KPMG Board Governance Forum l Breakfast briefing session

ESG reporting & assurance

24 August 2023

KPMG Indonesia

01

Impact economy and trend of non financial reporting

In the impact economy, economic growth and business growth are not distinct from solving social and environmental problems*

The Sustainable Development Goals (SDGs) were established by the United Nations as the ambitious roadmap towards a sustainable future for all. While they were adopted by member states, the success of the SDGs hinges on the ability to engage the private sector to unleash their innovative power**

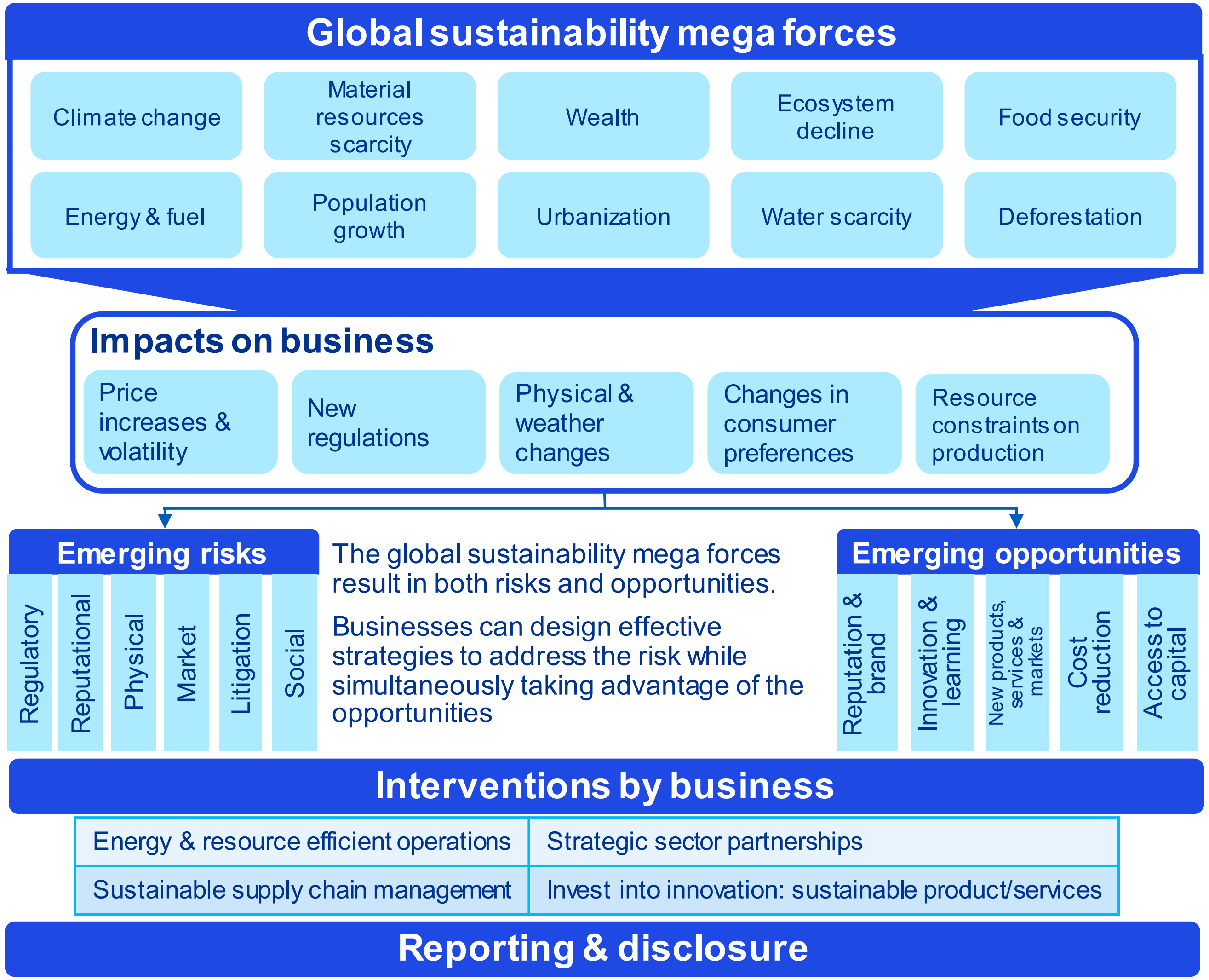
"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs"

