

Chapter 5

Sustainability, ESG and Integrated Reporting in Sri Lanka – Pathways to Modernizing Financial Accounting

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ABSTRACT

As global reporting standards continue to include sustainability and Environmental, Social, and Governance (ESG) factors, Sri Lanka is adjusting its corporate reporting practices to keep pace with these changes. This chapter discusses how integrated reporting and ESG disclosures are shaping financial accounting practices in Sri Lanka, in line with international standards. Sri Lanka has begun following the International Sustainability Standards Board guidelines, with plans to apply IFRS S1 and S2 from 2025 for sustainability and climate related reporting. Local regulators and the stock exchange have also taken steps to improve ESG reporting rules. Based on a literature review and data analysis, the chapter builds an ESG Quality Index and an ISSB Readiness Score to understand how well companies are preparing to meet global standards. Findings from 2024 show that more companies are publishing integrated reports, with fifty reports released and ten of them following the international framework. However, challenges remain in areas such as consistency, selecting material

topics, and connecting ESG information with financial results. To make progress, stronger policy support, training efforts, and better alignment with international frameworks will be important.

Keywords: *Corporate Governance, Sustainability Disclosures, ISSB Standards, Integrated Thinking, Stakeholder Engagement, Non-Financial Reporting, Regulatory Roadmap*

1. INTRODUCTION

Corporate reporting in Sri Lanka is evolving as there is growing demand from stakeholders for clearer information on sustainability and ESG performance, alongside standard financial reporting. Worldwide, the share of large companies that published sustainability information rose from 86 percent in 2022 to 91 percent in 2024 (OECD, 2025), showing that ESG disclosure is becoming a common practice. This shift is also influenced by global frameworks such as the United Nations Sustainable Development Goals, introduced in 2015, which encourage businesses to show how they contribute to social and environmental progress (United Nations, 2023). In Sri Lanka, these global influences are shaped by domestic concerns, including environmental risks, social development priorities, and governance weaknesses, all of which affect economic performance and investor confidence (Jayasiri, 2023; Kaushalya et al., 2025). As a result, integrating sustainability into financial reporting is seen as essential for modernizing the accounting profession and corporate practices.

A notable development is the formation of the International Sustainability Standards Board (ISSB) under the IFRS foundation in 2021, mandated to create a comprehensive global baseline for sustainability disclosures (IFAC, 2023). In June 2023, the ISSB issued its inaugural standards, IFRS S1 which covers general requirements for disclosure of sustainability related financial information and IFRS S2 which covers climate-related disclosures, making a new era of standardized ESG reporting. (IFRS, 2023). These standards establish a common language for companies to

report how sustainability risks and opportunities affect their prospects, incorporating the recommendations of the Task Force on Climate related Financial Disclosures (TCFD) and requiring disclosure of climate related impacts with financial statements (IFRS, 2023). The ISSB standards are intended to be used in conjunction with any jurisdiction's accounting requirements, embedding sustainability information into annual reports. By late 2024, over 30 jurisdictions announced their plans to adopt or align with ISSB standards, indicating a strong global momentum (FinTech Global, 2025). The International Organization of Securities Commission (IOSCO) endorsed the ISSB standards in 2023, adding further credibility for worldwide adoption (IFAC, 2023).

In Sri Lanka, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), has committed to adopt the ISSB standards, placing the country among the first wave of jurisdictions embracing the global baseline for sustainability reporting (ICASL, 2025). In March 2024, CA Sri Lanka revealed a roadmap to integrate IFRS S1 and S2 which are adopted as SLFRS S1 and S2 into corporate reporting requirements (ICASL, 2024). From January 2025, the largest 100 companies listed on the Colombo Stock Exchange (CSE) are required to provide sustainability disclosures per the new standards with coverage expanding to all main board listed companies by 2026, all listed companies by 2027 and eventually significant non listed companies by 2028 to 2029 (ICASL, 2024). By 2030, even SME board listed firms which are listed under empower board and other specified business enterprises will be included, achieving full implementation. This approach recognizes the need to match expectations with available capacity, encouraging larger firms to lead the way while allowing smaller firms time to build the skills required to support the move toward mandatory ESG reporting.

Over the past ten years, Sri Lanka has taken steps to strengthen both regulatory and voluntary frameworks related to sustainability and ESG reporting. Corporate governance guidelines

and stock exchange regulations have increasingly highlighted the importance of non-financial disclosures. In 2017, the Code of Best Practice on Corporate Governance, issued by CA Sri Lanka in collaboration with the Securities and Exchange Commission, introduced a clear expectation for ESG reporting and encouraged the use of integrated reporting in annual disclosures (ICASL, 2017). This marked a shift toward recognizing sustainability and integrated thinking as key components of sound corporate governance. The code was updated again in 2023 to reflect international standards. It now requires boards of directors to formally address sustainability risks and opportunities in their strategies and reports. Companies are also advised to report regularly on ESG topics using globally accepted frameworks, such as the International <IR> Framework and GRI Standards, as reference points (ICASL, 2023). These updates emphasize that ESG reporting is a board-level responsibility and should be closely connected to financial reporting.

