KPMG

Navigating the ESG reporting landscape in Oman

Redefining business for purposeful change

February 2025

KPMG Lower Gulf

Foreword

Oman is experiencing a rapid transformation in its approach to environmental, social, and governance (ESG) reporting. While still in its early stages, the country's commitment to integrating ESG principles into its business and investment landscape is undeniable. This article delves into the status of ESG reporting in Oman, its crucial importance, the challenges encountered, and the path forward, considering the influence of the global ESG landscape and the eventual necessity of ESG assurance.

Oman's journey towards robust ESG reporting began with the launch of its initial ESG framework in September 2021 by the Government of Oman. This marked a significant step, providing a foundational structure for companies to align their practices with sustainable development goals. The Central Bank of Oman's subsequent circular to the financial sector, aligning with the UN Sustainable Development Goals (SDGs), further solidified the nation's commitment. The Muscat Stock Exchange (MSX) joined the UN Sustainable Stock Exchange (SSE) initiative in March 2022, demonstrating a willingness to embrace international best practices. This commitment is further strengthened by MSX's collaboration with the Capital Markets Authority of Oman (CMA), now the Financial Services Authority (FSA), to implement mandatory ESG reporting requirements based on Global Reporting Initiative (GRI) standards.

MSX encourages all publicly listed companies to voluntarily report in 2024, covering their 2023 activities. Starting in 2025, reporting on the 2024 activities will be mandatory. The mandatory reporting requirements, though recently introduced, represent a significant leap forward. While the specific details of these requirements and their implementation timeline may still be evolving, this effort underscores Oman's ambition to become a leader in ESG within the Middle East. The country's proactive approach is mirrored by other nations in the region, including Bahrain, the UAE, Qatar, and Kuwait, which have also launched significant ESG initiatives. This regional collaboration fosters knowledge-sharing and potentially smoother transitions to mandatory reporting frameworks.

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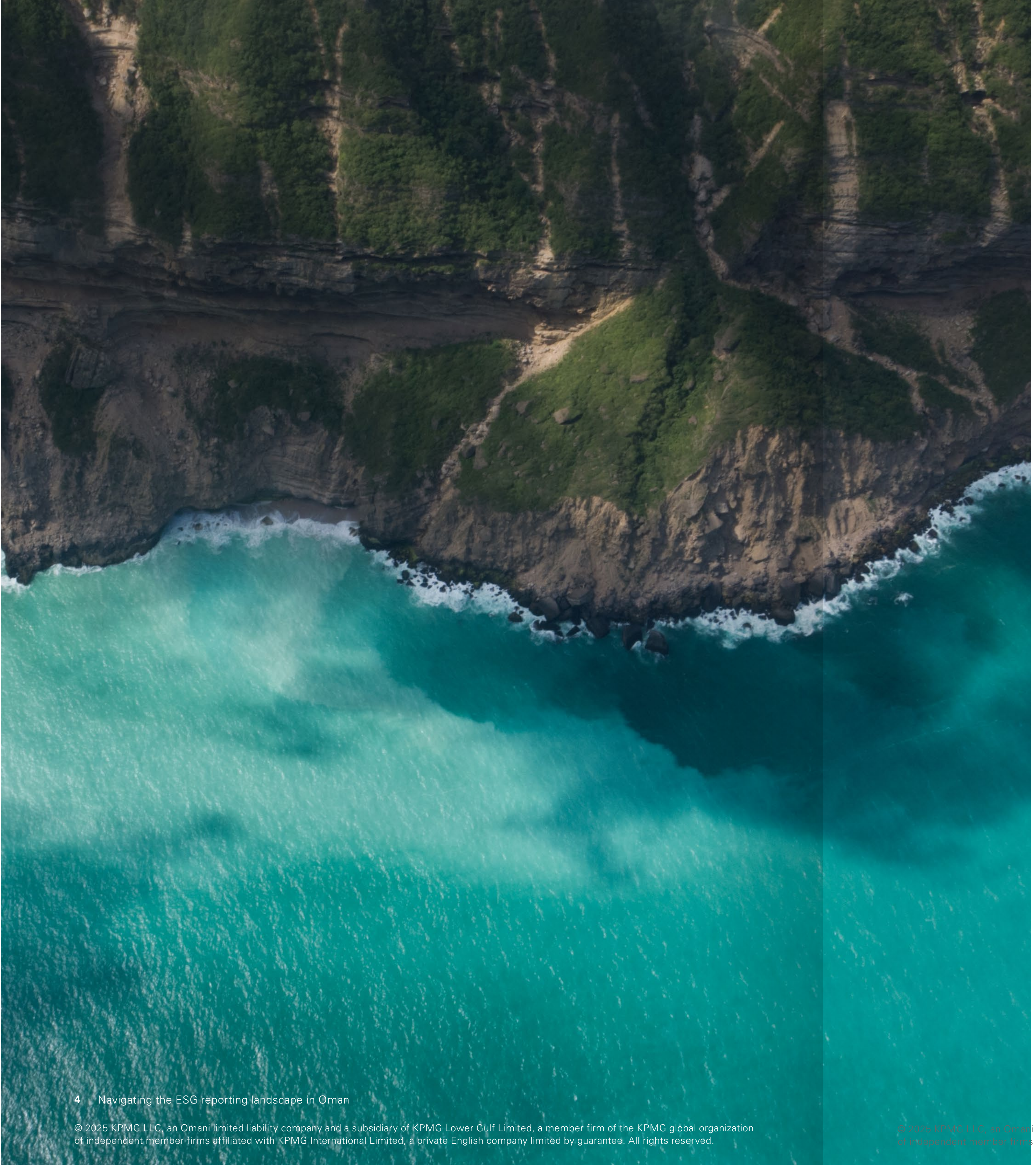