– UN United Nations Brundtland Commission, 1987

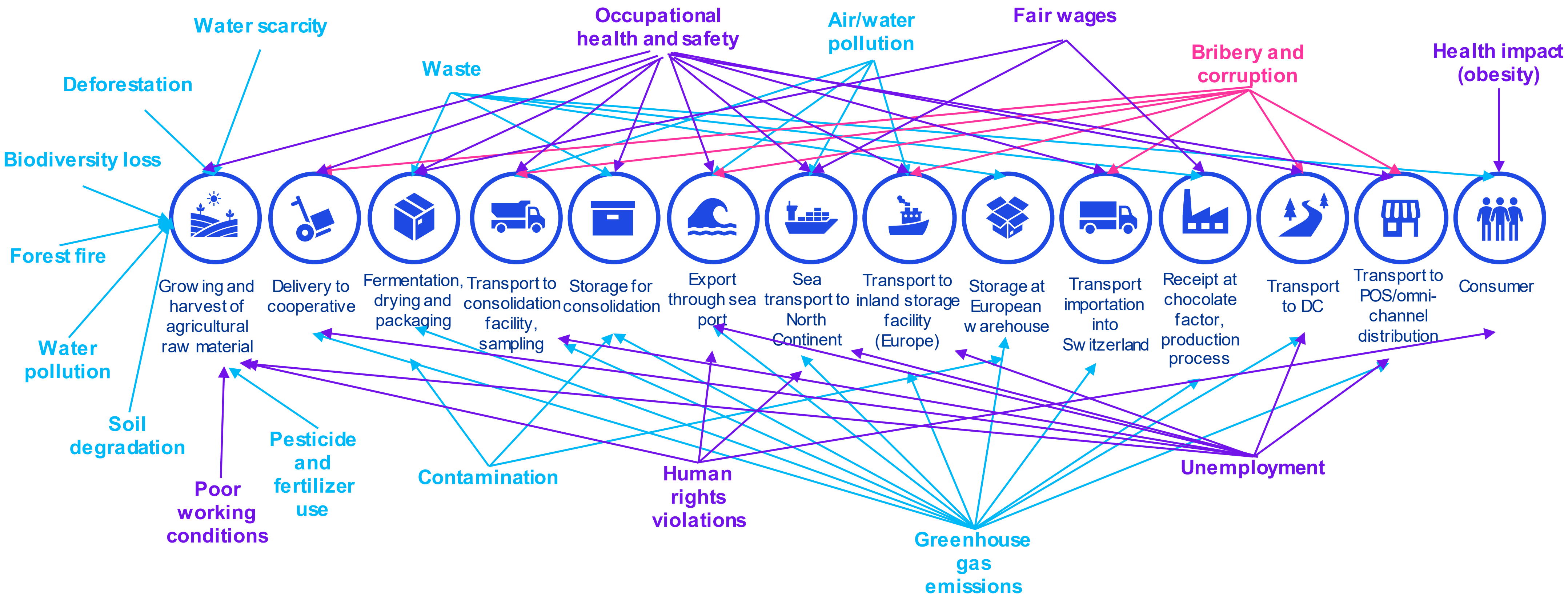
At the Mid Point of the 2030 Agenda, SDGs are far off track

Global sustainability mega forces drive how companies report and disclose

In 2012 KPMG published a white paper on Building Business Value in changing world. In this report, KPMG's network of firms analyzes a system of ten sustainability mega forces that will impact each and every business over the next 20 years. We view that these forces do not act alone in predictable ways. They are interconnected. They interact.



Companies need to understand its impact along the value chain



Source: "ESG in the Supply Chain." https://kpmg.com/ch/en/home/insights/2022/06/esg-supply-chain.html

Non-financial reporting continue to rise in importance to drive impact [1/2]

Sustainability reporting has become standard practice for many companies, with steady growth over the past decade. Over the past three decades, sustainability reporting has been largely voluntary.

Today, policymakers are on the precipice of adopting mandatory and regulated sustainability reporting and the reporting landscape is poised to change drastically.

The findings in KPMG's 2022 'Survey of Sustainability Reporting' reflect on the current state of reporting and overarching business strategies that can enable companies to meet increasing regulatory expectations – all while creating impact and generating value for society.

96%

of G250 companies report on sustainability or ESG matters

64%

of G250 acknowledge climate change as a risk to their business

Less than half of companies report on

Biodiversity loss

GRI, TCFD and SDGs

Form the most commonly used anchors for sustainability reporting

TCFD adoption nearly doubled in 2 years, going from

37% to 61%

Among the G250

49%

Of the G250 acknowledge social elements as a risk to their business, with Western Europe as the leading region

71%

of N100 companies identify material ESG topics

Fewer than half of G250 companies have leadership level representation for

sustainability

Source: Big shifts, small steps – KPMG Asia Pacific edition

Non-financial reporting continue to rise in importance to drive impact [2/2]

01

ESG Taxonomy

A system to classify what part of economy can be categorized as sustainable investment

02

TCFD Reporting

An annual report-style disclosures to help investors, insurers, and other stakeholders understand the financial implication of climate change

03

Climate risk stress test

Novel stress-test exercise led by regulators are assessing how well banks are able to cope with financial and economic shock related to climate risk. Bank may require additional data to borrowers.

04

ESG standards, frameworks & principles

The competition to define, standardize and assess ESG activities and disclosures is intense. There are multiple standards that exist to provide reporting frameworks. These are generally non mandatory, but widely adopted.