The Colombo Stock Exchange (CSE) has also taken steps to incorporate ESG considerations into its listing requirements. In 2023, it revised its rules to require all listed companies to publish an ESG policy on their official websites (Global Reporting Initiative, 2023). Although this requirement focuses on stating policy commitments rather than detailed performance outcomes, it marks an important shift by requiring every listed firm to express its position on sustainability and governance. This move is intended to prompt company boards and executives to recognize ESG issues and prepare for more detailed disclosures in the future. In the financial sector, the Central Bank of Sri Lanka (2025) has introduced several measures to support sustainable finance. Initial guidelines were issued in 2019, and a revised Sustainable Finance Roadmap 2.0 followed in 2025, encouraging banks and financial institutions to integrate sustainability into their risk management and reporting practices. Additionally, a 2022 Banking Act Direction requires licensed banks to report on the environmental and social impacts of their lending activities using global frameworks such as

GRI and TCFD (Global Reporting Initiative, 2023). These steps highlight the financial sector's growing role in ESG transparency and reflect a broader understanding that clear reporting on ESG risks, including credit exposure to climate-sensitive sectors or social impacts of lending, is important for overall financial system stability. This aligns with international perspectives that emphasize climate-related risk disclosure as essential for proper market functioning and systemic risk assessment (IMF, 2021).

These developments indicate that Sri Lanka is aligning its corporate reporting infrastructure with global trends, aiming to modernize financial accounting by extending it beyond the traditional focus on shareholders and historical finance metrics. This inclusion of sustainability information addresses the needs of a broader set of stakeholders such as investors, regulators, civil society and international partners (Christensen et al., 2021). The integrated reporting (<IR>) which combines financial and non-financial information into a single coherent narrative, lies important in modernization. Integrated reporting, as defined by the International Integrated Reporting Council, is “ a concise communication about how an organization's strategy, governance, performance and prospects in the context of its external environment, lead to the creation of value over the short, medium and long term (IFAC, 2016). By adopting <IR> principles, companies can demonstrate how ESG factors intersect with financial outcomes and strategy, thus providing a more forward looking and interconnected approach view of business view (de Villiers et al., 2014). This approach is important in Sri Lanka, where a company's resilience to climate change can have direct financial implications for its asset valuations and supply chain stability, while governance and social practices can affect reputation and long term profitability.

2. LITERATURE REVIEW

2.1.1 Sustainability and ESG reporting framework

Over the past two decades, numerous reporting frameworks and standards have emerged to guide companies in disclosing sustainability information. Global Reporting Initiative (GRI) have been adopted globally and from the early 2000s in Sri Lanka which covers economic, environmental and social performance (Global Reporting Initiative, 2023). Companies can produce GRI referenced sustainability reports in accordance with the standards by meeting all core or comprehensive requirements or with reference to certain GRI topics. In Sri Lanka, as of September 2023, around 76 reports claimed to use GRI standards and 71 of those included the requisite GRI content index, indicating formal compliance. Further during the same time period, out of 92 sustainability reports by Sri Lankan companies in 2023, the majority were GRI based, with GRU remaining the primary framework even as integrated reporting gains traction. This reflects GRO's role as a foundational system for sustainability disclosures, covering areas like greenhouse gas emissions, energy usage, labour practices and community impact, which are relevant for emerging market.

Another key framework is the International Integrated Reporting Framework (IIRC framework). Unlike GRI, which is metrics driven, the <IR> framework focuses on principles and content elements that explain how an organization creates value over time, using the concept of six capitals namely financial, manufactured, intellectual, human, natural and social and relationship. Integrated reporting results in an annual report that combines financial statements with sustainability and strategic information. In Sri Lanka, integrated reporting was introduced as a voluntary practice around the mid -2010s and was later encouraged by regulators (ICASL, 2017). Research suggests that integrated reporting in Sri Lanka is still at an early stage and has started to grow rapidly (Priyadarshanie et al., 2023). They confirmed that compliance with content elements of IIRC framework is increasing in the areas

like organizational overview, business model and governance disclosures and certain content elements such as risks and opportunities, strategy and resource allocation, performance and outlook. These gaps imply that while companies might be presenting a broad narrative, they omit discussions of risks or fail to provide forward-looking information, such as targets and forecasts. This is consistent with observations in other emerging markets where integrated reporting is still voluntary and companies tend to disclose positive aspects and may avoid disclose material challenges.

