



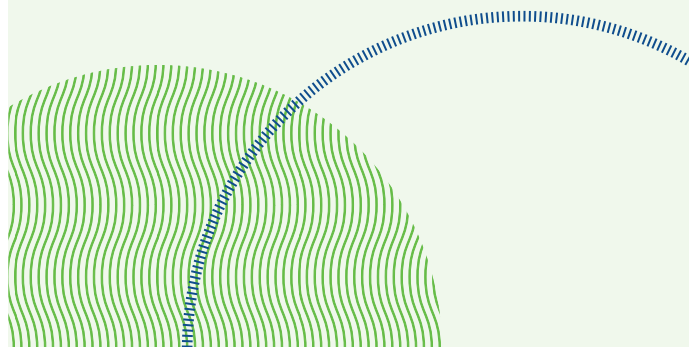
Sustainability Snapshot

From ESG to the balance sheet: Sustainability trends for 2026

In this issue

As we close out 2025 and look ahead to 2026, our advice to SAICA members is simple: focus on how sustainability information is being pulled into mainstream financial reporting. Sustainability reporting is no longer a parallel ESG exercise. It is becoming part of the reporting system, with direct implications for governance, controls, assurance and audit.

In 2026, we will see faster convergence around global standards, rising demand for assurance, closer scrutiny of climate-related financial risk and greenwashing, stronger supply-chain due diligence expectations, and the growing use (and oversight) of technology and AI in sustainability work. The themes below highlight what to watch and how to prepare.



Convergence around the ISSB framework

Disclosure frameworks are shifting towards a global baseline. The International Sustainability Standards Board released two standards in 2023: IFRS S1, which sets general requirements for sustainability disclosures, and IFRS S2, which covers climate. Many jurisdictions began aligning domestic rules to these standards in 2024 and 2025. South Africa has not yet set a formal compliance date, but local regulators like the FSCA support convergence. Companies already face market pressure to report in line with the ISSB. Banks, insurers and multinationals ask suppliers for climate and sustainability data built on these standards. Investors and ratings agencies also base their assessment on ISSB-style disclosures.

In 2026, South Africa is likely to move closer to the global baseline. The Johannesburg Stock Exchange already encourages listed firms to align voluntary sustainability disclosures with global norms. The Independent Regulatory Board for Auditors and the Accounting Standards Board have both recognised the need for consistent treatment of climate risk in financial reporting. National Treasury's work on sustainable finance points in the same direction.

Even without a legal mandate, larger companies will feel the pull of international capital and supply chains.

Accountants should prepare for stronger integration of sustainability and financial reporting. They will need to understand the structure of IFRS S1 and S2, including materiality, governance requirements and industry-specific guidance. They should help clients map existing disclosures against ISSB expectations, identify gaps and build internal control processes that can withstand external assurance.

A practical starting point is to treat non-financial data like financial data: define sources, document assumptions and ensure data can be traced using appropriate data systems. Accountants should also follow international developments on how climate and sustainability disclosures intersect with financial statements, because the link between the two will become clearer as more firms adopt the ISSB baseline.

Rising demand for assurance over sustainability information

Assurance has become a central theme in sustainability reporting. Investors and regulators want credible, decision-ready information, not aspirational statements. Large global firms already subject greenhouse-gas emissions and other key metrics to assurance. South African companies are moving in the same direction. Banks, insurers and mining companies already assure significant parts of their sustainability data. As more firms publish climate-related targets and transition plans, the need for verified data will grow.

In 2026, demand for assurance is likely to expand across sectors. Companies face pressure from lenders who need reliable emissions and climate-risk data for stress testing. Exporters face pressure from buyers in regions with stronger disclosure rules. Many firms also want assurance to manage reputational risk and avoid greenwashing claims. Regulators will not mandate assurance in the near term, but they will expect stronger governance and oversight of sustainability information.

The Competition Commission and Financial Sector Conduct Authority have both signalled a tougher stance on misleading environmental claims.

Accountants should prepare by building capability in sustainability assurance. This means understanding new standards, especially the International Auditing and Assurance Standards Board's work on assurance for sustainability information. Firms should invest in staff training, sector knowledge and data systems that support robust evidence collection. Accountants need to help clients design internal controls for sustainability data, similar to financial controls, and define roles and responsibilities across the organisation. They should also advise clients on how to manage the transition from voluntary, unverified reporting to limited and reasonable assurance.

Early preparation will reduce cost and improve credibility when assurance becomes expected across the market.

Closer scrutiny of climate-related financial risk

Climate risk has moved from a disclosure topic to a balance sheet question. Investors, regulators and auditors now expect firms to reflect climate risks in key accounting judgments. This includes asset impairments, decommissioning plans, provisions, useful-life estimates and fair-value calculations. Companies in mining, energy, transport, property and heavy industry are already under pressure to show how climate scenarios influence financial outcomes. Banks and insurers face their own demands through credit risk assessments, capital requirements and underwriting portfolios.

This scrutiny will intensify in 2026. South African companies face rising physical risks from heat, drought and stressed water systems, as well as transition risks linked to Eskom's decarbonisation pathway, grid constraints and tightening global trade rules. New policy developments sharpen these pressures:

- **Carbon Border Adjustment Mechanism:** As the EU mechanism comes online in 2026, exporters will face carbon-linked import costs that affect competitiveness and feed directly into cash flow forecasts and asset valuations.
- **Phase 2 of the carbon tax from January 2026:** Higher rates and wider coverage will raise operating costs and influence provisions, cost assumptions and impairment testing.

