

28 April
2023

A PUBLICATION OF THE IAI COMPREHENSIVE CORPORATE REPORTING TASK FORCE

Issue No.
07/IV/2023

GET STARTED WITH IFRS SUSTAINABILITY DISCLOSURE STANDARDS

This publication is the perspective of the authors, prepared as material for discussing related issues, and does not represent the position of TF CCR IAI on this issue. The position of IAI's CCR TF is only determined after going through the due process procedure and discussion process as required by IAI.

Last February 2023, the International Sustainability Standards Board (ISSB) made its final decisions for its standards. They agreed that the IFRS Sustainability Disclosure Standards will be issued at the end of Q2 2023 and will become effective starting January 2024. Early application of IFRS S1 and IFRS S2 is permitted, but only if an entity applies both IFRS S1 and IFRS S2 at the same time. These decisions were made after 20 sessions of redeliberation from 1400++ feedback received last year. Figure 1 illustrates all milestones that have been done by ISSB in developing its standards.

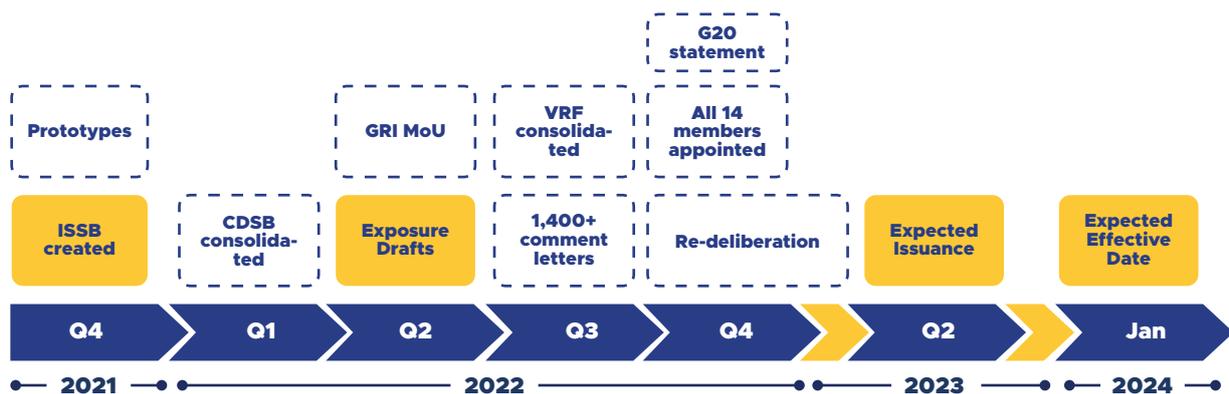


Figure 1. ISSB Milestone

The decision on the effective date is in response to the strong demand from investors for companies globally to disclose comprehensive, consistent, and comparable sustainability-related information early as possible. This demand was also supported by the International Organization of Securities Commissions (IOSCO) and governments around the world, including G20 leaders and others. This standard is needed to support systemic financial stability and for investor protection. The Standards are designed to be cost-effective and have been developed with efficiency in mind, to help companies report what is needed by investors across markets globally. The ISSB baseline is going to be decisive in terms of how cross-border capital is allocated because it's comparable, reliable, and consistent across jurisdictions. To achieve this global baseline, jurisdictions must adopt the ISSB Standards.

There are some benefits from implementing these standards, (1) provide relevant information and better communication to an investor, (2) support investor decision-making, (3) facilitate international comparability to attract more capital with expected lower cost of capital, (4) avoid double-reporting by applying IFRS Sustainability Disclosure Standards, and (5) reduce the risk of confusion for those who used the information (i.e., less fragmented). When jurisdictional requirements build on the global baseline, companies can meet jurisdictional requirements, while benefitting from the baseline's efficiency and comparability. Finally, it would be exceptionally costly for a jurisdiction itself to not apply the core elements of S1 and S2.

To provide information comparability, ISSB is working with regulators around the world to prepare the condition of their markets for adoption, so that investors can use this information in their investment decisions without delay. Following this progress, The Sustainability Standards Board of Japan (SSBJ) has already committed to developing Japanese sustainability disclosure standards that build on the global baseline of sustainability-related disclosures established by ISSB Standards. On 1 March 2023 in Tokyo, representatives of SSBJ outlined their project plan to issue the Exposure Drafts no later than 31 March 2024, and the Final Standards to be issued no later than 31 March 2025.

Every jurisdiction needs to prepare the infrastructure for the adoption, and it is crucial for companies of all sizes across different markets that want to be dynamic and resilient in a changing business environment to respond to a wave of scrutiny from a range of stakeholders – from investors and regulators to employees and customers. The preparation among companies is in line with the consultation on the ISSB Standards, where companies responded that there is a range of preparedness and capability to apply the standards. Figure 2 highlights some key steps to implement IFRS S1 and S2.

