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OVERVIEW OF COMMENTS OF EXPOSURE DRAFT IFRS SUSTAINABILITY DISCLOSURE STANDARDS

This publication is the perspective of the Indonesia Task Force on CCR, prepared as material for discussing related issues. It is prepared based on institutional comments expressed on the IFRS Foundation website.

International standard-setters have made rapid progress in recent months towards the goal of creating a more robust sustainability reporting framework based on global standards. Figure 1 describes the milestones undertaken by the International Sustainability Standards Board (ISSB) related to the development of sustainability disclosure standards. The ISSB was established in November 2021 at COP26 in Glasgow to improve and deliver a high-quality global baseline of sustainability disclosures¹. The Trustees also created the Technical Readiness Working Group (TRWG) of leading organizations with expertise in sustainability and integrated reporting standard-setting. On the TRWG's program of work, they provide eight deliverables for consideration by the ISSB, which are:

1. General Requirements for Disclosure of Sustainability-related Financial Information;
2. Climate-related Disclosures Prototype;
3. Conceptual guidelines for standard setting;
4. Architecture of standards;
5. Other items to inform a standard-setting agenda;
6. Due process characteristics;
7. Digitization strategy; and
8. Connectivity between the IASB and the ISSB.

On March 2022, two exposure drafts has been published, which are Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. ED IFRS S1 sets out the overall requirements for an entity to disclose sustainability-related financial information about all its significant sustainability-related risks and opportunities, to provide the market with a complete set of sustainability-related financial disclosures.

While ED IFRS S2 builds upon the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and incorporates industry-based disclosure requirements derived from SASB Standards. The ISSB welcomes views from stakeholders who can submit responses to the ED in one of two ways, survey or comment letter. This ED is open for comment until 29 July 2022.

During the 120-day comment period, ISSB representatives participated in more than 400 outreach events, engaging with thousands of stakeholders globally. For example, ISSB held two live webinars on 28 April 2022 to provide an overview of the proposals for sustainability standards². In Indonesia, IAI and IFAC organize three webinars as part of the Business 20 (B20) Indonesia side events (the official G20 dialogue forum with the global business community)³. Two of the three webinars were in collaboration with ISSB. The first webinar was held on 12 April 2022. Ms Sue Lloyd, the Vice Chair of ISSB, as keynote speaker on that webinar highlights the role of ISSB and Exposure Draft IFRS Sustainability Standards⁴. The second webinar was held on 22 June 2022 with Ms Sue Lloyd, the Vice Chair of ISSB, as a speaker, and intended to raise awareness and gained wider support in the business community and stakeholders about its upcoming standard, so that they can provide support and inputs on the exposure drafts⁵. The third webinar was held on 25 August 2022, to describe the importance of sustainability governance to create value⁶. IAI invited Ms Mardi McBrien, Director of Strategic Alliance of IFRS Foundation as the keynote speaker. IAI has been actively leading efforts toward sustainability issues in Indonesia, including intensive discussions with the Task Force on Comprehensive Corporate Reporting (Indonesia Task Force on CCR) regarding the possibilities of adopting the standards in the future.

¹ IFRS Foundation, *Technical Readiness Working Group, 2021*

² IFRS Foundation, *Webinars on the ISSB's exposure drafts, 2022*

³ Ikatan Akuntan Indonesia (IAI), *Accountancy Profession to Take Lead in Sustainability Reporting, 13 June 2022*

⁴ Ikatan Akuntan Indonesia (IAI), *Siaran Pers – IAI B20 Side Event #1 Mitigasi Perubahan Iklim Global dengan Pelaporan Keberlanjutan, 12 April 2022*

⁵ Ikatan Akuntan Indonesia (IAI), *Global Baseline for Business and Investors: B20 – IAI – IFAC – ISSB Outreach, 14 June 2022*

⁶ Ikatan Akuntan Indonesia (IAI), *B20 Side Event - Sustainability Governance as the Foundation of Value Creation, 10 August 2022*