05

IFRS Sustainability Disclosures Standards

The International Sustainability Standards Board has issued the first two standards: IFRS S1 **General Requirements for Disclosure of Sustainability-related Financial Information** and IFRS S2 **Climate-related Disclosures** on 26 June 2023

Voluntary Standards and frameworks

Principles

Targets and Metrics

Research, ratings, data and benchmarks

ESG regulatory and reporting trends in Indonesia – an overview

June 2009
IDX Sri Kehati Index was launched

September 2014
OJK Sustainable Finance Roadmap Phase 1 (2015-2019)

March 2017
POJK 51/POJK.03 on Sustainable Finance

January 2021
OJK Sustainable Finance Roadmap Phase 2 (2021-2025)

June 2021
OJK Circular Letter No.16/SEOJK.04/2021 (“SEOJK 16”)

January 2022
Taksonomi Hijau Indonesia versi 1.0

May 2023
Panduan climate risk stress test *perbankan*

June 2023 - present
Response to the issuance of the IFRS Sustainability Disclosure Standards issued by ISSB

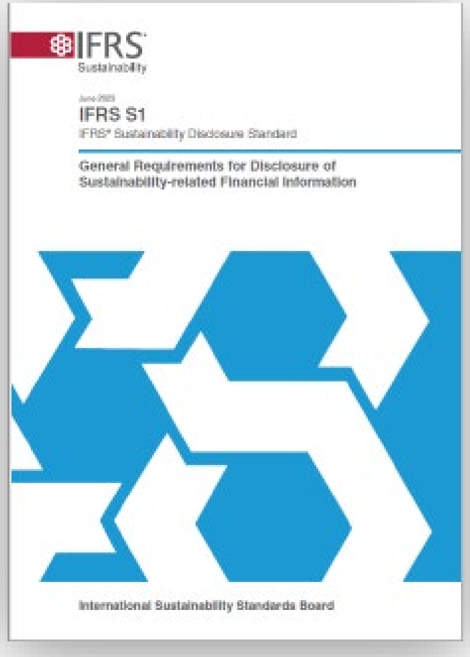
- IAI has amended its Articles of Association at the XIV IAI Congress in 2022, which approved the establishment of the Sustainability Standards Council.
- Update on 15 August 2023: IAI launched "Invitation for Open Selection of IAI Sustainability Standards Council.” (Submission deadline: August 28th, 2023).

Anticipated: Carbon tax, carbon market

02

IFRS sustainability creating global baseline

Overview of the IFRS Sustainability Disclosure Standards by ISSB



IFRS S1

General requirements standard would set the foundation:

- General features of reporting, including on materiality.
- A content structure across four areas of governance, strategy, risk management, and metrics and targets.
- Practical guidance, including on presentation of information.

IFRS S2

Climate standard would provide additional detail.

It builds on the four content areas with additional guidance, particularly in relation to:

- Disclosure of risks, climate transition plans and scenario analysis;
- General and industry-specific metrics.

Further proposals are expected to follow in the future, providing industry-specific guidance and covering other sustainability topics – e.g. Biodiversity, Human Capital, Human Rights and Integration in Reporting.

Get ready for ISSB sustainability disclosures

What's the issue?

- The first IFRS® Sustainability Disclosure Standards[1] mark the next step towards equal prominence for sustainability and financial reporting.
- They are based on existing frameworks and standards, including TCFD and SASB.
- The aim is to create a global baseline for investor-focused sustainability reporting that local jurisdictions can build on.

What's the impact?

- Companies will report on all relevant sustainability topics (not just on climate) under a consistent global framework and focus on how these topics impact a company's prospects.
- Reporting will be connected to the financial statements. Therefore, companies will need processes and controls in place so that they can provide sustainability-related information of the same quality, and at the same time, as their financial information.

What's next?

- The standards are effective from 1 January 2024.
- Individual jurisdictions will decide whether and when to adopt but a rapid route to full adoption is expected in a number of jurisdictions.
- In Canada, the Canadian Sustainability Standards Board (CSSB) has been formed to support the adoption of the ISSB standards.
- Some public and private companies may choose to adopt them voluntarily, e.g. in response to investor or societal pressure.

Abbreviations and key terms

In this document we use 'the standards' to refer to the first ISSB standards – IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, both published 26 June 2023.

Ten questions to start getting ready

01
What has been released?

02
What will need to be disclosed?

03
What are the standards based on?

04
How and when could they affect you?

05
Will they require scenario analysis?

06
Where will the information be disclosed?

07
What about topics other than climate?

08
What if you've already adopted other frameworks?

09
What do they mean for broader sustainability reporting?

10
What do you need to do now?

Source: [Get ready for ISSB sustainability disclosures - June 2023 (kpmg.com)]

1 - What has been released

01

The general requirements standard sets the foundation

- General features of sustainability reporting, including on materiality.
- A content structure across the four areas of governance, strategy, risk management, and metrics and targets.
- Practical guidance, including on presentation of information

02

The climate standard provides additional detail

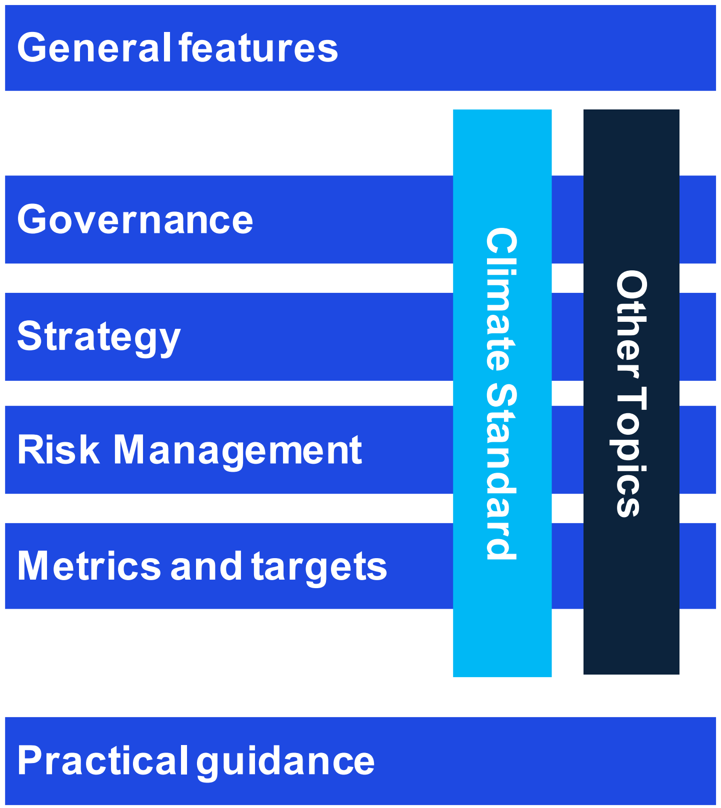
It builds on the four content areas with additional guidance, particularly in relation to:

