The Importance of ESG Reporting for Listed Companies

November 2023

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ESG: Environmental, Social, and Governance

Environmental, Social, and Governance (ESG) is a corporate framework that refers to the three primary indicators of assessing sustainability.

Environmental
implementing ESG opportunities to reduce the adverse effects of climate change while simultaneously creating value for stakeholders

Social
implementing ESG opportunities to reduce the adverse effects of climate change while simultaneously creating value for stakeholders

Governance
establishing effective oversight is crucial when implementing an ESG strategy to ensure accountability towards stakeholders

ESG Metrics

Environmental, Social, and Governance (ESG) is a corporate framework that refers to the three primary indicators of assessing sustainability.

1

Environmental

What is an organization doing to be a steward of the environment?

- Net Zero
- Climate Change Strategy
- Renewable Energy
- Carbon Footprint
- Water Consumption

2

Social

What is an organization doing to improve lives?

- Social Impact
- Data Security
- Human Capital
- Customer Satisfaction
- Diversity, Equity & Inclusion

3

Governance

What is an organization doing to stay ahead of corruption and ensure its investments remain sustainable in the future?

- Social Impact
- Data Security
- Human Capital
- Customer Satisfaction
- Diversity, Equity & Inclusion

Why ESG?

Implementing an ESG Strategy

The following are several reasons why companies should implement an ESG strategy:

1

To safeguard their reputation

By displaying a strong commitment of integrating ESG practices, companies can strengthen the trust between themselves, investors and other stakeholders.

2

To manage overlooked risks & opportunities

The absence of a strong risk management system often leads to the oversight of ESG risks, which are not as easily quantifiable as conventional financial metrics. Implementing strong ESG practices also opens up new avenues for growth and development.

3

To align with fueling demand for sustainable investment

Investors are increasingly channeling their capital into investments that generate positive financial, social, and environmental outcomes. Companies can attract a larger investor base and retain more long-term investors by implementing & effectively disclosing ESG commitments.

4

To prepare for regulatory changes

Regulators in Indonesia are promoting sustainable investment through new regulations. More comprehensive ESG regulations are anticipated from capital market regulators to support the shift towards sustainable finance. Companies that proactively adopt ESG practices gain a competitive edge and readiness for regulatory changes.

Key Pointer

Traditional investors are increasingly acknowledging the importance of their environmental and social impact and advocating for the inclusion of ESG criteria. Integrating ESG criteria can act as a unifying factor between finance-focused investors and those with philanthropic goals. These stakeholders share objectives such as long-term value creation, risk mitigation, and measurable environmental and social impacts. These interests are seen in the UN PRI, the most widely used.

The Rise of Sustainable Investment

As the **most widely adopted responsible investing framework**, the UN Principles of Responsible Investment (UN PRI) aims to understand the investment implications of ESG factors, and encourages investors to use responsible investment to enhance returns and better manage risks.

UN PRI signatories commit to six principles of ESG incorporation:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will with each report on our activities progress towards implementing the Principles.

ESG Reporting in your IPO Journey

Having an ESG strategy is increasingly becoming a vital component of your pre-IPO journey.

1 Investors are now driving towards ESG

Investors are becoming increasingly conscious of accounting for ESG-related metrics in their decision-making. It affects your company's access to the investment pool. In your company's IPO journey, having a transparent & effective ESG strategy is vital for ensuring investors' confidence in its long-term resilience.

2 Boost your IPO's competitive edge

Morningstar's analysis found that 80% of companies outperformed their non-ESG counterparts over 5 years. As you begin your IPO journey, having an effective ESG strategy can help your company's IPO standout amongst other companies without an ESG strategy.

3 Build market credibility and reputation

Transparent ESG reporting demonstrates commitment to uphold stakeholder values, aiding to build positive market reputation. ESG integration will aid new publicly-listed companies to build consumer trust and credibility in the long-run.

4 Ensuring reporting readiness

A well-developed ESG strategy & reporting system also guarantees the company's readiness for reporting, showcasing its preparedness to meet the annual report requirements under the OJK public company reporting regulations.