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A reflection on investor sentiment and market trends

The importance of robust ESG reporting in Oman extends beyond mere compliance. It catalyzes several crucial aspects of national development:

Attracting foreign investment:

International investors increasingly prioritize ESG factors in their investment decisions. Strong ESG performance and transparent reporting make Omani companies more attractive to global capital, contributing to economic growth and diversification.

Enhancing corporate reputation and brand value:

Companies that strongly commit to ESG principles benefit from enhanced brand reputation and consumer trust. This can lead to improved customer loyalty and market share.

Improving operational efficiency and risk management:

Integrating ESG considerations into business operations can lead to improved resource efficiency, reduced environmental impact, and better management of social and governance risks.

Promoting sustainable development:

By aligning with the SDGs, ESG reporting contributes to Oman's overall sustainable development agenda, addressing crucial issues like climate change, social equity and good governance.

Strengthening investor confidence:

Transparent and reliable ESG reporting enhances investor confidence, fostering a more stable and resilient capital market.

Recent studies and surveys have highlighted investor sentiment on regarding ESG factors, with key findings from BlackRock's Annual Global Investor Pulse Survey 2023 including:

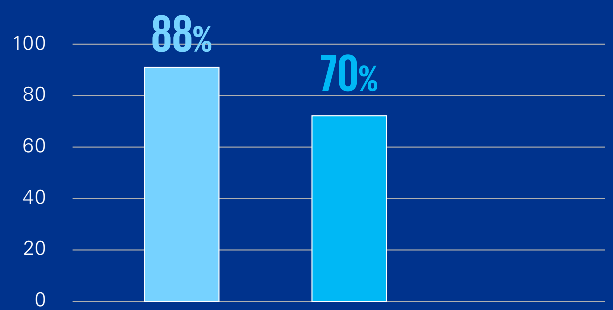
Investor sentiment:

75% of investors believe sustainable investing is the future

83% of institutional investors consider ESG factors in their investment decisions

60% of retail investors would divest from companies that do not meet their ESG criteria

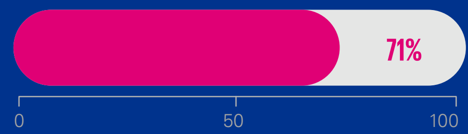
Performance expectations:



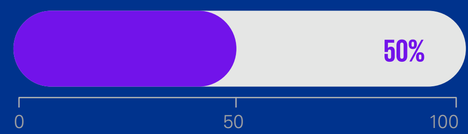
Investors that expect companies with strong ESG practices will outperform their peers over the long term.

Investors that believe that sustainable investments can provide better risk-adjusted returns.

Investment trends:



Investors that are interested in sustainable investment products, indicating a growing demand for ESG-focused funds.



Investors that are actively seeking to increase their allocation to sustainable investments in the next year.

Performance expectations:

$10 trillion

in assets are currently managed with a sustainable investment strategy, reflecting a significant increase in ESG-focused investments over the past few years.

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Bridging the gap in Oman's ESG reporting: key challenges

Despite the significant progress, Oman faces several challenges in fully implementing and effectively utilizing its ESG reporting framework:

- **Data collection and availability:**

  Reliable and comprehensive ESG data can be a significant challenge. Many companies may lack the internal systems and processes to effectively collect and analyze the necessary data.