- **Carbon budgets from the Department of Forestry, Fisheries and the Environment from January 2026:** Companies that exceed their allocated budgets will face a R640 per ton CO₂e penalty, creating a direct financial liability tied to emissions performance.

Even without further domestic regulation, international investors and the global audit community expect clearer disclosure of how climate assumptions shape material financial judgements.

Accountants should prepare by strengthening the link between climate information and financial statements. They need to understand how climate scenarios influence cash flows, discount rates and asset life cycles. They should challenge inconsistencies between sustainability reports and financial statements, such as ambitious decarbonisation targets that do not flow through to impairment testing.

Accountants should work with management to identify climate-sensitive assumptions and document them clearly. They should also follow international benchmark disclosures to understand market expectations.



Stronger checks on greenwashing and sustainable labels

The rise of sustainable finance has brought more scrutiny of environmental claims. Globally, regulators have tightened rules on marketing of sustainable funds, use of environmental claims and sustainability linked financing. South Africa is moving in the same direction.

The Financial Sector Conduct Authority (FSCA) has made greenwashing a priority. The Competition Commission has warned companies against misleading environmental statements. Banks and insurers face their own guidance on transition finance and climate-related due diligence.

In 2026, this pressure will grow as more companies launch sustainability linked products, set transition targets and publish decarbonisation plans. Investors will expect evidence that targets are grounded in credible data and realistic assumptions and that plans to achieve targets are pragmatic. Regulators will expect clear definitions and transparent methodologies.

Companies that make bold public claims without backing them up will face legal, financial and reputational risk. Greenwashing concerns will extend beyond climate to biodiversity, supply chains, water use and social claims.

Accountants should prepare by helping clients build credible, substantiated sustainability reports. They should review data, methodologies and assumptions behind any public statement. They should ensure that claims match the underlying evidence and that limitations are disclosed.

Accountants play a central role in strengthening governance over sustainability linked products and performance targets. They can help clients design credible key performance indicators, document calculation methods and build assurance-ready data systems. They should also understand regulatory expectations and advise clients on how to communicate sustainability claims without overstating progress.

Supply chain transparency and due diligence expectations

Global supply chains are facing stronger expectations for environmental and social due diligence. The European Union, United Kingdom and several major markets are rolling out rules that require companies to monitor human rights, environmental harm and governance risks across their supply chains. South Africa is not yet adopting these laws, but local firms are exposed through trade links. Exporters and suppliers to multinationals already face questionnaires, audits and data requests. Sectors such as agriculture, mining, automotive, retail and manufacturing feel this pressure most strongly.

In 2026, these expectations will become part of normal business practice. Buyers will need data that show how suppliers manage emissions, water, labour rights and broader environmental risks.

Firms that cannot provide this information may lose access to international markets.

Large South African firms will pass these expectations down to their domestic suppliers. Smaller businesses will need support to meet data and reporting requirements or risk being excluded from supply chains.

Accountants should prepare by helping clients build reliable supply chain data systems. They should advise on mapping material risks, defining reporting boundaries and prioritising sectors where scrutiny will be highest.

Accountants can help clients respond to buyer requests, strengthen documentation and develop simple, practical approaches to due diligence. They can also support capacity building for smaller suppliers who need help collecting and presenting credible data.

The aim is to close the gap between international expectations and local practice so that South African firms remain competitive in global value chains.

Technology and AI move to the centre of sustainability work

Technology underpins every major shift in sustainability and will shape how companies collect, analyse and communicate non-financial data in 2026. Firms already rely on digital tools to manage emissions data, track supply-chain risks and prepare disclosures. The next wave will be faster adoption of artificial intelligence (AI) to automate data collection, run scenario analysis and produce draft reporting outputs. This reflects a simple reality: disclosure requirements are rising while teams remain stretched. Digital systems offer scale, consistency and speed.

In South Africa, adoption will accelerate as more companies align with global standards and face tougher expectations from lenders, investors and international buyers. Firms will seek tools that reduce manual work, connect financial and sustainability systems and improve audit readiness. Local technology providers will enter the market with sector-specific solutions, while global platforms will expand their presence. At the same time, boards will pay closer attention to the risks attached to these systems. AI models rely on large datasets that may contain errors, bias or outdated assumptions.

They also raise questions about data security, intellectual property and the reliability of machine-generated insights.

Accountants and consultants should prepare by understanding both the opportunities and the limits of digital tools.

Accountants and consultants should help clients choose systems that improve data quality, support internal controls and integrate with existing financial platforms. They should also advise on governance structures that ensure AI is used responsibly. This includes checks on data sources, review mechanisms for automated outputs and clear human oversight.

Consultants will also need to understand the sustainability footprint of the technology itself, from energy use to hardware supply chains. The aim is to use technology to enhance disclosure quality and efficiency without outsourcing judgment or ignoring the environmental cost of the tools that make this work possible.

Conclusion

Overall, for SAICA members, 2026 is set to be a year of tighter integration between financial and sustainability reporting, rising expectations for assurance and stronger scrutiny of the claims companies make about their environmental and social performance.

The shift towards global standards, combined with pressure from investors, regulators and international supply chains, will place accountants at the centre of how firms collect, verify and use sustainability data. Those who understand these trends and prepare early will help clients manage risk, meet growing disclosure demands and compete in a market where credible, decision-ready information matters more than ever.