2.2 Mandatory vs voluntary disclosure

The literature on corporate disclosure distinguishes between voluntary sustainability reporting and mandatory reporting requirements. Voluntary reporting through frameworks like GRI or <IR> can be driven by a company's strategic desire to signal transparency or by stakeholder pressures. However, voluntary approaches can lead to uneven quality and completeness of information. Studies in emerging markets have noted, in the absence of binding requirements, firms may engage in symbolic disclosure by providing selective sustainability information that shows them in a favorable position without integrating ESG considerations into core strategy or governance. Weerasinghe et al. (2024) show that SDG disclosures by Sri Lankan companies are largely fragmented. Firms tend to emphasize selected goals such as community focused activities linked to SDG 17 which covers partnerships for the goals and failing to integrate the full range of relevant SDGs into their core business strategies. This indicates that on average only about 37% of the potential SDG disclosures are reported, highlighting substantial gaps in coverage. This suggests SDG reporting is being treated as a supplementary reporting exercise and is failing to be embedded within the operational and strategic decision making process.

Mandatory sustainability reporting is intended to standardize disclosures and ensure a minimum level of transparency across

companies. The introduction of the ISSB standards marks an important step toward globally consistent sustainability reporting for the countries those choose to adopt them. Before ISSB, several regions had introduced mandatory or semi mandatory frameworks such as the European Union's Non-Financial Reporting Directive which is replaced by the Corporate Sustainability Reporting Directive and also, sustainability reporting requirements under some stock exchange rules in Asia. Sri Lanka has followed a gradual approach by requiring ISSB aligned reporting first from larger companies. Existing research shows that mandatory ESG disclosure can improve the comparability and reliability of information when properly implemented (IFRS Foundation, 2025). However, challenges remain, including firms' ability to comply, the risk of generic reporting and higher compliance costs for smaller companies. Sri Lanka's phased implementation helps reduce these concerns by matching reporting requirements to firm size (OECD, 2025).

2.3 Integration of financial and sustainability information

Contemporary literature highlights the importance of integrating financial and sustainability reporting to enhance transparency and relevance. IFRS Foundation (2024) notes a shift from standalone ESG reports towards fully integrated disclosures, aligning with investor expectations. Frameworks such as <IR> and Management commentary support this connectivity, encouraging firms to explain how sustainability issues influence financial performance ISSB (2023). In Sri Lanka, while some firms produce integrated reports, widespread adoption remains limited. Standards like IFRS S1 mandate disclosure of material sustainability-related risks and their financial effects, reinforcing the need for cohesive reporting. Companies can articulate how environmental risks influence asset valuation or how social and governance initiatives affect operational outcomes, allows users to better assess long term value creation and risk exposure.

2.4 Role of professional bodies and education

The literature shows the evolving role of accountants and professional bodies in enhancing ESG reporting quality. As sustainability disclosures intersect with financial performance, professional competence in this area has become important. IFAC (2025) revised its international education standards to embed sustainability topics into global accounting curricula, thereby establishing a baseline for sustainability related knowledge and assurance skills, including those linked to ISSB and IAASB (International Auditing and Assurance Standards Board) standards. In Sri Lanka, CA Sri Lanka, ACCA Sri Lanka and CMA Sri Lanka have played an active role in advancing ESG reporting through workshops, training sessions and award programs. According to Global Reporting Initiative (2023), CA Sri Lanka annual report awards and TAGS awards have driven competitive improvements in disclosure practices. Priyadarshanie et al. (2023) indicated auditor pressure and capacity building initiatives led by professional bodies as key enablers for integrated reporting adoption in the Sri Lanka.

2.5 Measuring sustainability disclosure quality

Research in Sri Lanka started to focus on developing systematic tools to assess the quality of ESG reporting. Soysa et al. (2023) introduced a sustainability reporting score index which evaluates corporate disclosures using GRI indicators and SDG related goals. Content analysis of 100 listed firms revealed variability in reporting quality with disruptions between 2015 to 2019 likely linked to national economic and political instability. Further, they found that companies mostly reported on environmental SDGs such as SDG 12, which covers responsible consumption and production and SDG 15, which covers life and land, suggesting a preference for reporting on areas with more tangible or measurable outcomes.

Another study examined the extent to which Sri Lankan companies disclose their materiality assessment processes. The findings

revealed that some firms outline stakeholder engagement and issue prioritization mechanisms, while many avoid these details, reflecting a superficial engagement with the concept of materiality. These gaps limit the credibility and usefulness of ESG disclosures, as stakeholders are left uncertain about whether the most relevant risks and opportunities are being addressed.

2.6 Sustainability reporting and financial performance

The relationship between sustainability disclosure and financial performance has become an important aspect in the modernization of financial accounting. Studies suggest that high quality ESG reporting is positively linked to investor confidence, reduced cost of capital and enhanced firm valuation in emerging markets where transparency mitigates information asymmetry and signals good governance (Dhaliwal et al., 2011; Clarkson et al., 2008). In Sri Lanka, CA Sri Lanka (2023), emphasized that convergence with ISSB sustainability standards is intended to enhance the global comparability of firms and reinforce investor trust through reliable, decision useful sustainability information.