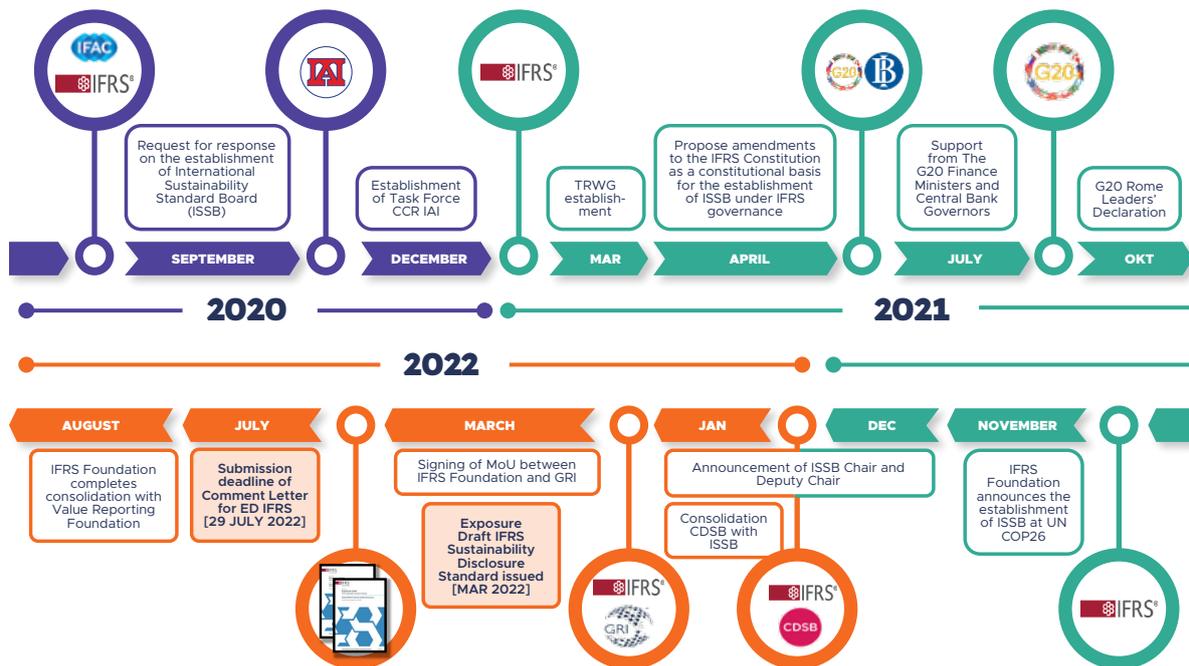


Figure 1. The ISSB Milestone

IAI through the Task Force on Comprehensive Corporate Reporting (Indonesia Task Force on CCR) expressed its support for the development of the IFRS Sustainability Disclosure Standard by ISSB (the Board) proposal on Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and Exposure Draft IFRS S2 Climate-related Disclosures. In writing its comment letter, Indonesia Task Force on CCR already performed discussion with the Ministry of State Owned Enterprises, Central Bank of Indonesia (*Bank Indonesia*), Financial Service Authority (*Otoritas Jasa Keuangan/OJK*), Centre For Financial Profession Supervisory (*Pusat Pembinaan Profesi Keuangan/PPPK*), Indonesian Stock Exchange, Indonesian Chamber of Commerce & Industry (KADIN), Indonesia Institute of Certified Public Accountant (IAPI), and Indonesia Institute of Management Accountant (IAMI), and CFO Club to corroborate the insight and concern from relevant key stakeholders.

After the comment period ended, ISSB received more than 1,300 global responses on its two proposed sustainability disclosure standards. The ISSB has received 718 responses to its draft General Requirements disclosure standard (comments from the Indonesia Task Force on CCR are listed under #507) and 670 responses to its draft Climate disclosure standard (comments from the Indonesia Task Force on CCR are listed under #464). In Figure 2, it can be concluded that most of the responses from stakeholders both in ED IFRS S1 and ED IFRS S2 were in the form of comment letters which represent more than 80%. While the online survey was an alternative process for stakeholders in submitting feedback. Comment letters play a pivotal role in collecting feedback on consultation documents such as exposure drafts and developing an IFRS Standard because the letters provide considered, public responses to that formal consultation. In analyzing comment letters ISSB evaluates the respondents' views and the explanations and evidence they provided to support those views. ISSB place particular weight on the strength of a respondent's analysis and substantiating (or supporting) evidence, rather than the mere frequency of a particular view. The explanations and evidence provided by respondents inform their decision-making on whether to confirm, amend or withdraw a particular proposal, and guide them in evaluating alternative approaches, if needed, and in developing the final requirements.

