.	Market confidence, analyst forecast accuracy, and capital inflow.	<i>Arayssi et al., 2020; O'Hare, 2022; Ottenstein et al., 2022; Bondar et al., 2024; Lombardi et al., 2022</i>
Industry Sensitivity & Legitimacy Pressures (High-impact sectors, legitimacy drivers)	Heightened environmental and social scrutiny drives more <i>comprehensive</i> and <i>timely</i> ESG reporting.	Alignment with societal norms enhances legitimacy and strengthens stakeholder trust.	Reputation index, ESG ratings, stock price informativeness.	<i>Raimo et al., 2021; Riso et al., 2025; Hoang, 2022; Arvidsson & Dumay, 2022; Bohn et al., 2025</i>
Stakeholder Responsiveness & Transparency (Investor- and stakeholder-oriented disclosure alignment)	IFRS S1/S2-based reporting enhances <i>timeliness</i> , <i>comparability</i> , and <i>stakeholder responsiveness</i> .	Transparent disclosures signal long-term value creation and strategic accountability to investors.	Investor perception surveys, disclosure credibility indices.	<i>Park & Jang, 2021; Reis et al., 2025; Khamisu & Paluri, 2024;</i>

The results of this conceptual synthesis reveal an integrated framework explaining how the adoption of IFRS S1 and IFRS S2 enhances ESG disclosure quality and ultimately strengthens investor confidence. Grounded in Legitimacy Theory (Suchman, 1995) and Stakeholder Theory (Freeman, 1984), the model treats IFRS S1/S2 adoption as an institutional intervention through which firms respond to societal expectations and address the information requirements of key capital market stakeholders, particularly investors. By aligning reporting with emerging global norms, adoption functions both as a legitimacy-seeking act and a disclosure enhancement mechanism (Christensen et al., 2021; ISSB, 2023b).

The analysis shows that the primary expected outcome of adopting IFRS S1 and S2 is higher ESG disclosure quality, operationalised through improvements in completeness, comparability, and credibility. Completeness reflects the breadth of material sustainability-related information disclosed, reducing selective transparency that previously undermined trust (Auwal et al., 2024). Comparability

fosters consistency across firms and industries, addressing historic divergence created by multiple frameworks such as GRI or SASB (Korca & Costa, 2021). Credibility represents investor confidence in the fairness and accuracy of sustainability metrics, mitigating greenwashing concerns (Christensen et al., 2021). These attributes collectively reduce information asymmetry and form the causal bridge between IFRS adoption and capital market trust (Abdelmoneim & El-Deeb, 2024; Nwaigwe et al., 2022; Park & Jang, 2021). Accordingly:

P1 – Adoption of IFRS S1/S2 increases the completeness, comparability, and credibility of ESG disclosures. Enhanced ESG disclosure quality is directly associated with increased investor confidence. Investors rely on transparent sustainability reporting to assess long-term risk exposure, strategic resilience, and value creation potential (Park & Jang, 2021). Standardised and decision-useful sustainability information enables more reliable valuation and lowers perceived uncertainty (Nwaigwe et al., 2022). Legitimacy Theory suggests high-quality disclosure signals conformity with societal expectations, while Stakeholder Theory emphasises that meeting investor information needs reinforces trust and economic support (Riso et al., 2025; Khamisu & Paluri, 2024). This leads to:

P2 – Higher ESG disclosure quality leads to greater investor confidence in sustainability-related information. The relationships in the model are affected by institutional and industry contexts. The first moderating factor is regulatory enforcement strength, which influences whether adoption results in substantive or symbolic compliance (Arvidsson & Dumay, 2022). Evidence from the EU's NFRD shows that when enforcement is weak, firms may comply formally without providing meaningful disclosure (Di Tullio et al., 2020; Aluchna et al., 2023). Strong enforcement ensures accountability, drives full implementation of IFRS-aligned disclosure systems, and strengthens investor perceptions that information is reliable (Hoang, 2022). Accordingly:

P3 – The positive effect of IFRS S1/S2 adoption on ESG disclosure quality and investor confidence is stronger where regulatory enforcement is high. The second contextual factor is environmental industry sensitivity. Firms in carbon-intensive and environmentally exposed sectors face heightened scrutiny from stakeholders, making credible disclosure especially critical to reduce perceived investment risk (Bondar et al., 2024). In such industries, improvements in ESG transparency have amplified effects on investor reactions because sustainability performance is materially associated with long-term financial outcomes (Malaquias et al., 2025). Consistent with Stakeholder Theory, stakeholders exert stronger pressure where sustainability impacts are more visible and consequential (Reis et al., 2025).

