PRI RESPONSE

INDONESIAN SUSTAINABILITY STANDARDS BOARD EXPOSURE DRAFT SUSTAINABILITY DISCLOSURE STANDARDS

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PRI Association

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ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the Indonesian Sustainability Standards Board consultation on Exposure Draft Sustainability Disclosure Standards (SPK).

ABOUT THIS CONSULTATION

The Indonesian Sustainability Standards Board of the Institute of Indonesian Chartered Accountants (Dewan Standar Keberlanjutan / DSK IAI) is consulting on Exposure Draft Sustainability Disclosure Standards (SPK) for Indonesian companies. The scope of companies covered will be decided by the Indonesian government and is therefore not specified within this consultation.

The proposed requirements are well-aligned with the ISSB standards, which aim to deliver a global baseline of sustainability-related financial disclosures that meet the information needs of an entity's investors, creditors and other lenders. They include:

- IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* – requirements on sustainability-related risks and opportunities across all sustainability issues, and how to prepare and report sustainability-related financial disclosures.
- IFRS S2 *Climate-related Disclosures* – requirements on climate-related risks and opportunities.

The standards would apply in financial years beginning on or after 1 January 2027, with earlier application permitted. To facilitate implementation, the DSK IAI has proposed a further three-year phase-in for reporting on sustainability issues beyond climate, for requirements related to Scope 3 greenhouse gas emissions (including financed emissions), and for the requirement to use the Greenhouse Gas Protocol methodology to calculate emissions.

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RESPONSE

Adoption of the ISSB standards will benefit investors

The PRI supports the introduction of sustainability disclosure requirements aligned with the ISSB standards. As such, we welcome the DSK IAI's proposal to issue ISSB-aligned sustainability reporting standards (SPK) for Indonesian companies. This can provide investors with the comparable, high-quality[1] sustainability reporting they need (and currently lack) from portfolio companies for decision-making, enabling them to allocate capital more efficiently – accounting for sustainability-related financial risks and opportunities and addressing sustainability goals[2].

Last year we published a call to action for jurisdictions to commit to adopting both ISSB standards at pace. This was issued in collaboration with the London Stock Exchange Group, UN Sustainable Stock Exchanges initiative and World Business Council for Sustainable Development – and endorsed by 121 investors, companies, stock exchanges and other organisations.

Thirty-five jurisdictions have adopted the ISSB standards or are taking steps to do so. To date, in the APAC region we have engaged in consultations on the adoption of the standards in Australia, China, Hong Kong SAR, Japan, South Korea, Malaysia, Singapore and Thailand (submissions available online). As we engage with local markets, we have consistently found that investors support the adoption of the ISSB standards by international and local standard setting and policymaking bodies.

Further, we support DSK IAI's proposal to not deviate from the content of the ISSB standards, but instead achieve proportionality by phasing-in requirements related to Scope 3 GHG emissions, use of the Greenhouse Gas Protocol methodology to calculate emissions, and reporting on sustainability issues beyond climate. This is preferable because full content alignment with the standards will provide investors with more comparable and better-quality reporting across portfolios.

Finally we acknowledge that alongside relief provisions, capacity building will be needed to ensure effective implementation of the standards by preparers, particularly those less experienced with sustainability reporting. The PRI is a partner organisation to the ISSB's Partnership Framework for Capacity Building and stands ready to support these efforts.

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[1] The ISSB standards are underpinned by the structure and concepts of accounting standards from the International Accounting Standards Board (IASB) and build on the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, among other well established voluntary sustainability reporting frameworks. They have also been endorsed by the International Organization of Securities Commissions (IOSCO), which has recommended that its member jurisdictions consider ways in which they might adopt, apply or otherwise be informed by the standards.