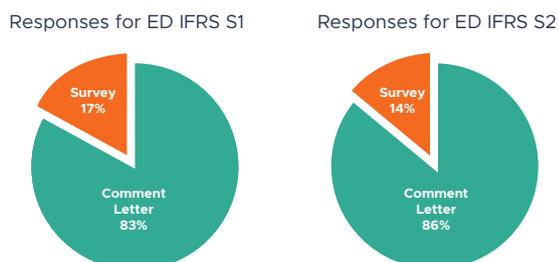


Figure 2. Responses for ED IFRS S1 & S2

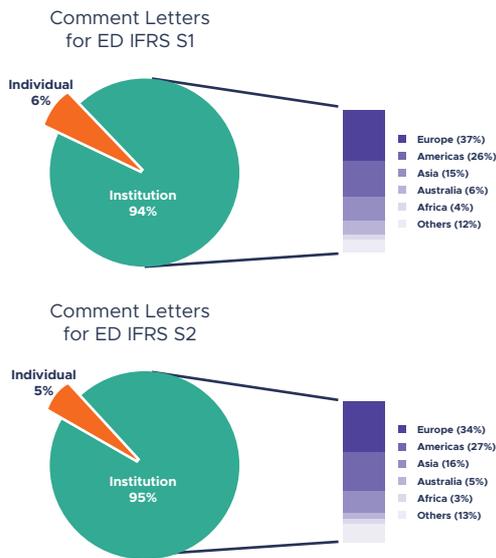


Figure 3. Detailed Responses for Comment Letters

Furthermore, a preliminary review of the comment letters can be seen in Figure 3. It can be known that more than 94% of responses were from institutions both for ED IFRS S1 and ED IFRS S2. These responses came from a range of stakeholder groups including academics; accountancy bodies and audit firms; investors; preparers; public interest bodies; regulators; and standard-setters. This massive support shows us the high urgency from all stakeholders for a comprehensive global standard for better sustainability disclosure. According to IFRS Foundation's due process, currently, we are waiting for the ISSB to assess and discuss all comments as a critical grounding for the final requirements. Learn more about all comment letters for these standards⁷ on the IFRS Foundation website.

Figure 4 highlights key issues from some institutions regarding the proposed standards, with a detailed explanation as follows:

1. International applicability as global baseline standards

ISSB's work to establish the global baseline has been welcomed by the G7, G20, the International Organization of Securities Commissions (IOSCO), the Financial Stability Board (FSB) and by companies and investors from around the world⁸. This global baseline can be one of the solutions to reduce the existing and further fragmentation of sustainability disclosure requirements. It can reduce implementation costs and improve trust and transparency.

Furthermore, it can play a vital role in the transformation of sustainable economic, social and environmental systems and a just transition for a better future.

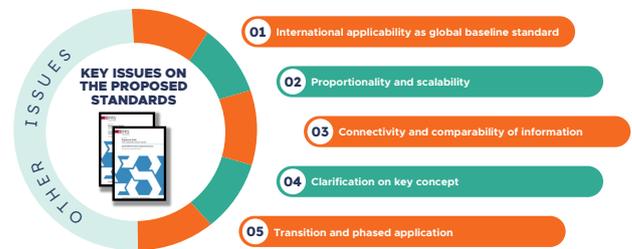


Figure 4. Key Issues on the Proposed Standards

However, in the Financial Reporting Council (FRC)'s comment letter, they said that "entities that are less well-resourced and prepared and markets that have not already adopted the TCFD framework, may find challenges in meeting the proposed disclosure expectation". The Japanese Institute of Certified Public Accountant (JICPA) also has the same opinion that current status of sustainability reporting varies between countries and regions. Therefore, JICPA recommends the ISSB clarify a fundamental policy for providing a universal foundation that reflects such variances and has the status as a globally applicable baseline. Moreover, Malaysian Accounting Standards Board (MASB) commented that the global baseline should be practical as well as provide sufficient latitude for jurisdictions to implement the baseline and for policymakers to make their jurisdiction-specific requirements fit for their purpose considering the current varying maturity levels of jurisdictions across the world concerning sustainability reporting.