Hence, the literature points to a clear convergence toward integrated and sustainability reporting standards with ISSB frameworks emerging as a central point. Sri Lanka's regulatory environment and corporate reporting practices are becoming aligned with international development. The evidence also highlights the important role played by professional accounting bodies in strengthening awareness, technical capacity and reporting discipline through education, guidance and recognition mechanisms. Further, prior studies highlight the importance of systematically measuring ESG disclosure quality as a means of benchmarking progress and informing future modernization efforts. These insights provide a strong foundation for analytical framework and empirical assessments developed in the subsequent sections.

2.7 Theoretical framework

Sri Lanka's corporate reporting evolves as sustainability and integrated reporting become more important. This shift can be explained using several theoretical perspectives. Stakeholder theory argues that firms disclose ESG information to address the information needs of a wide range of stakeholders and build trust. Legitimacy theory suggests that sustainability reporting helps firms align with societal expectations and maintain their social license to operate. Institutional theory explains adoption through external pressures, including regulatory requirements, imitation of leading firms and professional norms promoted by bodies such as accounting institutions (Abeywardana et al., 2021). Empirical evidence from Sri Lanka confirms the influence of these pressures on integrated reporting adoption. Central of this transition is integrated thinking, which emphasizes the integration of financial and non-financial considerations into strategy and decision making to create long term value (Lakshan et al., 2023). These theories explain how sustainability and integrated reporting contribute to the modernization of corporate accounting in Sri Lanka.

3. METHODOLOGY

3.1 Approach and scope

This study uses a mixed methods approach to explore sustainability, ESG, and integrated reporting practices in Sri Lanka. It combines quantitative content analysis of corporate disclosures with qualitative assessments and selected case illustrations. The analysis is based on publicly available annual reports, sustainability reports, and regulatory documents issued by CA Sri Lanka, the Securities and Exchange Commission (SEC), the Central Bank of Sri Lanka (CBSL), the International Integrated Reporting Framework, and IFRS sustainability disclosure standards. The selected period spans from 2019 to 2024, during which ESG reporting in Sri Lanka expanded in scope and visibility.

3.2 Data sample and sources

The sample includes 50 companies, consisting of the 40 largest firms listed on the Colombo Stock Exchange (CSE) by market capitalization and 10 additional companies recognized for strong sustainability practices. Company disclosures from the 2023 and 2024 reporting periods were examined, primarily accessed through company websites and CSE filings. The analysis also incorporated relevant regulatory updates such as the 2023 Code of Best Practice on Corporate Governance and the CSE's amended listing rules, which from October 2024 mandate the publication of ESG policies (ICASL, 2023). These developments reflect increasing institutional support for ESG disclosure in the Sri Lankan context.

3.3 ESG quality index development

To assess the depth and quality of ESG disclosures, an ESG Quality Index was constructed using leading global standards, including the Global Reporting Initiative (GRI), the International Integrated Reporting Framework, and SDG-aligned guidelines. The index includes 30 indicators evenly divided across environmental, social, and governance themes. Indicators reflect areas such as GRI compliance, emissions reporting, resource use, workforce safety, stakeholder engagement, ESG materiality analysis, board oversight, risk transparency, strategic alignment, and third-party assurance.

Each indicator was scored on a three-point scale: zero for no disclosure, one for partial or qualitative disclosure, and two for full, quantitative disclosure with supporting data, targets, or analysis. The maximum score possible was 60. Disclosure scores were derived through structured content analysis combining keyword searches and manual review. Based on the total score, companies were classified into high, medium, or low performers. Greater emphasis was placed on the quality and relevance of disclosures such as inclusion of materiality assessments and integration of ESG into financial narratives rather than report length or volume.

3.4 ISSB readiness score

To evaluate how prepared Sri Lankan companies are for the forthcoming ISSB sustainability standards, an ISSB Readiness Score was developed. This score assesses alignment with IFRS S1 on general sustainability disclosures and IFRS S2 on climate-related disclosures, both of which build on the TCFD framework. The score is based on four dimensions: governance, strategy, risk management, and metrics and targets.

The governance dimension evaluates whether companies identify who is accountable for ESG oversight. Firms that assign responsibility to a board-level committee or senior management figures received higher scores than those that provided only vague references. The strategy dimension examines how sustainability concerns are connected to the business model and planning processes. Companies that explain how environmental or social risks influence operations, investments, or competitiveness were rated higher than those that mention sustainability without integration.

In the risk management dimension, companies were assessed on whether they incorporate ESG and climate-related risks into their risk registers and management processes. Firms that provide structured discussion of climate risks and mitigation strategies scored more highly. The final dimension, metrics and targets, considers the extent of quantitative reporting. Companies disclosing greenhouse gas emissions, setting reduction targets, tracking performance over time, and verifying information through third-party assurance received the highest scores.

Each of the four dimensions was scored from zero to three. A zero indicated no disclosure, one represented minimal disclosure, two indicated moderate disclosures, and three reflected comprehensive, ISSB-aligned reporting. The total possible ISSB Readiness Score was 12. Companies that already follow TCFD guidance tended to score higher, demonstrating stronger preparedness for ISSB compliance (IFRS, 2025).