- Disclosure of risks, climate transition plans, GHG emissions and scenario analysis; and
- General and industry-specific metrics

03

Future standards are expected to follow

- Additional standards are expected in the future, providing general and industry specific guidance on other topics – e.g. biodiversity



2 - What will need to be disclosed

01

Material information

- Providing a complete and balanced explanation of sustainability-related risks and opportunities.
- Covering governance, strategy, risk management and metrics and targets.
- Focusing on the needs of investors and creditors.
- Reflecting consistent, comparable and connected disclosures.
- Presented across time horizons: short, medium, and long term.
- Relevant to the sector industry

02

Material metrics

- Based on measurement requirements specified in the climate standard or future standards.
- Identified from other guidance – e.g. SASB (see question 8)
- Reflecting other metrics used by the company

Transition reliefs

Companies are not required to:

- Provide comparative information for any period before the date of initial application; or
- Disclose scope 3 emissions metrics or information on topics other than climate until the second period of reporting.

Disclosures focus on matters that are critical to the way a company operates

The general disclosure requirements standard sets out a framework

Governance
Processes, controls and procedures that a company uses to monitor sustainability-related risks and opportunities

Strategy
Sustainability-related matters that could enhance the business model and strategy over the short, medium and long term

Risk Management
How sustainability-related risks are identified, assessed and managed.

Metrics and targets
Information to explain the company's performance on sustainability-related matters over time

+

Additional standard that build on this framework and include industry-specific requirements

Climate related disclosures

Future standards (see Question 7)

3 – What are the standards based on?

01

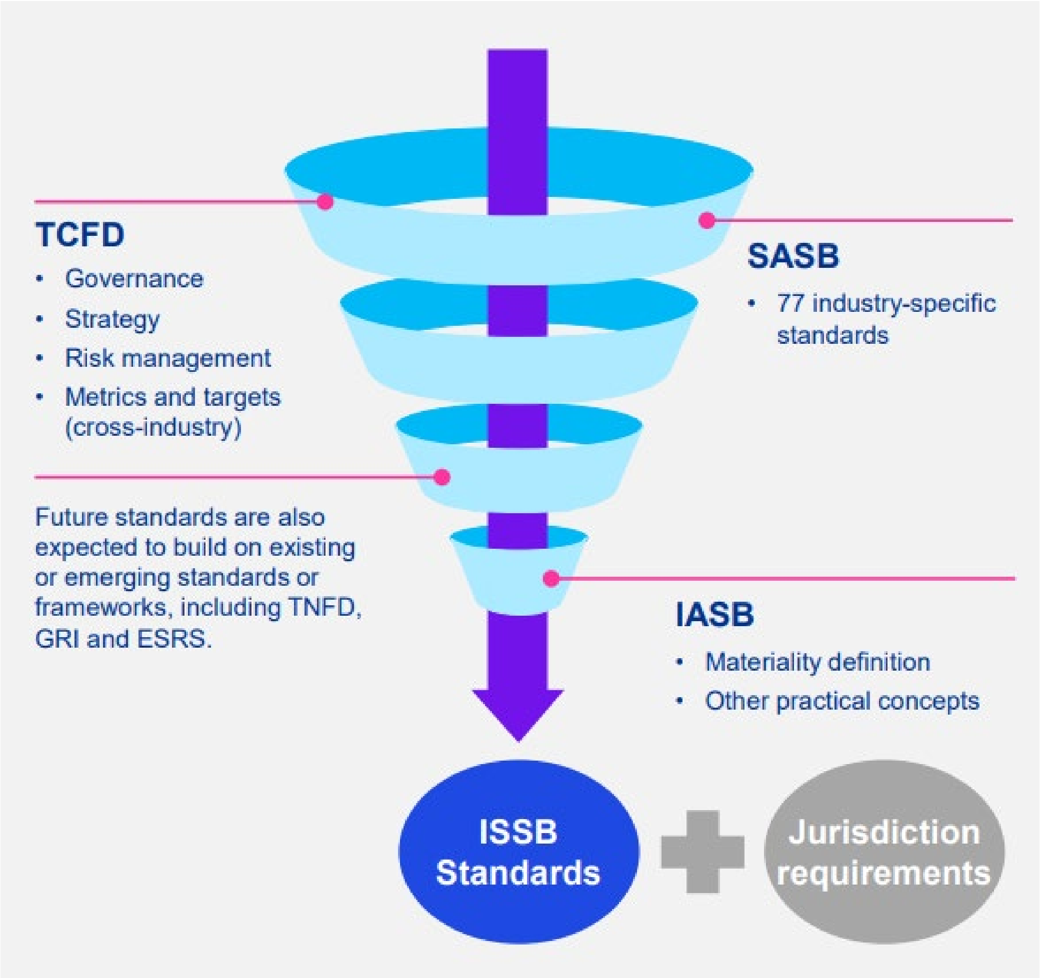
Consolidating the latest thinking of existing frameworks and standards