5 Valuation upsides of ESG integration

The IVSC categorizes ESG as "pre-financial" instead of "non-financial" data. It reflects on a company's long-term prospects, financial performance, resilience, and ability to endure adversity.

ESG: The Key to IPO Success in Indonesia

Although ESG reporting in Indonesia remains voluntary for non-publicly listed companies, efforts to promote sustainable finance are emerging. **Pre-IPO ESG integration may help companies adapt to the evolving public company reporting regulations in Indonesia.**

The Indonesia Stock Exchange (IDX) has increasingly shown ambition to support sustainability in Indonesia's capital market by joining the Sustainable Stock Exchange (SSE), launching two ESG-focused indices, and becoming a part of the Task Force on Climate-related Financial Disclosures (TCFD).

Current ESG Reporting Guidelines & Regulations:

1

POJK 51/POJK.03/2017

Under Regulation No. 51/POJK.03/2017 issued by the Indonesia Financial Service Authority (OJK), **financial services institutions, issuers & publicly listed companies** are mandated to adopt sustainable finance practices & develop a Sustainability Report.

2

Circular Letter of OJK No. 16 /SEOJK.04/2021

The Circular Letter issued by the Indonesia Financial Service Authority (OJK) No. 16/SEOJK.04/2021 is a further guidance regarding the form & content of annual Sustainability report required for issuers or **public companies.**

3

Sustainable Finance Roadmap Phase II (2021-2025)

An effort made by the Indonesia Financial Service Authority (OJK) to promote the implementation of sustainable finance in Indonesia's financial sector as one of its many efforts to reach towards the United Nations Sustainable Development Goals (SDGs).

ESG Integration

Companies looking to engage capital via IPO have to be aware of how ESG matters have become increasingly integral to a company's equity story. Newly-listed companies have to compete for capital with companies with robust reporting on ESG issues.

1. **COMMITMENT**

   Aligning the company's purpose with sustainability goals may help more clearly communicate how dedicated the company is towards ESG-related issues.

2. **RISK EVALUATION**

   For companies moving towards sustainability, the **identification of ESG-related risks and opportunities** is a vital aspect.

3. **ESG GOALS**

   Setting **effective & realistic ESG goals** can help to attract investors and communicate a strong commitment to solving ESG-related risks in the long term.

4. **FRAMEWORK**

   Adopting a standard framework for measuring ESG performance, to ensure accurate & quality ESG disclosures on its performance to report its efforts.

5. **SUSTAINABILITY REPORTING**

   Reporting sustainability strategies over time to can help investors in understanding the company's performance, impact, and capital allocation in the areas of sustainable development.

ESG Reporting Frameworks

The following are several globally-recognized sustainability frameworks for ESG reporting:

Global Reporting Initiative (GRI)

GRI is an globally recognized standard used to assess business performance in sustainability reporting.

- Universal Standards
    - The Foundation
    - General Disclosures
    - Management Approach
- Sector Standards
- Topic Standards
    - Environmental, Social, Governance

United Nations Sustainable Development Goals (UN SDGs)

The SDGs provide a universal framework for sustainability and development

17 Sustainable Development Goals (SDGs) to be achieved by 2030:

- Societal
- Environmental
- Economic

International Organization for Standardization (ISO)

ISO 26000 is a framework for measuring social responsibility & sustainability.

- Organisational governance
- Human rights
- Labour practices
- The Environment
- Fair operating practices
- Consumer issues
- Community involvement and development

United Nations Global Compact (UNGC)

The UNGC is a framework established to help firms adopt sustainable & socially responsible policies.