4. ANALYSIS

After scoring all sample firms using both the ESG Quality Index and the ISSB readiness score, the analysis proceeded in two stages. Quantitatively, descriptive statistics were used to examine the overall level and variation of disclosure quality and readiness across firms. Patterns were explored by firm size and industry. Large companies and firms in regulated sectors such as banks were expected to score higher, reflecting greater regulatory scrutiny and stakeholder pressure.

Rather than formal hypothesis testing, the analysis assessed whether observed patterns were consistent with theory driven expectations. Companies with explicit board level ESG management exhibited higher ESG quality and ISSB readiness scores, while firms already using voluntary frameworks such as GRI or TCFD tended to be more ISSB ready. Qualitatively short case illustrations were used to add depth. A high performing firm demonstrated integrated ESG reporting, clear governance structures, quantified targets and strategic alignment. In contrast, a low performing firm relied on lacked metrics and showed limited linkage between sustainability and core business strategy. This combined quantitative scoring and quantitative illustration approach enhances comparability while preserving contextual insight, consistent with established practices in sustainability disclosure research.

Guided by stakeholder, legitimacy and institutional theories, the study examines the following hypotheses

H1: Larger companies and firms in regulated and high visibility industries exhibit higher ESG disclosure quality.

H2: Companies with stronger internal governance structures such as board level ESG oversight, demonstrate higher ESG disclosure quality.

H3: Companies that obtain external assurance on sustainability information provide higher quality ESG disclosures.

H4: Firms that have voluntarily adopted international reporting frameworks such as GRI, TCFD and Integrated reporting show higher ISSB readiness than firms that have not.

H5: Companies treating sustainability primarily as a CSR or compliance exercise exhibit lower ISSB readiness and greater disclosure gaps under ISSB requirements.

4.1 Discussion

The analysis of Sri Lankan corporate reports from 2019 to 2024 reveals a clear bimodal pattern in ESG disclosure quality. A smaller group of firms demonstrates strong, structured and credible sustainability reporting while larger group provides fragmented and largely symbolic disclosures. Companies from top tier of the index showed a strong and substantive commitment to integrated reporting and aligning with the international framework. Leading banks and conglomerates featured value creation models that disclose different capitals, namely financial, manufactured, human, social, natural and intellectual property. Dedicated stakeholder sections were also common, indicating stakeholder oriented reporting.

One of the characteristics of these high performing disclosures was the inclusion of a materiality matrix or assessment. These assessments involved structured stakeholder engagement to identify and prioritize ESG issues relevant to the company's strategic objectives. Companies that disclosed both the methodology and outcome of their materiality determination process received higher scores, as such transparency signals strategic prioritization rather than superficial reporting.

Table 01. Few Examples of Integrated Annual Reports of Sri Lankan Firms

Company	Report Title	Key Highlights
Hatton National Bank PLC	Integrated Annual Report 2024	Covers financial and non-financial performance; aligns with IFRS, SASB, TCFD, and <IR> Framework; emphasizes value creation and assurance.
Commercial Bank of Ceylon PLC	Integrated Annual Report 2024	Framed per <IR> Framework principles; business model emphasizes value creation across time horizons; independent assurance included.
Sampath Bank PLC	Integrated Annual Report 2024	Focus on sustainable value for stakeholders; structured around strategy and performance; promotes integrated thinking.
Seylan Bank PLC	Integrated Annual Report 2024	Details value creation for stakeholders; scope includes <IR> Framework; integrates sustainability and materiality.
Lanka Tiles PLC	Integrated Annual Report 2023/24	Titled per <IR> Framework 2024; includes value-creation model and materiality disclosures; demonstrates integrated thinking.

Source: Construed by Author

High performing firms showed strong alignment with recognized international standards. Most companies reported full compliance with the GRI standards and included a detailed GRI content index, embedded in the report or provided as a supplementary document. Many companies adopted a multi framework approach. Around ten firms referenced the Sustainability Accounting Standards Board (SASB) industry specific metrics. These disclosures were relevant in sectors like banking, where firms

reported portfolio exposure to carbon intensive industries in line with SASB guidance.