[2] Investors around the world are increasingly committed to incorporating and pursuing sustainability outcomes such as those posed by the UN SDGs, Paris Agreement and the Kunming-Montreal Global Biodiversity Framework. Legal analysis from the A Legal Framework for Impact (LFI) project found that while there are differences across jurisdictions and investor groups, where investing for sustainability outcome approaches can be effective in achieving an investor's financial goals, the investor will likely be required to consider using them and act accordingly. The global LFI analysis and local LFI policy reports, such as the Japan Report, have consistently found that for investors to be able to pursue sustainability outcomes, market mechanisms such as mandatory sustainability disclosure are critical.

Key recommendations

The PRI's key recommendations are for the DSK IAI to shorten the proposed delays upon entry into force of the following requirements, from three years to one year in each case – or a yearlong "comply or explain" provision for these requirements rather than a delay so there is a more gradual ramp up.

- **Reporting on issues beyond climate.** We understand the DSK IAI's proposal to focus initially on climate-related disclosures, and acknowledge that entities are still encouraged to report on other sustainability-related risks and opportunities. However, investors urgently need high-quality reporting on a wide range of sustainability topics where material to investment decisions. As for climate, they benefit from material information on governance, strategy, risk management and metrics and targets related to these issues – to inform their assessment of entities' prospects.
- **Reporting GHG emissions using the GHG protocol**. The GHG Protocol is the most widely used and recognised international standard for calculating GHG emissions. Earlier adoption by Indonesian companies would help to standardise their emissions data with entities in other jurisdictions, increasing comparability and facilitating aggregation for investors.
- **Reporting Scope 3 GHG emissions.** While we understand that Scope 3 GHG emissions can be difficult to report, the PRI supports their disclosure where material. Scope 3 emissions are important to investors because they are the most impactful kind of emissions for some industries. Leaving them out can mean that a large share of actual emissions is not reported by companies.

In addition, we note that unlike the ISSB standards, the draft SPK do not require entities to use the Global Industry Classification Standard (GICS) in disaggregating information related to financed emissions for commercial banking and insurance industries; and that the ISSB is currently considering a modification to this requirement, permitting entities not already using GICS to use an alternative classification system. Aligning the SPK with the ISSB's final decision on this matter would help to ensure interoperability for preparers and more comparable reporting for investors.

Finally, until further decisions are made by the relevant authorities/regulators, entities preparing sustainability disclosures have the sole discretion to decide whether sustainability disclosures should be prepared in accordance with the SPK or other frameworks. We encourage the DSK IAI to continue working with relevant authorities and regulators in Indonesia to promote and implement the SPK.

The DSK IAI should consider building on the global baseline in the future

Investors' data needs are shaped by the approach they take to responsible investment. Approaches can include a combination of: (i) focusing on incorporating ESG risks and opportunities; (ii) addressing the drivers of financially material sustainability risks; and (iii) actively pursuing sustainability outcomes beyond investment value. All three approaches exist within PRI's signatory base.

Therefore, while all investors need sustainability-related information to inform their assessment of companies' risks and opportunities, some investors also need information to assess and interpret a company's impacts and their alignment with sustainability goals and thresholds. PRI's Legal Framework for Impact report demonstrates that as part of their responsibilities to clients and beneficiaries, investors may need to assess the sustainability outcomes which affect the system-level risks to which their portfolio is exposed, and therefore long-term returns. This is especially true for socalled universal owners, such as sovereign wealth funds who invest across entire economies. Many institutional investors now accept that, in acting in their clients' and beneficiaries' best financial interests, they should consider and respond to system-level risks that may affect long-term returns.

While the ISSB standards are expected to enable disclosure of some of this information, they are unlikely to provide investors with all the information they need on companies' impacts and dependencies. Therefore, in line with the IFRS Foundation's "building blocks" approach, the DSK IAI should eventually consider disclosure requirements additional to the ISSB standards, capturing more information on entities' sustainability impacts and dependencies. Similar to the approach of the European Commission and Chinese Ministry of Finance, such additions should build on the GRI standards given their widespread uptake in Indonesia and globally.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of DSK IAI further to promote the application of a sustainability disclosure in line with the global baseline in Indonesia.

Please send any questions or comments to policy@unpri.org.

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