- Follow the four pillars of the TCFD's recommended disclosures: governance, strategy, risk management, and metrics and targets.
- Enhanced by climate-related, industry-specific metrics derived from the SASB's 77 industry-specific standards.
- Incorporate concepts and principles used in IFRS Accounting Standards from the IASB.
- Additional input from other frameworks and stakeholders, including CDSB and Integrated Reporting.

02

Bringing financial reporting concepts to sustainability reporting

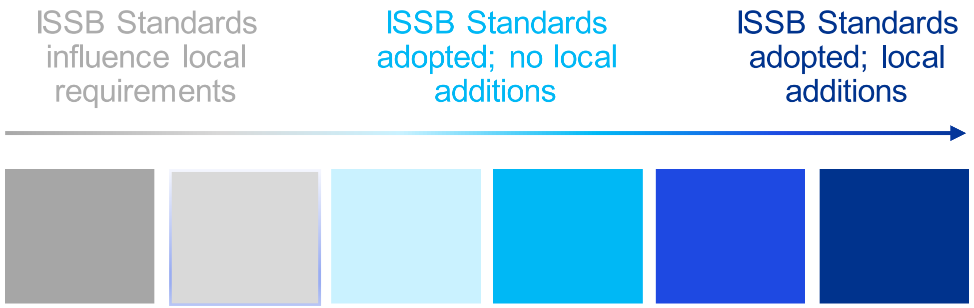
- Built using a similar approach to IFRS Accounting Standards



4 – How and when could they affect you?

Mandatory adoption

- The standards are effective for annual reporting periods beginning on or after 1 January 2024. Early application is permitted.
- However, adopting the standards is dependent on local jurisdictions, so the first application date might be different for companies around the world.
- With strong support from IOSCO, a rapid route to adoption is expected in a number of jurisdictions.
- In some jurisdictions, the standards will provide a baseline either to influence or to be incorporated into local requirements. Others are likely to adopt the standards in their entirety.



Voluntary adoption

- Companies may choose to adopt the standards voluntarily.
- Investors are increasingly willing to use their voting power to drive transparency over sustainability-related matters, including transition plans and their impact.
- Investors have generally supported the adoption of TCFD and SASB Standards in the past. Therefore, they may be expecting companies to adopt the standards quickly.
- The ISSB brings the same focus, comparability and rigour to sustainability reporting as the IASB has done for financial reporting.

5 – Will they require scenario analysis?

Scenario analysis is required

- Companies will need to use scenario analysis when describing their assessment of climate resilience.
- The ISSB will provide guidance on the analysis that will be appropriate for different types of companies.
- This guidance will build on existing materials developed by the TCFD

What is a climate scenario?

- A set of assumptions around how the world may react to achieving different degrees of global warming – e.g. the carbon pieces and other factors needed to limit global warming to 1.5 C.
- Scenarios may differ from the assumptions underlying the financial statements. However, management needs to consider carefully whether the extent of the linkage between scenario analyses and these assumptions is appropriate.

Scenario analysis

"What if"

Analyzing the impact of different climate-related risks and assumptions

Resilience assessment

"So what"

Understanding the implications for the company's strategy and capacity to respond

Disclosure
(if material)

Why is the disclosure useful?

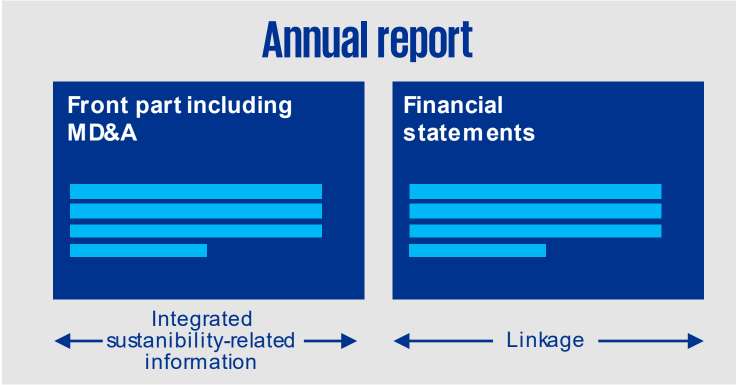
- It can help investors assess the possible exposure from a range of hypothetical circumstances.
- For companies, discussing impacts under different scenarios can help explain their assessment of resilience

6 – Where will the information be disclosed?

It depends

- The standards do not specify a single location.
- The standards allow for cross-referencing to information presented elsewhere, but only if it is released at the same time as the general-purpose financial report.
- Many countries already include broad requirements for the disclosure of investor-relevant information[1] and therefore material sustainability-related information.