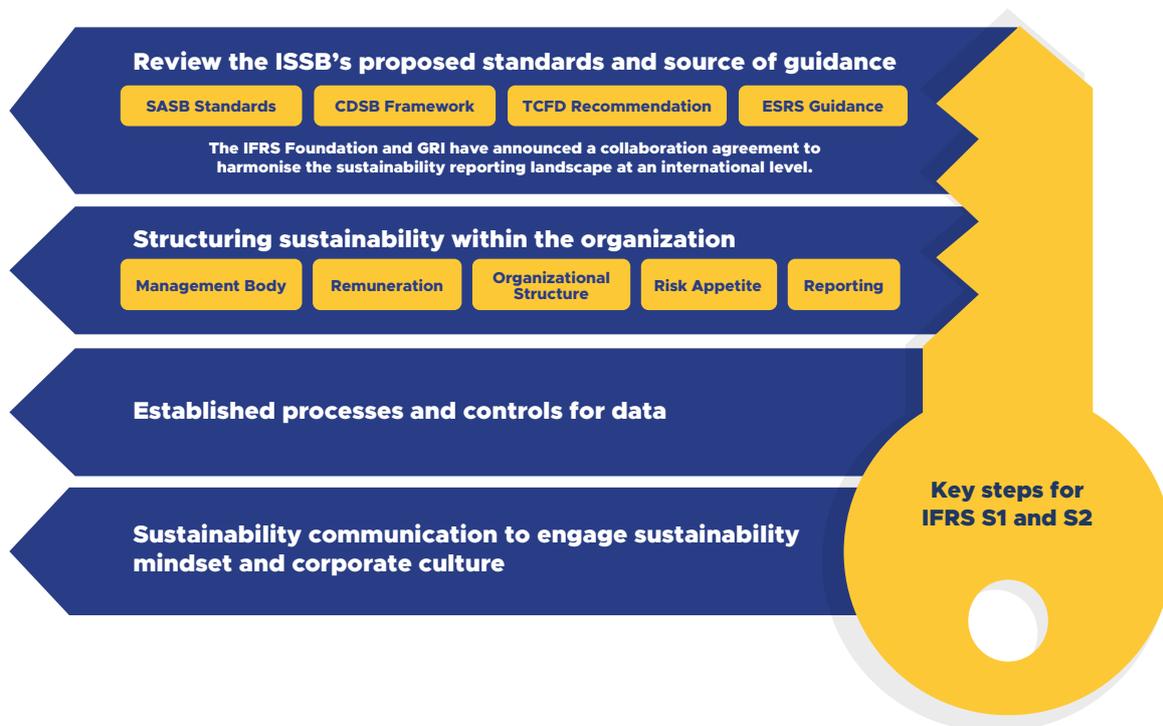


Figure 2. Key Steps to Implement IFRS S1 and S2

In response to a different level of preparedness on companies and jurisdictions to use the standards, the ISSB decided to develop application guidance, illustrative guidance, and examples, and to introduce transition reliefs to reduce the burden on companies. These reliefs include phase-in periods, and basic/advanced reporting requirements based on a company's resources (proportionate requirements). ISSB also give instruct to 'use reasonable and supportable information available without undue cost or effort', and consideration of a company's 'skills, capabilities and resources' to determine the approach to providing information. These package of reliefs and guidance aimed to support the use of the Standards, enabling companies to scale up their approach to using them over time.

The following are steps needed for companies to implement IFRS S1 and S2, as highlighted in Figure 2.

1. Review the ISSB's proposed standards and source of guidance

ISSB stated that to understand what to report on, companies shall review ISSB's proposed standards and consider its supporting materials, including the Sustainability Accounting Standards Board (SASB) Standards, Climate Disclosure Standards Board (CDSB) framework, and Task Force on Climate-Related Financial Disclosures (TCFD) recommendation. So, companies that are not using those materials yet, should consider preparing for adoption as soon as possible.

SASB Standards are a practical tool to implement S1 and S2. Companies shall consider SASB Standards both when identifying what sustainability matters to report on and in developing appropriate disclosures. Moreover, SASB Standards, help companies to identify sustainability topics and metrics, as required by S1, in the absence of a specific ISSB Standards. While in S2, disclosures from SASB Standards are used as illustrative guidance. ISSB use this SASB Standards, because it is already designed with investor focus and industry-specific disclosures, which are in line with ISSB's objectives.

CDSB materials serve as a useful reference. ISSB asked companies to consider this materials to identify sustainability risks and opportunities as well as disclosures. While TCFD recommendation shall be considered by companies due to the same report structures, which are governance, strategy, risk management, and metrics and targets.

Furthermore, companies may refer to the European Sustainability Reporting Standards (ESRS) developed by the EFRAG (European Financial Reporting Advisory Group), within an appendix to S1—the ISSB's general requirements standard—as a source of guidance, in the absence of a specific ISSB standard, to identify metrics and disclosures if they meet the information needs of investors. It was noted that allowing entities to use these materials in the absence of a specific ISSB Standard will reduce the reporting burden for companies applying these standards for other purposes but that it was important to ensure that the information presented was consistent with the ISSB's role of meeting the needs of primary users.