Table 02. Few Examples of GRI and SASB Usage in Sri Lankan Integrated Reports

Company	Reporting Framework	Disclosure Highlight
Singer (Sri Lanka) PLC	GRI Standards 2021 “ Full Compliance”	GRI Content Index included, report aligned with GRI 2021
DFCC Bank PLC	GRI Standards 2021 “ Full Compliance”	Statement of use confirms full reporting in accordance with GRI
Vallibel One PLC	GRI Standards 2021 “ Full Compliance”	Board confirms GRI compliance; Index included for FY2023/24
Seylan Bank PLC	GRI Standards 2021 “ Full Compliance”	GRI Index for full 2024 calendar year reporting
Commercial Bank of Ceylon PLC	GRI Standards 2021 “ Full Compliance”	Annex includes GRI Index; confirms full year reporting
Hemas Holdings PLC	GRI Standards 2021 “ Full Compliance”	Reported in accordance with GRI Standards for FY2023/24
People’s Bank	GRI Standards Reported with Reference	GRI referenced for 2022
Commercial Bank of Ceylon PLC (SASB)	SASB “ Commercial Banks Standard”	SASB disclosure includes as "Financed Emissions" tracking under PCAF
Singer (Sri Lanka) PLC (SASB)	SASB “ Multiline & Specialty Retail, Appliance Manufacturing, Consumer Finance”	Adopted SASB for multiple relevant sectors in 2023/24 report
Nations Trust Bank (SASB)	SASB “ General ESG Alignment (Not specific code cited)”	Discusses ESG alignment, climate disclosures; SASB guidance not detailed

Source: Construed by Author

Companies had adopted the Task Force on Climate related Financial Disclosures (TCFD) framework, through standalone reports or embedded sections. One leading bank dedicated an entire section to climate risk, offering scenario analysis on the potential impact of climate related events on its lending portfolio, showing advanced practices consistent with regulatory guidance from the Central Bank of Sri Lanka, which encourages climate aligned disclosures. These initiatives contributed to high environmental disclosure scores.

Table 03. Few Examples of TCFD Adoption in Sri Lankan Corporate Reporting

Company	TCFD Adoption Type	Key Climate Disclosure Features
Talawakelle Tea Estates PLC	Standalone TCFD Report (2024)	Science-based targets, ISO 14064, 1.5°C scenario, climate neutrality certification
Diesel & Motor Engineering PLC (DIMO)	Integrated into Annual Report 2024/25	Three-scenario climate projection using IPCC RCPs; embedded in risk registers
Sampath Bank PLC	Integrated Annual Report 2023 “ Voluntary Compliance”	GHG inventory verified; carbon-neutral Head Office; early TCFD alignment
DFCC Bank PLC	Integrated Annual Report 2024 “ TCFD referenced”	TCFD and SLFRS S2 frameworks cited; CBSL guidance referenced
Commercial Bank of Ceylon PLC	Integrated Annual Report 2024 “ Climate stress-testing planned”	ICAAP-linked climate scenario plans; KPIs aligned with CBSL roadmap
NDB Bank PLC	Annual Report 2022 “ Initial TCFD alignment”	Intent to align with TCFD; project finance incorporating climate risk
People's Leasing & Finance PLC	Integrated Annual Report 2023/24 as “ TCFD compliance stated”	Formal TCFD adoption alongside SASB and SDGs

Source: Construed by Author

Target setting and performance reporting were also among high performers. Environmental goals such as “Net zero by 2050” or short term emission reduction targets were disclosed with

progress updates. Major manufacturing company reported a 5% annual reduction in carbon emissions as part of a broader 2030 target. Third party assurance further enhanced credibility. Two-thirds of top tier companies had engaged audit firms or verification consultants to conduct limited assurance in accordance with ISAE 3000. These assurance reports covered critical metrics such as emissions, energy use and occupational safety. The prevalence of assurance practices aligns with global trends, where over 80% of large cap firms seek external verification of sustainability disclosures (OECD, 2025).

In Social and governance sections, high performing companies provided granular and consistent data. Reports included gender breakdowns by staff level, employee turnover and training hours and health and safety incident rates, mainly in manufacturing and plantation sectors. Community investment activities were quantified in financial and beneficiary terms, rather than presented as narratives. Governance disclosures highlighted board oversight of ESG with many firms establishing dedicated sustainability committees or expanding the mandates of audit or risk committees. Some companies also published board skill matrices linking director expertise to ESG matters and disclosed links between executive compensation and sustainability performance through tying CEO bonuses to energy efficiency targets. These practices are aligned with the 2023 revision to Sri Lanka's code of corporate governance which recommends explicit board level oversight of sustainability. Companies implementing such governance mechanisms tended to score higher on ESG disclosures which is evident that board involvement correlates with improved reporting quality.

On the other hand, companies scoring in the moderate or low tiers of the ESG quality index showed minimal disclosures. Around 33 companies included brief sustainability sections, labelled as Corporate Social Responsibility, within the annual report. These sections tended to describe charitable activities or general commitments to sustainability without quantitative metrics or

clear frameworks. Statements such as “we are committed to reducing our environmental impact” were common, however substantiated with emission data, energy usage or water consumption numbers. The lack of quantitative details significantly reduced scores on environmental and social indicators.

Further gaps included the absence of materiality assessments, non-alignment with GRI or any recognized standard and minimal social data beyond basic employee headcount. External assurance was nonexistent in the reports in this sample. In some cases, companies only included generic legal compliance statements or vague references to CSR programs, offering little insights into ESG risks or performance.