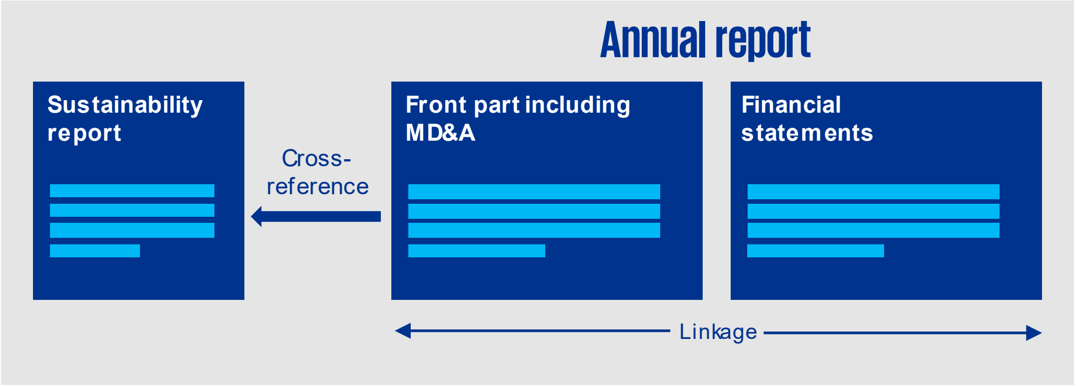
Example 1: Integration of information in management commentary



Will you need to get assurance?

- Assurance requirements are not within the ISSB's remit.
- Regulators may choose to require assurance.
- In Canada, the Canadian Security Administrators (CSA) continues to actively monitor the developments internationally.
- Regardless of local assurance requirements, companies will need to ensure they have the processes and controls in place to produce robust and timely information.

Example 2: Separate report providing sustainability-related information, cross-referenced to and available at the same time and on the same terms as management commentary.



[1] For example, the management commentary or MD&A may be the most appropriate place to provide information.
[2] Ensuring material information is not excluded from management commentary or MD&A.

7 - What about topics other than climate?

The general requirements standard will require disclosure on all relevant topic

This standard helps companies by providing:

- A framework of disclosures relevant for reporting on all sustainability-related topics;
- Suggested reference materials for topics other than climate;
- Key principle, including materiality and connected reporting; and
- Practical details – e.g. how to update estimates of report comparatives.

'Climate first' relief

- The standards introduce a relief from providing disclosures on topics other than climate in the first year of reporting
- Companies still need to get ready to report on ther topics from the second year.

Public consultation:

- The ISSB has an ongoing public consultation on what to cover in the future standards.
- The comment period is open until 1 September

Apply the general disclosure requirements and applicable future IFRS Sustainabilty Disclosure Standards

Governance	Strategy
Risk management	Metrics and targets

Companies "shall consider"

- Disclosure topics and metrics in SASB Standards

Companies "may consider"

- CDSB Framework
- Other investor-focused framework
- Industry or local practice
- ESRS and GRI

Biodiversity
reliance on ecosystem service

Human Rights
fundamental rights to exist as humans

Human Capital
affecting companies ability

8 - What if you have already adopted other frameworks?

Build and adapt

- Consider specific jurisdictional guidance, including any recommendation to adopt or converge with ISSB Standards
- Map how the standards differ from current frameworks used.
- Focus on matters that affect the company's prospects and consider what will impact an investor's assessment of those who prospects
- Consider where additional data is needed.

Existing sustainability-related information set

Refocus and supplement as necessary

- Align definitions and methodologies
- Reassess materiality
- Fill aps
- Address "greenwashing"

- The standards will provide an investor-focused baseline for sustainability related disclosures
- Additional public policy requirements
- Voluntary reporting to other stakeholders

Items to consider if previously adopted TCFD

- Identify and present material information on topics other than climate and focus on sector and industry metrics.
- For climate related reporting specifically, prepare for more granular disclosure, and alight the bases of calculation and presentation to the climate standard.

Items to consider if previously adopted SASB Standards

- Focus on strategic and process-related requirements related to governance, strategy and risk management.
- Use data collection processes for industry specific metrics.

9 - What do they mean for broader sustainability reporting?

Evolution

- The standards are part of the evolution from fragmented, voluntary frameworks to authoritative standard setting.
- The formation of the ISSB provides a natural focal point for the consolidation of investor- and creditor-focused reporting frameworks.

Reporting to meet public policy and other needs

- This is likely to continue as a separate strand of reporting.
- Some jurisdictional standards are building on the global baseline and incorporating broader content.
- Some jurisdictions are developing ‘green taxonomy’ requirements for the classification of revenue and expenditure based on whether the activity meets certain sustainability-related criteria.

Private companies

- Some private companies are under pressure from investors, lenders, customers and others to improve their sustainability-related credentials and reporting.
- Therefore, they may be called on to comply with the standards. This could be as part of or in addition to local jurisdictional requirements.

10 - What do you need to know?

1. Understand the impact

- Research and understand current and emerging requirements.
- Understand when, where and how this will impact your company.

2. Determine what is material

- Determine which topics are relevant to report on.
- Decide what information is material about those topics.

3. Assess maturity

- Assess the maturity of processes, the control environment, data model and policies.
- Understand the current distribution of roles and available knowledge and capacity.

4. Transform reporting

- Design the future state of your reporting.
- Deploy your target operating model, including training as well as support for change management.