2. Structuring sustainability within the organization

Corporate governance should be transformed into corporate and sustainability governance to demonstrate how an organization's leadership is addressing the sustainability issues and their impact. Investor and other stakeholder need to determine if relevant sustainability-related issues are receiving appropriate board and management attention. Companies need to demonstrate leadership commitment to the Sustainable Development Goals (SDGs) as part of company's long-term strategy. Communication from the top management should continue to demonstrate that the SDGs are central to the CEO and/or Chair's vision over the long term. Companies can benefit from maintaining the public commitment to the SDGs with high credibility and improving the relationship with partners, including governments. Directors have a critical role in shaping company's approach to the SDGs.

3. Establish appropriate system, processes, and controls for data

Data quality and data assurance are important issues raised by respondents in the consultation period last year. Businesses with global operations and multiple product lines may face challenges in collecting data. IFRS Sustainability Disclosure Standards required companies to track and disclose their greenhouse gas emissions. It means that every level of the business should have the same understanding. To do so, here are few things that need to be prepared by companies to make sure controls for their sustainability-related data:

1. Evaluate internal systems and processes for collecting, aggregating, and validating sustainability-related information across the company and its value chain
2. Develop KPIs and ensure their reliability, robustness, and accuracy
3. Embed sustainability metrics into existing processes
4. Monitor and review its metrics regularly

5. Bring the sustainability reporting up to the same level as financial reporting
6. Have clear focus on sustainability performance throughout companies' operations
7. Make sure that local operational units are contribute to the company's global sustainability goals in the day-to-day operations, collecting and reporting data, as well as assessing their performance towards local targets set.
8. Require suppliers to provide information and reporting as well

4. Sustainability communication to engage a sustainability mindset and corporate culture

As mentioned earlier, good communication is needed to create better and more engagement in the sustainability agenda. It is not only about compliance with rules and correct reporting, but also deploying credible sustainability communication to inspire employees and stakeholders in the wider value chain to action. Nowadays, companies want to create value as much as possible, not only for themselves, but for all stakeholders. Companies have the capabilities and opportunities to combine people, planet, prosperity, peace, and partnership. Therefore, they have an immense responsibility to generate a lot of positive impacts. Companies need to communicate not just to polish their images or reputations, but also to move people into adopting more sustainable behaviours.

Sustainability transformation means change management where we must start doing things differently way. Companies must communicate in the most effective way possible to bring about that change. To start communicating this issue, companies may consider developing a sustainability strategy. After that, companies may use their communication channels throughout the entire sustainability transformation process.

Effective communication in sustainability involves top-down and bottom-up approaches, with tone at the top being crucial. Companies should provide channels for employee engagement such as newsletters and volunteering to raise awareness and encourage action. Addressing sustainability challenges also requires multi-stakeholder commitment across the value chain. For instance, palm oil production requires linked actions such as fair wages and prices, training, and education initiatives. Communication should support an ecosystem approach.

Sustainability is now a core aspect of business strategy. Effective communication triggers the heart while reporting provides evidence for the head. Companies need to be skilled in engaging critical stakeholders effectively on their journey to sustainability.

Conclusion

In conclusion, companies need to identify critical gaps in the current reporting and assessing the readiness and maturity towards IFRS sustainability disclosure standards adoption. To do so, companies should start to review the proposed standards and source of guidance, to smooth the adoption process. After that, companies should prepare to restructure sustainability within the organization. Corporate governance should be transformed to corporate and sustainability governance to demonstrate how an organization's leadership is addressing the sustainability issues and their impact. Lastly, in parallel, companies may establish processes and controls for data, and communicate sustainability across the organization to engage sustainability mindset and corporate culture.

Sustainability is about business risks and opportunities – regulatory risk, reputational risk, supply security, innovation, etc. and how those risks and opportunities are embedded in the business and shared externally. The journey to implement sustainability disclosure requirements properly can be a long one and the timetable is challenging. It may feel burdensome at times, but it can also be a benefit – beyond compliance or addressing stakeholder demands, as mentioned before. Not only for companies reputation and attract capital, but also be a source of attracting and retaining talent. People want to have purpose in their work; they want to work on sustainability issues.

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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
DPN IAI



Steering Committee and Member
Prof. Lindawati Gani
DPN IAI



Steering Committee and Member
Isnaeni Achdiat
DPN IAI



Member
Istini T. Siddharta
DKSAK IAI



Member
Indra Wijaya
DSAK IAI



Member
Elvia R. Shauki
DSAK IAI



Member
Arie Pratama
TISAK IAI



Member
Surya Dominic
TISAK IAI



Member
Nawal Nely
Kementerian BUMN RI



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Galuh Nuradinda
Kementerian BUMN RI



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Bank Indonesia



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Agus Saptarina
Otoritas Jasa Keuangan



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Member
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PT. Bursa Efek Indonesia



Member
Ajib Hamdani
Kamar Dagang dan
Industri Indonesia



Member
Djohan Pinnarwan
Institut Akuntan Publik
Indonesia



Member
Kusumaningsih A.
Institut Akuntan Publik
Indonesia



Member
Hilda Octavana S.
Institut Akuntan Manajemen
Indonesia



Member
Aria Nagasastra
CFO Club Indonesia