Sectoral patterns were also observed. Software and service sector firms were more likely to provide minimal environmental disclosures, often under the assumption of low physical environmental impact. However, under frameworks like ISSB, even low emission firms are expected to disclose material sustainability factors such as data privacy or workforce well-being, indicating that disclosure expectations will rise regardless of industry. Additionally, companies affiliated with multinational corporations generally performed better as parent organizations often imposed more rigorous reporting templates. As few local subsidiaries of foreign firms produced detailed ESG reports, suggesting that mimetic pressure from global group standards can drive reporting quality.

Mid-tier companies displayed partial adoption of good practices. Some banks reported green loan exposures or training hours, but omit climate related risk disclosure or omit carbon footprint data. These firms were often more advanced in one area such as governance or community investment, but lacked comprehensive frameworks or data integration of all ESG aspects.

For an example, when take two manufacturing firms from the same industry, one firm which had a low scorer, included the word sustainability only in the chairman's message and described minor philanthropic activities such as school supply donations with no quantitative on emissions, waste or occupational safety. The other company with high score offered detailed environmental metrics disclosed safety incidents with analysis and provided third party assurance of sustainability performance. These contrasting approaches reflect fundamentally different understanding of sustainability reporting where one as a reputational tool and other as an operational and strategic priority.

Hence, these differences contribute to a bimodal distribution of ESG quality scores. High performing firms exhibit a strategic and structured approach to ESG and integrated reporting while others lag due to limited awareness, capacity constraints or insufficient regulatory enforcement. As Sri Lanka moves toward mandatory ISSB aligned reporting, bridging this gap will be essential for brining sustainability into financial accounting practices.

4.2.1 ISSB readiness

Turning to the ISSB readiness assessment, the findings highlight a considerable gap between current disclosure practices and the forthcoming requirements, although a minority of forms are well on track. The average ISSB readiness score in the sample was about 5.5 out of 12, meaning on average companies are only halfway prepared for what IFRS S1 and S2 would demand. Only about 20% of the companies scored 9 or above and there were largely the same firms identified earlier as disclosure leaders. On the other hand, around 30% scored 4 or below, reflecting very low readiness and these firms currently disclose little to none of the kind of information that will be expected.

An evaluation of ESG disclosures among Sri Lankan listed companies between 2019 and 2024 reveals significant variation in preparedness across the four core pillars of the TCFD and ISSB

frameworks namely governance, strategy, risk management, and metrics & targets.

4.2.2. Governance

Approximately half of the companies reviewed disclosed some form of ESG related governance. About 50% mentioned board or committee-level oversight of sustainability or corporate social responsibility (CSR), although the depth of disclosure varied. Higher-scoring companies not only identified oversight structures but also described their roles such as sustainability committees that meet quarterly to monitor progress on ESG targets. In contrast, lower-scoring firms often included only cursory references, such as noting that “the board is responsible for sustainability,” without elaboration. The 2023 revision of Sri Lanka’s Code of Best Practice on Corporate Governance and ISSB’s S1 standard both emphasize clarity in assigning sustainability oversight responsibilities. Firms lacking any ESG governance structures scored zero on governance readiness under the ISSB-aligned assessment. The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has prioritized board-level ESG capacity building and planned to launch director training and governance checkpoints in its readiness framework by 2025 (ICASL, 2023). As regulatory and investor expectations grow, board accountability for ESG is expected to increase in prominence.

4.2.3 Strategy

The strategy pillar emerged as the weakest area across the sample. Few companies provided a concrete explanation of how sustainability factors influence their business strategies. High-performing disclosures included specific forward-looking insights such as an apparel manufacturer discussing climate-related impacts on cotton supply and investment in alternative materials, and a chemicals company outlining a transition to a circular economy as a competitive strategy. These examples illustrate the integration of sustainability into strategic decision-making and earned high readiness scores. However, such disclosures were

uncommon. Most companies addressed sustainability as a parallel initiative rather than embedding it within their business models. Aside from climate change which roughly 20% of firms acknowledged as a strategic risk or opportunity, few companies discussed other relevant issues like biodiversity loss or water scarcity. The lack of scenario analysis and long-term planning highlights a significant readiness gap. Under IFRS S1, companies will be required to explain how sustainability-related risks and opportunities could influence their strategy and cash flows over various time horizons. The current state of reporting suggests that most firms have yet to conduct the internal analysis necessary for compliance.

4.2.4. Risk management

While nearly all companies included risk management disclosures in line with regulatory expectations, the integration of environmental and social risks remains limited. Most disclosures focused on financial, operational, or supply chain risks. Only a small subset, primarily large banks, included explicit consideration of environmental or social risks, likely in response to the Central Bank of Sri Lanka's Sustainable Finance Roadmap. Some banks reported climate-related screening of loan portfolios and assessment of financed emissions, while a few manufacturing firms referenced exposure to physical climate risks such as extreme weather. In total, only four to five firms demonstrated integrated climate risk management. Under IFRS S2, companies will be expected to describe processes for identifying and managing sustainability risks, and how these are embedded within enterprise risk frameworks. Current disclosures suggest that most Sri Lankan firms are not yet equipped for this level of integration. Enhancing internal capacity such as training risk officers in climate science and scenario analysis will be essential. International frameworks, like the Committee of Sponsoring Organizations of the Treadway Commission (COSO)'s guidance on ESG risk integration, may offer practical models for building such capabilities.