5. Get ready for assurance

- Assess the control environment, data quality and availability of sufficient documentation to support assurance.
- Rectify issues ahead of the formal assurance process.

KPMG Impression

https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2023/07/isg-first-impressions-sustainability-reporting-general-and-climate-related-requirements.pdf

Understand the scope and objectives of reporting

- "Sustainability" in the context of the ISSB(2.1)
- Reporting entity (2.2)
- Disclosing information about sustainability-related risks and opportunities (2.3)
- Making materiality judgements (2.4)

Identify content requirements across four core areas

- Governance (3.2)
- Strategy (3.3)
- Risk management (3.4)
- Metrics and targets (3.5)

Consider topic and industry specific requirements

- Transition plans (3.3.3)
- Scenario analysis (3.3.5)
- Cross industry metrics (3.5.2)
- Industry specific metrics (3.5.3)
- Targets (3.5.4)

For other topics not (yet) covered by specific IFRS Sustainability Disclosure Standards

- Other sources of guidance (2.3 & Appendix 1)

Consider how to present the information

- Fair presentation (4.1)
- Connected information (4.2)
- Location of information (4.3)
- Presentation structure (4.4)

Understand the practicalities of reporting

- Reporting period (5.1)
- Consistency of data and assumptions (5.2)
- Use of judgement (5.3)
- Use of estimates (5.4)

- Reasonable and supportable information (5.5)
- Commercially sensitive information (5.6)
- Compartive information (5.7)
- Errors and changes in estimates (5.8)

Plan for adoption

- Effective date (6.1)
- Transition reliefs (6.2)

Understand how to transition from existing frameworks (Appendix 2)
Learn about greenhouse gas emissions accounting (Appendix 3)
Understand how to put it into practice (Appendix 4)

03

Providing confidence and credibility in ESG Reporting

Confidence in ESG disclosures is growing

Demand for confidence in environmental, social and governance (ESG) disclosures is growing. The information that businesses report must be robust and independently assured to gain the trust of investors, stakeholders and the wider public.

Who provides assurance

57%	Of engagements (i.e., 516 of 913 assurance reports from 818 companies) were conducted by audit firms in 2021
61%	Of engagements (i.e., 505 of 833 assurance reports from 741 companies) were conducted by audit firms in 2020
63%	Of engagements (i.e., 445 of 704 assurance reports from 645 companies) were conducted by audit firms in 2019

Assurance standards

The International Auditing and Assurance Standards Board's (IAASB) International Standard on Assurance Engagements (ISAE) 3000 (Revised) remained the most widely used standard for ESG assurance engagements

68% in 2019 to 72% in 2020 to 70% in 2021

95% of firms* (or their affiliates) used ISAE 3000 (Revised), while non-IAASB standards were most commonly used by the other services providers (i.e., only 38% used ISAE 3000) during 2021.

Largest Audit Firm Market Share (2019-2021):

Increase		Decrease	
Indonesia	17%	South Africa	20%
Hong Kong, S.A.R.	11%	United Kingdom	17%
Mexico	11%	India	16%
		Japan	16%

* Including national assurance standards—such as the AICPA's attestation standards—that are at least as robust as ISAE 3000 (Revised), Firms applied ISAE 3000 (Revised), or corresponding national standards, 99% in 2021.

Source: The State of Play – Sustainability Disclosure & Assurance – 2019-2021 trend analysis. IFAC, AICPA & CIMA, February 2023

Placing good control on ESG data…

- Much of the information (and the controls) needed for ESG reporting purposes will likely sit outside the traditional reporting and oversight process.
- Many organizations are currently relying on manual and/or unstructured sources such as spreadsheets and emails to gather ESG data. Better systems and processes will be needed.
- Better systems and processes will be needed.
- As above, new systems and processes will almost certainly be needed. If data is collated manually through emails and spreadsheets, there is a high risk of error or incompleteness.

- ESG data is often complex and in varying formats. In particular, the units of measure in which it is expressed vary (e.g., kilowatts, megawatts, gigawatts) as do the ratios/formula that need to be applied. These distinctions are often not widely understood. The ratios can be the source of errors if they are not consistently applied.

- As assessment is needed to provide insights into whether current systems and processes can support assurance of ESG reporting in varying frameworks and standards in different jurisdictions.

- For example, company with many branches and subsidiaries, where data capture and collection are handled differently, that needs to report on a consolidated basis, could find this process very complex and challenging – but having a standardized approach including to units of measure and ESG ratios will make the task easier.

- It is about bringing the same kind of rigor and sophistication to ESG reporting as to financial reporting. This is the goal – and the challenge – facing businesses today.

…should support assurance process quality and consistency

Ready for Assurance | Assurance on sustainability reporting

As reporting evolves, there is a corresponding increase in demand for assurance engagements that enhance the degree of confidence of the intended users of sustainability/ESG reporting is growing.

The **International Auditing and Assurance Standards Board (IAASB)** is currently working on a project to develop an overarching standard for assurance on sustainability reporting.

In June 2023, the IAASB approved an exposure draft (ED) for proposed **International Standard on Sustainability Assurance (ISSA)^{TM} 5000**, *General Requirements for Sustainability Assurance Engagements* (ED-5000).