On May 2022, ISSB outlined that international collaboration is essential to create a consistent approach to disclosure systems across markets. The G7 and G20 requested ISSB to engage with jurisdictional authorities and market participants to evaluate and shape the requirements. It needed to facilitate compatibility with broader jurisdictional requirements.

This action is in line with recommendations from institutions in their comment letters. Such as the JICPA and Indonesia Task Force on CCR, which recommended ISSB to

⁷ This data is processed manually by identifying the origin of the submitters with no prior confirmation. Hence, the data expressed in this chart are those of the authors' interpretation of the comment letters, not necessarily those of official feedback report from ISSB.

⁸ IFRS Foundation. Path to global baseline: ISSB outlines actions required to deliver global baseline of sustainability disclosures. 18 May 2022.



ensure acceptability and applicability of the requirements in a different jurisdiction. The ISSB should clarify the relationship between IFRS Sustainability Disclosure Standards and country and region-based standards. In JICPA's opinion, these standards should not be mutually exclusive but rather should be mutually complementary. As an alternative solution, Australian Accounting Standards Board (AASB) recommend entities be permitted to use relevant jurisdictional GHG protocols or standards as long as they align with the GHG Protocol or are not of a lower quality than the GHG Protocol. Moreover, besides asking for feedback and consultation with jurisdiction, the Association of Chartered Certified Accountant (ACCA) encourage ISSB to consider field testing to better understand its impact on different sizes of entities. Furthermore, Indonesia Task Force on CCR recommended that ISSB clarify whether references to existing frameworks such as SASB Standards are for guidance or part of the requirement. With SASB Standards being developed based on and for environment and practices in predominantly the United States, needs to consider how these would be relevant to other jurisdictions.

Most of the comment letters from all regions also have a similar view regarding the international applicability of the standards. Both regional and international efforts have to go hand in hand to create consistent, interoperable, high-quality, and globally accepted reporting standards. It needs constructive interaction between regulators and standard setters to work together to ensure a coherent global alignment and to avoid fragmented standards. While respondents from America view that to avoid fragmentation, the ISSB should build a clear route towards global adoption, not only in a jurisdiction that utilizes IFRS but also in a jurisdiction that follow Generally Accepted Accounting Principles (GAAP).

2. Proportionality and scalability

To deliver the global baseline, some institutions encourage ISSB to consider the proportionality and scalability in its standard-setting activities, such as FRC, AASB, MASB, Indonesia Task Force on CCR, etc. MASB suggested that ISSB set a clear path for smaller and medium entities

unless the ISSB plans to have another tier or framework for such entities. Moreover, FRC and AASB recommend that ISSB consider using consistent language throughout the proposed and future standards to support understandability and translation into other languages. To perform these recommendations, ISSB should learn the approach taken by the IASB regarding the understandability and accessibility of their IFRS Accounting Standards. Meanwhile, Indonesia Task Force on CCR recommended that ISSB precede some of the proposed disclosure requirements with phrases like "where relevant in the circumstances of the entity" to demonstrate where requirements are scalable. This would also help reporting entities assess which requirements are material and therefore require disclosure.

These views are consistent with most comment letters received from Asia and Australia, which recommend ISSB adopt a proportionality approach in terms of timing and extent of application by SMEs. It is also important to assess these proportionality approach costs when completing a cost-benefit analysis.

3. Connectivity and comparability of information

These standards are intended to improve consistency in sustainability disclosure across markets. To ensure this consistency, connectivity and comparability of information are critically important issues for the ISSB to be considered. Three areas of connectivity are important to highlight according to FRC and JICPA comment letters, including (1) between sustainability-related risk and opportunities, (2) between disclosure requirements within the proposed standard, and (3) between the information about the risk and opportunities and the financial report. Moreover, Indonesia Task Force on CCR analyzes that it will be challenging for entities to provide retrospective restatements for all changes in estimates. Therefore, ISSB needs to ensure comprehensive corporate reporting architecture on these standards.