4.2.5. Metrics and targets

This dimension showed the greatest variation in disclosure quality. Around 40% of companies reported basic environmental metrics, such as electricity consumption, while only 20% provided multi-year data or explicit targets. Just 10 companies disclosed Scope 1 and 2 greenhouse gas (GHG) emissions, and only three attempted Scope 3 disclosures, typically subsidiaries of multinationals. Only a few firms are committed to quantified climate goals such as carbon neutrality by a certain year, and even these were rarely supported by robust reduction plans. Social metrics such as workforce size and gender breakdowns were more common, appearing in about 60% of reports. However, only 30% disclosed metrics like training hours or employee turnover, and very few included measurable targets such as for increasing diversity or community investment. Governance-related metrics beyond basic regulatory compliance were rarely observed. In most cases, qualitative statements such as “we value employee well-being” were presented without supporting data. According to IFRS S2 and S1, companies must disclose the metrics and targets used to manage material sustainability risks and opportunities. For climate reporting under IFRS S2, Scope 1, 2, and where relevant, Scope 3 emissions, as well as progress on climate targets, are mandatory. Most Sri Lankan companies are not yet compliant with this expectation. Systematic measurement tools and possible third-party assurance will be needed to improve data credibility.

4.2.7. Early signs of TCFD-aligned reporting

Despite these gaps, some companies have voluntarily aligned their disclosures with the TCFD framework. Two major banks and one telecommunications company structured climate disclosures in 2022–2023 using TCFD’s four-pillar framework. These disclosures included governance arrangements such as board risk committees overseeing climate risk, climate risk identification across time horizons, and reporting of GHG emissions and financed emissions. Though less detailed than similar reports in developed markets,

these examples demonstrate that TCFD and ISSB-aligned reporting is achievable within Sri Lanka. These early adopters received top scores under the ISSB climate readiness assessment, highlighting the feasibility and value of aligning with global frameworks.

Therefore, ESG reporting in Sri Lanka between 2019 and 2024 reveals a spectrum of maturity. While a handful of companies have embraced integrated thinking and align with frameworks such as <IR>, GRI, and TCFD, many continue to treat sustainability reporting as a compliance obligation rather than a strategic tool. Larger firms, particularly banks and diversified conglomerates with established ESG governance structures, board involvement, and use of global reporting frameworks were significantly more prepared for ISSB requirements. By contrast, firms with vague or qualitative-only disclosures scored poorly. This analysis supports the hypothesis that institutional structure and strategic integration are key enablers of reporting quality. It also highlights the need for stronger regulatory incentives and professional support to drive consistent, high-quality ESG reporting across all sectors.

5. CONCLUSION

Sri Lanka is making tangible progress in modernizing financial accounting by integrating sustainability into corporate reporting. While leading firms demonstrate strong alignment with global frameworks such as ISSB, GRI, and <IR>, others remain at early stages. The transition from voluntary to mandatory ESG disclosure is underway, supported by institutional reforms and professional engagement. Embedding sustainability into governance, risk, and strategy will be essential for full readiness. With continued effort, Sri Lanka is well-positioned to emerge as a regional model for ESG transparency, showing how emerging economies can align global standards with local realities to build a resilient, future-ready reporting landscape.

5.1 Implications, limitations, and future research

This chapter offers several practical implications. For policymakers, it confirms that regulatory mandates must be paired with capacity-building to raise the quality, not just the quantity of sustainability disclosures. For companies, embedding ESG into governance and strategy is shown to improve reporting quality and internal decision-making, positioning them competitively in regional and global markets. The accounting profession must now expand its role, encompassing ESG assurance and integrated thinking, which will reshape training and professional standards.

However, there are few limitations. The sample focused on large, listed firms, likely overstating overall readiness. The ESG Quality Index used consistent criteria, but scoring involved subjective judgment and was not industry weighted. The 2019–2024 period captures early-stage compliance, and many regulatory impacts are still unfolding. While global literature links ESG transparency to performance benefits, this chapter did not establish causality in the Sri Lankan context.

Future research should track the impact of mandatory ISSB adoption on firm performance and stakeholder responses. Comparative studies between early and late adopters can reveal the effectiveness of the phased rollout. Further investigations can explore whether high disclosure scores reflect actual ESG outcomes or surface-level compliance. Additionally, assessing how investors, lenders, and consumers use ESG data will clarify its influence. The growing importance of assurance also warrants study, examining audit firms' capacity, the scope and rigor of ESG audits, and integration of sustainability into professional training. Finally, issue-specific studies such as biodiversity, climate scenario analysis, or gender equity will enrich sector-level insights. Such research will be vital as Sri Lanka transitions toward a more transparent, evidence-based sustainability reporting ecosystem.

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