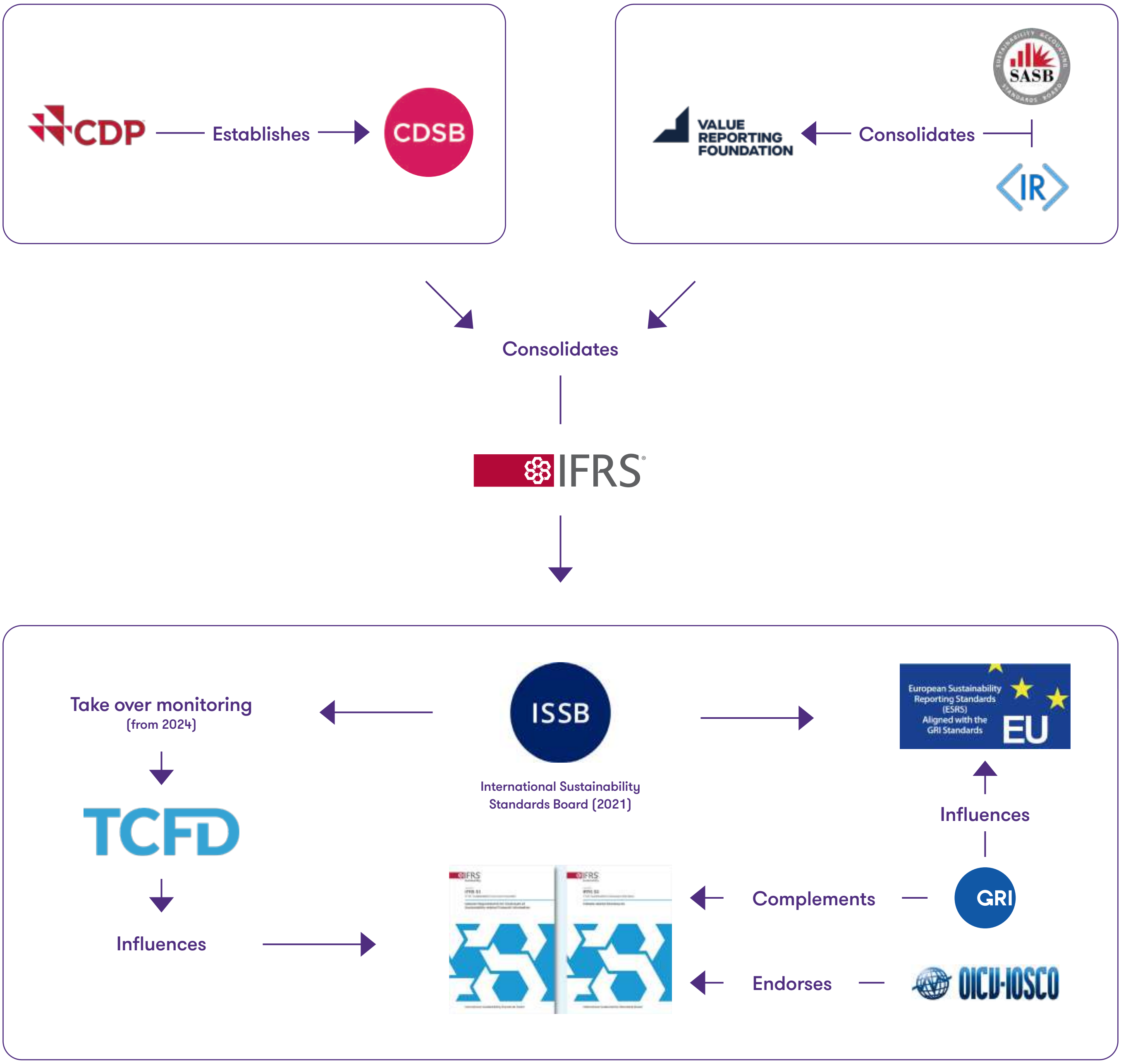
- Labour Standards
- Human Rights
- Anti Corruption
- Environment

Sustainability Accounting Standards Board (SASB)

The SASB Standards assist companies in identifying, managing, & reporting industry-specific ESG factors.

