



Regulatory Landscape in Mexico: Mexican Sustainability Reporting Standards




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Over the last few years, corporate sustainability programs and the implementation of environmental, social and governance (ESvG) performance reports have led to significant progress in Mexico, becoming a strategic pillar for companies. However, the scale and pace of these initiatives remain insufficient to the challenges we face. Ultimately, we are still seeking to reconcile sustainability with a system that is unsustainable by nature.



At EY, the New Economy Unit is exploring the root causes of this *polycrisis* and the principles that will unlock a sustainable future. Systemic thinking is one of these principles, as it enables us to recognize that unchecked greenhouse gas emissions – reaching an all-time high in 2024 – are aggravating the consequences of Climate Change. This situation is having tangible impacts on companies, directly influencing their financial indicators and their ability to continue operating amidst these risks.

Significant examples of climate risks in Mexico include Hurricane Otis and the subsequent tropical storms in Acapulco, with estimated costs of approximately USD 10 billion, according to reports from the National Hurricane Center (NHC) and the local government. Paradoxically, droughts have impacted several states in the north of the country,

such as Nuevo León, where estimated losses of around USD 200 million were reported in 2022, according to the Mexican Association of Insurance Institutions (AMIS, per its Spanish acronym).

Decision-makers need the appropriate tools to lead their organizations in the right direction, ensuring that sustainability risks are incorporated into their management strategies. In Mexico, strategic business decision-making is generally driven by the information disclosed in an entity's financial statements, which are prepared under the Financial Reporting Standards issued by the CINIF – as long as the entity does not present its financial statements under alternative standards, such as IFRS or US GAAP, according on its specific requirements. These financial statements are also subject to an audit conducted by an independent

certified public accountant, who expresses an opinion on the reasonableness of the financial statements, assuring the decision-maker of their quality.

In contrast to the clarity and uniformity provided by the guidelines for preparing financial statements, the preparation of sustainability reports is characterized by a variety of reporting frameworks that are applied voluntarily, often including third-party assurance only on certain occasions. Essentially, we are at a crossroads: there is a pressing need for clear tools and concrete requirements to guide business decisions while simultaneously integrating climate risk and sustainability considerations. In turn, this integration indirectly accelerates the pace and scale of climate action in line with the Sustainable Development Goals.



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A new era in information disclosure

A new era in information disclosure

In the global context, various regulations and standards have been introduced to establish a level playing field for disclosure, enabling companies to simultaneously incorporate comprehensive and timely financial and sustainability information, thereby facilitating their decision-making. Hence, what was previously considered voluntary is now becoming mandatory.

Global regulations require entities to disclose:

1. Their governance structures for the identification of risks associated with climate change and other sustainability related issues.

2. Their strategy for mitigating these risks and capitalizing on potential opportunities.
3. Their risk management systems.
4. The metrics and targets implemented to evaluate their own progress.

The overall goal is to offer transparent and reliable information to investors and stakeholders about the material risks the entity is facing.

Prominent examples of these efforts include standards such as IFRS S1 and S2, issued by the IFRS Foundation's International Sustainability Standards

Board, as well as the European Union's Corporate Sustainability Reporting Directive (CSRD). They both include the concept of connectivity between financial and sustainability matters, enabling systemic integration. This approach requires consistent financial and sustainability reporting, as well as having organizations recognize the accounting effects that climate and sustainability risks may have on their financial statements.





NIS A-1 and NIS B-1

In light of the foregoing, on May 13, 2024, the CINIF –as an independent entity and issuer of the Mexican Financial Reporting Standards (NIF)– issued the first two Mexican Sustainability Reporting Standards (NIS) in series A and B:

1. NIS A-1 *Conceptual Framework for Sustainability Reporting Standards*

This standard establishes the foundations for the development of specific NIS and their application in preparing sustainability information, as well as defining the minimum quality requirements. The standard also adheres to the Governance, Strategy, Risk Management, and Metrics and Targets framework mentioned earlier for international standards, addressing the application of the concept of interconnectivity between financial and sustainability information.