A third reinforcing mechanism relates to external assurance of sustainability disclosures. Independent verification increases perceived reliability and accountability, mitigating challenges associated with subjective sustainability measurement (Ottenstein et al., 2022). Assurance supports both legitimacy validation and stakeholder confidence enhancement by confirming that disclosures comply with regulatory and reporting requirements (Bondar et al., 2024). Thus:

P4 – The relationship between enhanced ESG disclosure quality and investor confidence is stronger in environmentally sensitive industries and when ESG disclosures are externally assured. Taken together, the propositions demonstrate that IFRS S1/S2 adoption triggers a chain of effects in which disclosure quality improvements increase credibility and comparability, thereby building investor confidence. Perceived credibility functions as the first mediating mechanism, improving investor belief in the truthfulness of sustainability statements. Perceived comparability operates as a second mediator, supporting reliable benchmarking and cross-entity assessment. These mediators translate the technical outcomes of standardisation into psychological and behavioural changes among investors (Christensen et al., 2021).

The model therefore advances prior research by explaining both *how* and *under what conditions* IFRS-aligned sustainability standards can drive capital market benefits. The results highlight that disclosure reforms alone are insufficient unless accompanied by strong enforcement, investor-relevant context, and independent validation. This integrated framework offers a theoretically grounded basis for empirical testing as IFRS S1/S2 adoption expands globally (Figure 3).

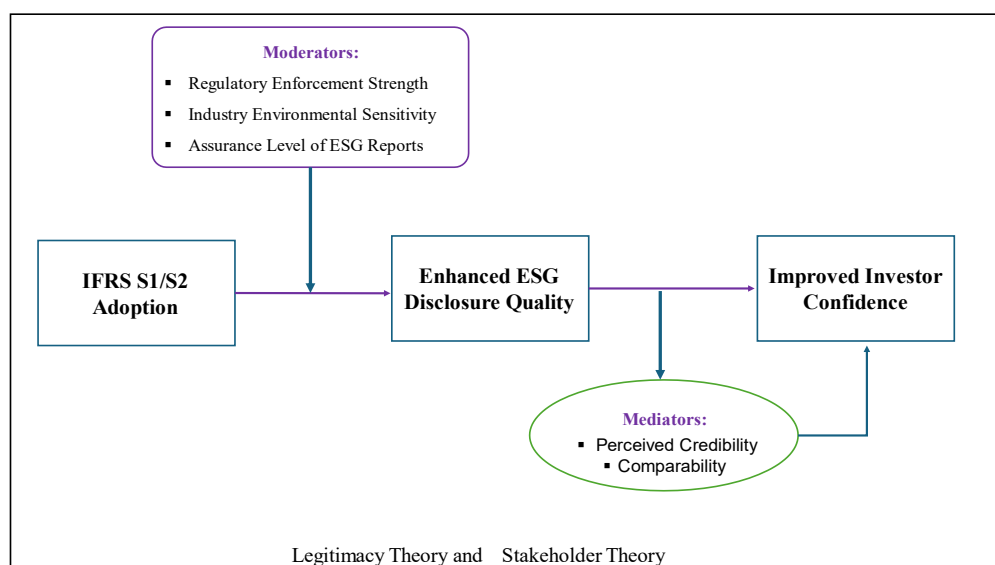


Figure 3. Conceptual Model Linking IFRS S1/S2 Adoption, ESG Disclosure Quality, and Investor Confidence

The model illustrates that IFRS S1/S2 adoption enhances ESG disclosure quality (completeness, comparability, credibility), which increases investor confidence through perceived credibility and comparability. Enforcement strength, industry environmental sensitivity, and external assurance moderate these relationships.