- **Capacity building:**

  A lack of expertise in ESG reporting and data analysis can hinder effective implementation. Investment in training and capacity-building is crucial to equip companies with the required skills and knowledge.

- **Standardization and harmonization:**

  While Oman is adopting GRI standards, ensuring consistency across sectors and companies remains a challenge. Clear guidelines and best practices are needed to promote uniformity.

- **Cost of compliance:**

  Implementing ESG reporting can incur significant costs, particularly for smaller companies with limited resources. Government support and incentives may be necessary to ease the burden on businesses.

- **Enforcement and monitoring:**

  Effective enforcement and monitoring are essential to ensure compliance. This requires a robust regulatory framework and the capacity to oversee and investigate instances of non-compliance.

A collaborative approach

Addressing these challenges requires a collaborative approach that involves various stakeholders.

The government's role is crucial in providing guidance, setting standards, offering incentives, and investing in capacity-building initiatives. This includes promoting the adoption of international standards and providing resources for data collection and analysis. Collaboration among companies, industry associations, and professional organizations is essential for sharing best practices and developing common standards.

Investing in comprehensive capacity-building programs to train professionals in ESG reporting and data analysis is critical. These programs should target both the public and private sectors.

Another important aspect is technology adoption: leveraging technology to streamline data collection, analysis, and reporting can enhance efficiency and reduce costs. This could involve adopting ESG software and platforms.

The current landscape of ESG reporting is characterized by a lack of consistency and comparability. Different frameworks and reporting standards make it difficult for investors to assess and compare companies' sustainability performance. This lack of clarity hinders informed investment decisions and raises concerns about greenwashing. Investors are increasingly demanding more reliable and comparable ESG data to inform their investment strategies. This requires moving beyond fragmented, voluntary disclosures toward a more robust and standardized approach. In response, the International Sustainability Standards Board (ISSB) has introduced IFRS S1 and S2 to address these challenges.

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Emerging ESG guidance:

unpacking the new ISSB standards S1 and S2

The IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures mark a significant step towards global standardization in ESG reporting. These standards aim to enhance the quality, consistency, and comparability of sustainability-related information provided by companies, ultimately boosting investor confidence and facilitating informed capital allocation.

IFRS S1 lays the foundation for a comprehensive ESG reporting framework. It establishes general requirements for disclosing sustainability-related risks and opportunities that are material to an organization's financial statements. This means companies must identify and disclose information that could significantly impact their financial performance, whether positively or negatively. The standard emphasizes the importance of materiality assessments, requiring companies to engage in a robust process to identify and prioritize the most relevant ESG factors for their business.

IFRS S2, focusing specifically on climate-related matters, builds upon the general framework of S1. It mandates detailed disclosures on a company's climate-related risks and opportunities, including greenhouse gas emissions, climate-related targets, and the transition plan to achieve those targets. The standard goes beyond simple emissions reporting, requiring companies to assess and disclose the potential financial impacts of climate change on their operations, including physical risks like extreme weather events and transition risks related to policy changes and technological advancements.

The implications of these standards are far-reaching. They will likely influence national and regional ESG reporting standards, driving convergence and increasing the comparability of ESG data globally. This increased comparability is crucial for investors seeking to integrate ESG factors into their investment strategies. Companies will need to adapt their reporting practices to comply with these new standards, potentially necessitating significant investments in data collection, analysis, and assurance.

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The emergence of ESG assurance

The ISSB standards are not merely creating a new reporting framework; they're implicitly demanding a corresponding evolution in ESG assurance services. The market will require assurance providers to develop specialized skills and methodologies to verify the complex data and assessments required by these standards. This will likely lead to a greater demand for specialized ESG auditors and assurance providers, driving innovation and enhancing the credibility of ESG disclosures.

Furthermore, the convergence of national and regional ESG reporting standards towards the ISSB framework will create a larger, more integrated market for ESG assurance. The increased comparability of data, driven by standardization, will allow investors to compare the assurance reports of companies more readily across different jurisdictions, increasing their reliance on these reports for investment decisions.

In the region, Qatar became the first country to begin work on ISSB standards.

The Qatar Financial Centre Regulatory Authority (QFCRA) issued a consultation on the proposed Corporate Sustainability Reporting framework introducing IFRS S1 and IFRS S2 into the Qatari regulatory framework.

The consultation suggests that the new rule will apply to financial years beginning on or after 1 January 2026, and the regulatory authority is proposing to develop and implement a corresponding assurance framework.