2. NIS B-1. *Sustainable*

Performance Indicators This standard requires determining and disclosing 30 Basic Sustainability Indicators (IBSOs, per their Spanish acronym), which serve as a starting point for identifying sustainability-related risks and opportunities to implement the necessary infrastructure within the company, with the aim of establishing best practices. The IBSOs include some qualitative questions that may be simple enough to answer¹ with a yes or no. Others, however, require information gathering systems that companies may not currently have. These 30 IBSOs are grouped

into environmental, social and governance categories, as follows:

► Environmental

1. Scope 1 greenhouse gas (GHG) emissions
2. Scope 2 GHG emissions
3. Scope 3 GHG emissions
4. Energy consumption
5. Renewable energy consumption
6. Amount of resources allocated to investment in assets aligned with sustainable taxonomy
7. Water supplied to the entity
8. Water reuse (reused/ recycled)
9. Discharge of wastewater
10. Discharge of treated wastewater
11. Water supplied from water-stressed areas
12. Land use near biodiversity risk areas
13. Ozone-depleting substances and chemicals
14. Generated waste
15. Reused waste
16. Hazardous waste

► Social

17. Equal opportunities and decent work*
18. Salary gap

19. Training hours
20. Performance evaluations and professional development
21. Occupational health and safety management*
22. Occupational injuries and illnesses

► Governance

23. Board of Directors*
24. Independent oversight body*
25. Women on the Board of Directors*
26. Risk management policy*
27. Sustainability strategy*
28. Code of Integrity and Ethics*
29. Information security*
30. Protection and privacy of third-party data*

So far, NIS B-1 establishes that these indicators should be reported in a table format as part of the notes to the financial statements prepared under the Mexican Financial Reporting Standards issued by the CINIF. They must be presented in both absolute values –such as the total Scope 1 GHG emissions in tons of CO₂e– and relative values, such as GHG emissions per monetary unit in net profit, expressed in CO₂e/MXN.

Both standards are effective on or after January 1, 2025, and are applicable to entities that

¹ Qualitative indicators that we consider easier to report are marked with an asterisk (*).

prepare their financial statements in accordance with Mexican GAAP, i.e., the Conceptual Framework for Financial Reporting Standards issued by the CINIF. They also require sustainability information disclosures

to be presented as part of the notes to the financial statements, adhering to the principle of information interconnectivity. This will help enable users to clearly understand the relationship between the financial and

sustainability information, including matters relating to governance and strategy, as well as risk and opportunity management based on clear objectives and indicators.





Challenges and opportunities

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Entities that prepare their financial statements under Mexican GAAP must include the disclosures required by the NIS to comply with the NIS conceptual framework, which may pose significant challenge for the organization in 2025.

Meanwhile, regulated entities –such as financial or insurance institutions, as well as entities listed on the Mexican Stock Exchange or the Institutional Stock Exchange– must comply with the sustainability reporting requirements set out by their respective regulators. Any other entity

may choose to adopt the NIS to report sustainability information voluntarily.


In terms of comparability, according to the NIS, sustainability information must be presented for comparison in the financial statements. However, in the year of adoption, entities are only required to present information corresponding to the year ending December 31, 2025.

Finally, the Mexican Institute of Public Accountants (Instituto Mexicano de Contadores Públicos, IMCP) has confirmed that, for purposes of the

auditor's report on the financial statements, the sustainability information required by the NIS is considered as "other information" (as per International Auditing Standards (IAS) 700 and 720), meaning that the independent auditor's opinion does not include this information. Nevertheless, it is advisable for sustainability information to undergo an assurance process in accordance with assurance standard² and the scope defined by Management in consultation with its independent auditor based on the specific needs for utilizing the information.



² The International Auditing and Assurance Standards Board (IAASB) approved the issuance of the International Standard on Assurance Engagements (ISAE) 5000, effective December 15, 2026 (with early adoption permitted). Until ISSA 5000 comes into effect, entities may apply ISAE 3000 or ISAE 3410, or Attestation Standard 7010 (issued by the IMCP), depending on the applicable international or local regulations.



The most significant challenges for companies in the adoption of NIS

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We find that sustainability information has become particularly relevant for investors, analysts, financial institutions, regulators, members of the value chain, and tax authorities (when there are tax benefits involved), which requires entities to generate and provide reliable, relevant, clear, comparable, and verifiable information. The Mexican Sustainability Reporting Standards were issued in response to the need for users to access such information, which entails addressing several challenges outlined below:

- ▶ Establishing a sustainability governance framework within the company.
- ▶ Defining data collection processes and an internal control environment to ensure the quality and integrity of sustainability information, including the use of artificial intelligence.
- ▶ Identifying climate and sustainability risks, incorporating them into the company's risk management system.

- ▶ Applying the concept of interconnectivity to determine the financial effects linked to sustainability.

Consequently, prioritizing the thorough preparation of entities for the adoption of these requirements is crucial to ensure compliance starting in 2025.



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