DISCUSSION

The synthesis of findings demonstrates that IFRS S1 and IFRS S2 operate through interconnected mechanisms that enhance ESG disclosure quality and strengthen investor confidence. These mechanisms align strongly with both Legitimacy Theory and Stakeholder Theory, which together explain why firms adopt sustainability reporting and how such disclosures influence market perceptions and capital allocation. By integrating sustainability into the financial reporting architecture, IFRS S1 and S2 reduce managerial discretion and elevate ESG disclosures from symbolic communication to decision-useful information (PwC, 2024; ISSB, 2023b). This supports materiality-based reporting focused on enterprise value, which is expected to improve completeness and comparability across firms and jurisdictions (Khamisu & Paluri, 2024; Heyden, 2025).

Legitimacy pressures provide a compelling explanation for why disclosure quality improves under mandatory regimes. Organisations seek to maintain societal approval by aligning their reporting with evolving sustainability expectations (Suchman, 1995; Deegan & Blomquist, 2006). Prior research on the EU Directive 2014/95/EU shows that increased regulatory rigour strengthens transparency, limiting symbolic disclosure practices and ESG decoupling (Aboud et al., 2024; Ottenstein et al., 2022). Similar improvements in transparency following mandatory disclosure regimes have been documented in other markets (Christensen et al., 2021; Aluchna et al., 2023). IFRS S1 and S2 are expected to deliver comparable outcomes by embedding sustainability within financial-reporting governance and assurance structures, especially in highly scrutinised industries where legitimacy threats are pronounced (Arvidsson & Dumay, 2022; Galbreath, 2013).

A second pathway is the enhancement of signal credibility through verifiable metrics and external assurance. Disclosures under IFRS S2 require more precise climate-risk data, such as Scope 1-3 emissions and scenario analysis (ISSB, 2023c). The availability of measurable performance indicators reduces opportunistic behaviour by limiting firms' ability to inflate sustainability narratives (Kim & Lyon, 2014). Assurance further validates reported information and mitigates investor scepticism linked to greenwashing (Bondar et al., 2024; de Silva Lokuwaduge & De Silva, 2022). Empirical studies reveal

that credibility signals reduce information asymmetry and lower financing costs, reinforcing the financial consequences of reliable disclosure (Dhaliwal et al., 2011; Giese et al., 2019). Legitimacy theory suggests that when firms can externally substantiate sustainability performance, legitimacy becomes substantive rather than symbolic (Hahn et al., 2021).

The third mechanism relates to interpretive readability and analytical accessibility. Research demonstrates that cognitively clear and standardised sustainability reporting promotes investor understanding and improves confidence in decision-making (Misiuda & Lachmann, 2022; Malaquias et al., 2025). Under Stakeholder Theory, improved readability reflects responsiveness to the expectations of key stakeholders, particularly institutional investors who demand clarity about long-term risk exposure (Park & Jang, 2021; Dewi et al., 2023). IFRS S1 and S2 reduce interpretive discretion through structured disclosure formats consistent across sectors, helping convert disclosure quantity into perceived transparency (Korca & Costa, 2021; Auwal et al., 2024).

Across all mechanisms, contextual moderators influence reporting outcomes. Research indicates that stronger enforcement regimes amplify improvements in disclosure quality, whereas weak oversight enables symbolic compliance (Di Tullio et al., 2020; Hoang, 2022). Governance structures, including board independence and expertise, further support credible ESG communication, as firms with stronger oversight mechanisms are more likely to report decision-useful sustainability information (Arayssi et al., 2020; Mohy-ud-Din, 2024). Stakeholder-sensitive industries, such as mining, energy, and financial services, face intensified scrutiny and therefore demonstrate higher adoption incentives (Deegan & Blomquist, 2006; Riso et al., 2025). Conversely, smaller firms and those in less regulated jurisdictions may struggle with compliance due to resource limitations (Setyaningsih et al., 2024). These moderating effects highlight the practical challenges of global standardisation while affirming the theoretical expectation that legitimacy and stakeholder pressures vary across environments.

Critiques also suggest that global standardisation may induce box-ticking compliance, reducing disclosure to formulaic checklists rather than substantive transparency (Arvidsson & Dumay, 2022). However, IFRS S1 and S2 incorporate materiality filters requiring firms to disclose only information that affects enterprise value, thereby discouraging superficial reporting and compelling alignment with actual sustainability performance (Grant Thornton & MICPA, 2024). This reinforces Stakeholder Theory's assertion that credible engagement is not just disclosure, but is necessary to build meaningful trust (Freeman, 1984; Khamisu & Paluri, 2024).