Project timeline

Initiation of information gathering, 1st board discussion	Project proposal	Exposure draft	Comment period closes	Expected issuance of standard
December 2021	September 2022	June 2023	December 2023	Before the end of 2024

Source: https://www.iaasb.org/consultations-projects/assurance-sustainability-reporting

Ready for Assurance | Are your disclosures ready for assurance?

Conducting "KPMG Readiness for Assurance" assessments on ESG indicators that have yet to undergo an assurance process, as well as on ESG indicators that will be newly incorporated into the reporting scope.

- KPMG Ready for Assurance service is an engagement that determines whether the necessary preconditions for ESG assurance are present to allow us to assure a company's ESG reporting in the future.

- In particular, KPMG Ready for Assurance service examines your organization's criteria for ESG measures and determines if you have the evidence that would be required to support the disclosures you want to make, regardless of the reporting framework. Being able to perform this work now will reduce your risk when you are required to have your information assured in the future.

- It is also a service that can be performed on new information that you may add to your ESG reporting disclosures over time as regulation and your stakeholder needs evolve in addition to their wider audiences, particularly those outside the finance function.

Ready for Assurance | What are preconditions*?

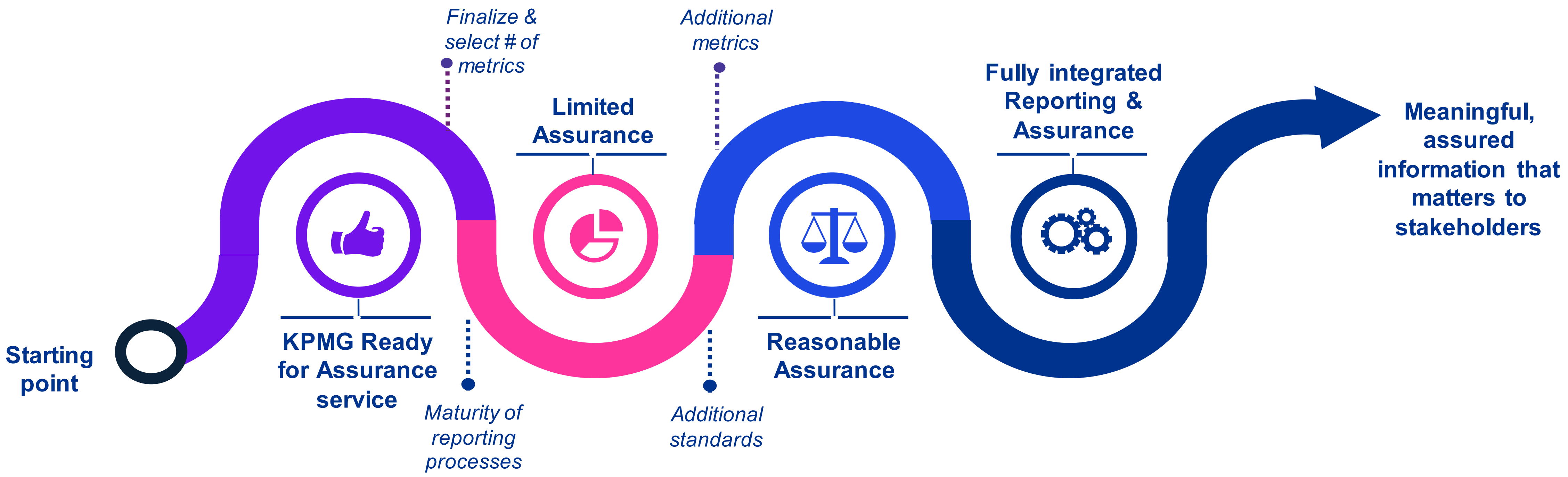
KPMG Ready for Assurance service will help determine if your ESG reporting can meet the following preconditions for assurance:

1. The roles and responsibilities are suitable in the circumstances, including that there is an intended user or audience (such as an investor, or regulator) of the information separate from the party responsible for the information;
2. What will be reported on is appropriate to the relevant framework(s);
3. The criteria expected to be used to measure information are suitable and will be available to the intended users;
4. We expect to be able obtain the evidence needed to support the assurance conclusion;
5. Our assurance conclusion is expressed in a written report; and
6. There is a rational purpose for the assurance engagement, meaning you are looking to bring greater transparency to your stakeholders.

*International Standard on Assurance Engagements (ISAE) role is to establish basic principles and essential procedures for, and to provide guidance to, professional accountants in public practice (for purposes of this ISAE referred to as “practitioners”) for the performance of assurance engagements other than audits or reviews of historical financial information.

Ready for Assurance | The first step in the assurance journey

- We will not be designing any processes or procedures, or be involved in the implementation of them – we will purely be assessing whether your ESG reporting is ready for assurance. You could describe the work of advisory assurance as “Ready for reporting” – getting organizations ready to make the reporting disclosures. This is KPMG Ready for Assurance service – determining whether your ESG reporting is ready to go through the assurance process itself.
- KPMG Ready for Assurance service will give your organization the first foundation it needs to build towards full ESG assurance. It’s not separate from the journey – it is the first part of it. It reduces the risk of poor outcomes in the future by identifying what areas need to be addressed ahead of ESG assurance. It will give your organization clarity over specific issues that need to be resolved so you can move ahead with confidence.



"You can't go green without Blue"

Source: You can't go green without blue, KPMG International, May 2021

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