This issue has been discussed in comment letters from all regions. Most respondents view that ISSB needs to consider the connectivity of the information mentioned

above. Institutional respondents from the United States view that the current wording is subject to misinterpretation. Therefore, the connectivity of information should be clarified through further illustrative examples. Moreover, most respondents from Australia and America recommend the ISSB assess the connectivity between traditional financial reporting and sustainability-related financial reporting.

4. Clarification on key concept

Some terms in the proposed standard are unclear and understandable. Therefore, some institutions such as FRC, JICPA, AASB, AACA, and Indonesia Task Force on CCR asked for further clarification on the terms ‘significant’, ‘sustainability-related’, ‘enterprise value’ and consistency application for terms ‘materiality’ and ‘enterprise value. The ISSB can also consider adding guidance on the application of the definition of material to help ensure consistent application by stakeholders. Almost all regions have the same issue regarding these unclear terms. Respondents from Australia view that this alignment and clarification of these key terminologies will avoid regulatory fragmentation.

5. Transition and phased application

While these standards undoubtedly have significant benefits to be considered, the adoption of these standards tends to pose difficulties and be more likely to result in unforeseen consequences. Therefore, Indonesia Task Force on CCR, FRC, and ACCA recommended a transition and phased application to give sufficient time for entities and jurisdictions to prepare all the data and information needed. ACCA expects that companies would want to have a ‘dry run’ before being required to fully comply with the standards. Moreover, if applicable, MASB asked for different effective dates for [draft] IFRS S1 and [draft] IFRS S2. Not only those institutions, but almost all regions have the same view regarding the phased application. They view that these standards need high implementation costs both for regulators and reporting entities. As mentioned earlier, all stakeholders need sufficient time to harmonize and prepare all of the related data.

From Indonesia Task Force CCR’s view, besides all of the key issues described before, there is one important issue that is rarely mentioned by other institutions, which is the business context. At the beginning of the entity’s disclosures, it should provide its context for its business environment (internal & external), value chain, business model, and business operation. Considering that each entity has different issues and therefore how the sustainability aspect relates to the entity’s operation, whether it is significant or not, and which part of the business the aspect relates to will be different. This view is in line with the architecture of standards developed by the TRWG as seen in Figure 5. TRWG recommends an architecture for the ISSB’s Standards that provides thematic disclosure and industry disclosure requirements. Both of these requirements focus on matters critical to the way an entity operates, which consists of governance, strategy, risk management, metrics and targets⁹.



Figure 5. Architecture of Standards developed by the TRWG
Source: TRWG (2021)

In our opinion, there will be some potential implementation challenges faced by the entities, local regulators, and all related stakeholders regarding the IFRS Sustainability Disclosure Standards. However, we believe that harmonization of the standards with specific jurisdiction needs and practices will facilitate the different interests of every stakeholder. We understand that this harmonization will require extensive efforts and time, therefore we believe that the Board should consider the possibility of introducing a phased application of the standards to allow users and stakeholders to apply these standards based on their readiness.

⁹ Technical Readiness Working Group (TRWG). Summary of the Technical Readiness Working Group’s Programme of Work. November 2021.

THE INDONESIAN TASK FORCE ON COMPREHENSIVE CORPORATE REPORTING

As a response to the sustainability reporting initiative from the International Federation of Accountants (IFAC) and IFRS Foundation, in December 2020 the Institute of Indonesia Chartered Accountants (IAI) organized the Task Force on Comprehensive Corporate Reporting (Indonesia Task Force on CCR). Led by IAI as the recognized Professional Accountancy Organization and standard-setter for financial reporting, membership of the Indonesia Task Force on CCR consisted of representatives of key stakeholders in Indonesia, as presented in figure below.

Following are some of the Indonesia Task Force on CCR responsibilities, as follows:

- 1.** Reviewing and submitting responses to documents published by the IFRS Foundation (especially ISSB) regarding the issue of sustainability.
- 2.** Conducting hearings with regulators regarding the development of sustainability issues.
- 3.** Actively involved in various events at international and national levels related to the development of sustainability issues both as speakers and participants.
- 4.** Raising public awareness regarding the development of sustainability disclosure through webinars and article publications.

Membership of the Indonesia Task Force on CCR



Steering Committee and Chair
Rosita Uli Sinaga
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Steering Committee and Member
Prof. Lindawati Gani
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