Taken together, the evidence suggests that IFRS S1 and IFRS S2 provide a structured pathway to strengthen ESG disclosure quality by enhancing comparability, credibility, and interpretive clarity. Higher disclosure quality, in turn, supports improved investor confidence, signalling lower sustainability risk exposure and stronger long-term value creation (Reis et al., 2025; Mohy-ud-Din, 2024). Yet, the extent to which these benefits materialise depends on enforcement strength, assurance quality, industry pressures, and governance capacity. These interactions reinforce theoretical arguments that firms disclose sustainability information to maintain legitimacy and satisfy stakeholder expectations, but only when external pressures and institutional safeguards support substantive compliance.

These insights highlight the critical need for empirical evidence evaluating the real-world impact of IFRS S1 and S2, particularly in emerging economies where implementation capabilities vary. Future studies should investigate whether improvements in readability and credibility under these standards translate into measurable increases in investor trust, and how contextual factors moderate these effects across regulatory environments. By addressing these issues, ongoing research can determine the extent to which ISSB standards fulfil their promise of delivering transparent, reliable, and investor-relevant sustainability reporting worldwide.

CONCLUSION

The adoption of IFRS S1 and S2 represents a pivotal moment in the evolution of global sustainability reporting. This study has conceptually examined how these standards can enhance ESG disclosure quality and strengthen investor confidence through theoretically grounded mechanisms and

contextual boundary conditions. The conclusion consolidates these insights into three focal areas: (i) the study's theoretical contributions and mechanism-based propositions, (ii) its implications for policy and corporate practice, and (iii) its limitations and pathways for future empirical validation through transparent and rigorous research designs.

This study makes a theoretical contribution by developing a mechanism-based conceptual framework that links the adoption of IFRS S1 and S2 to ESG disclosure quality and, ultimately, investor confidence. The analysis identifies three primary mechanisms, information integration, signal credibility, and interpretive readability, through which standardised reporting improves completeness, comparability, and perceived reliability of ESG disclosures. These mechanisms clarify *how* and *why* IFRS S1/S2 adoption fosters investor trust. The study also delineates boundary conditions under which these effects are likely to be stronger or weaker: robust regulatory enforcement, industry environmental sensitivity, and the presence of third-party assurance enhance the credibility of disclosures, while weak governance or voluntary regimes may attenuate the effects. The four conceptual propositions advanced here therefore provide a structured theoretical base for future empirical validation, integrating legitimacy and stakeholder theories to explain the interplay between institutional pressures, disclosure quality, and investor trust.

From a policy standpoint, the findings underscore that the value of IFRS S1 and S2 lies not only in establishing uniform standards but also in ensuring interpretive discipline and accountability. Regulators should complement adoption with credible enforcement, readability guidance, and assurance protocols to discourage symbolic or generic disclosure. Cross-border coordination between ISSB, CSRD, and regional regulators can reduce reporting burdens and foster comparability for multinational firms. For practice, managers should link ESG metrics to enterprise value creation, integrate ESG assurance into financial audits, and enhance narrative readability to support investor interpretation. Assurance providers and audit committees play a crucial role in validating disclosure credibility, while investors can leverage IFRS-aligned ESG data to assess firm resilience, capital allocation, and long-term value creation.

This conceptual synthesis has been developed at an early stage of IFRS S1/S2 implementation and therefore precedes widespread post-adoption empirical evidence. As such, this timing is a strategic strength, rather than a constraint, as the study's outcome provides a mechanism-based conceptual framework, which can guide future adoption and research directions. It provides the field with a theoretically grounded foundation from which rich empirical research can progress. Future studies can draw on the propositions advanced here to (i) test whether IFRS S1/S2 adoption substantively improves disclosure completeness, comparability, and credibility across jurisdictions; (ii) examine investor reactions to IFRS-aligned ESG information using archival market-based techniques; (iii) investigate the moderating effects of regulatory enforcement and industry environmental sensitivity using cross-country or sectoral designs; and (iv) assess the role of external assurance in reinforcing investor trust. By setting out a mechanism-based agenda, this study encourages scholars to generate the empirical evidence needed to evaluate the effectiveness of the ISSB sustainability standards as global reporting practice evolves.

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