This global trend toward stricter ESG regulations, including the emergence of mandatory ESG assurance, significantly impacts Oman's future. The trend is undeniable, driven by investor demand, growing awareness of climate change, and the increasing integration of ESG factors into financial decision-making. While Oman is currently establishing its mandatory ESG reporting, many countries are already implementing mandatory assurance requirements, at least for specific aspects of their reporting.

For instance, recently, the Securities and Exchange Commission of Pakistan (SECP) issued a notification dated 31 December 2024, detailing the adoption and applicability of IFRS Sustainability Disclosure Standards (IFRS SDS i.e. IFRS S1 and IFRS S2), along with assurance requirements for listed companies and SECP's licensed non-listed Public Interest Companies.

While no single country mandates full ESG assurance across all reported metrics, the EU's CSRD, for example, will eventually require limited assurance for certain large entities. This signifies a global push for greater transparency and accountability. The increasing emphasis on climate-related disclosures, propelled by the Task Force on Climate-related Financial Disclosures (TCFD), will undoubtedly influence Oman's future regulatory landscape, likely leading to more granular climate reporting requirements and, eventually, the probable introduction of mandatory assurance for specific climate-related metrics. The global experience with mandatory ESG assurance, while still evolving, will inform Oman's approach to this crucial aspect of building investor trust and confidence.

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Looking ahead

There are several "calls-to-action" that companies can leverage to facilitate adoption of ESG reporting and prepare for future assurance reporting:

- **Future-proof your business:**

  Implementing ESG reporting can incur significant costs, particularly for smaller companies with limited resources. Government support and incentives may be necessary to ease the burden on businesses.

- **Enhance your investor relations:**

  Demonstrate your commitment to transparency and responsible business practices by aligning with Oman's evolving ESG regulations. High-quality ESG reporting, backed by independent assurance, will significantly enhance investor confidence and attract responsible investors seeking sustainable investments.

- **Unlock access to international capital:**

  Meeting international ESG standards, as reflected in Oman's framework, will significantly improve your company's attractiveness to international investors. This can open new funding opportunities and potentially unlock access to capital markets that would otherwise be unavailable to companies lacking strong ESG credentials.

- **Contribute to Oman's Vision 2040:**

  Support Oman's national sustainable development goals by embracing robust ESG reporting and assurance. Your commitment to transparency and responsible business practices will contribute to a more sustainable and prosperous future for the nation. Showcase your company as a responsible corporate citizen contributing to Oman's economic and social progress.

- **Gain competitive advantage:**

  Leading the way in ESG reporting and assurance within Oman positions your company as an innovator and industry leader. This proactive approach will not only minimize future compliance burdens but also enhance your brand image and attract top talent.

Sustainable development through transparent and accountable ESG reporting is becoming increasingly crucial for Oman's economic prosperity and international standing. This proactive approach represents a significant step towards building a more sustainable and resilient economy. While challenges remain, the commitment from the government, regulatory bodies, and the private sector provides a strong foundation for future growth. By embracing international best practices, investing in capacity building, fostering collaboration, and anticipating the inevitable shift towards mandatory ESG assurance, Oman can solidify its position as a regional leader in ESG and attract substantial long-term benefits.

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About us

For more than 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the United Arab Emirates and in the Sultanate of Oman.

KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. KPMG firms operate in 142 countries and territories. Established in 1973, KPMG in the UAE and Oman is well connected with its global member network and combines its local knowledge with international expertise.

We are committed to quality and service excellence in all that we do, helping to bring our best to clients and earning the public's trust through our actions and behaviors both professionally and personally.

Our Values guide our behavior day-to-day, informing how we act, the decisions we make, and how we work with each other, our clients, and all of our stakeholders. They are:

- **Integrity:** We do what is right.
- **Excellence:** We never stop learning and improving.
- **Courage:** We think and act boldly.
- **Together:** We respect each other and draw strength from our differences.
- **For Better:** We do what matters.

To meet the changing needs of our clients, we have adopted an approach aligned with our global purpose: Inspiring Confidence, Empowering Change.

At KPMG Lower Gulf, we believe that ESG is core to sustainable growth. KPMG's Global ESG Plan details its commitments across four ESG categories: planet, people, prosperity, and governance. These four priority areas assist us in defining and managing our environmental, social, economic and governance impacts to create a more sustainable future. We aim to deliver growth with purpose. We unite the best of KPMG to help our clients fulfil their purpose and deliver against the SDGs, so all our communities can thrive and prosper.

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