- Involves 77 Industry-specific standards for sustainability with these main components:
    - Standards Application Guidance
    - Disclosure topics
    - Accounting metrics
    - Technical protocols
    - Activity metrics

Development of Sustainability Standard Framework



Sustainability: Regulation, Standard, and Framework

	POJK 51/2017	GRI Standards	TCFD Framework	ISSB Standards	ESRS Standards
Jurisdiction	Indonesia	International	International	International	European Union
Applicability	Public companies, Financial services, Institutions, and Issuers	All companies and organizations	All companies and organizations	All companies and organizations	• Large companies • Listed companies • Non - EU parent companies with significant operation in EU
Focus	Sustainable finance, create sustainable economic growth by aligning economic and social interests with the environment	Sustainability (impact) pillar which addresses a company's external impacts on society and the environment	Financial pillar which addresses climate change related financial impacts on company	Financial pillar which addresses sustainability related financial impacts on company. Enhanced detail and scope than TCFD and embed industry-based approaches	Double Materiality, which means both financial and impact pillar. Both the impact on stakeholders as well as the ESG Issues creating financial risks and opportunities for the company
Requirement	Companies are required to submit: • Sustainable finance action plan • Sustainability report in accordance to POJK 51 requirements	• Universal standards • Sector standards • Topic standards	• Governance • Strategy • Risk management • Target and metrics	Currently available: • IFRS S1 - General requirements • IFRS S2 - Climate related disclosures • Main structure similar to TCFD. Build on SASB Industry-specific metrics	Four reporting areas: • Governance, Strategy, Impact, Risk and Opportunity, Metrics and Targets • Three reporting layers: Sector-agnostic, sector-specific; company specific

IFRS S1 and S2

IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information

IFRS S1 build on concepts to disclose information about its **sustainability-related risks** and opportunities that is useful to **primary users*** of **general-purpose financial reports**.

Effective date : 1 January 2024**

In the first year, sustainability-related financial disclosures are reported with:

- No comparative information
- Report only climate-related risks and opportunities

Core content:

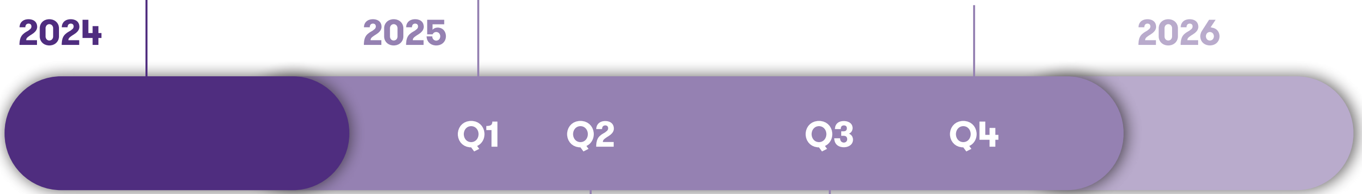
- Governance: Controls, procedures, and oversee the company's sustainability-related risks and opportunities
- Strategy: Strategize sustainability-related risks and opportunities that could affect company's prospects, business model, and value chain
- Risk Management: Processes the company to mitigate sustainability-related risks and opportunities
- Metrics & Targets: Measurement of sustainability-related risks and opportunities

Effective Date

Apply Standard for annual reporting periods beginning on or after 1 January 2024

E.g. Financial Statement per 31 Dec 2024 issued

Report Sustainability-related financial disclosures per 31 Dec 2025 **with no disclose comparative information about its sustainability-related risks and opportunities**, other than its climate-related risks and opportunities.



If entity is required to provide interim report. Entity shall report at the same time:

1. Sustainability-related financial disclosure per 31 Dec 2024
2. Interim report per June 2024

If entity is voluntary provide interim report. Entry shall report at the same time:

1. Sustainability-related financial disclosure per 31 Dec 2024
2. Interim report per Sep 2024

If entity is not required to and does not voluntarily provide an interim report, entity shall report sustainability-related financial disclosures per 31 Dec 2024 within 9 months.

*existing and potential investors, lenders, and creditors

**with earlier applications permitted

IFRS S2: Climate-related Disclosures

IFRS S2 require an entity to disclose its climate-related risks and opportunities to primary users* of general-purpose financial reports also required to apply IFRS S1

Effective date : 1 January 2024**

In the first year, climate-related disclosures are reported with:

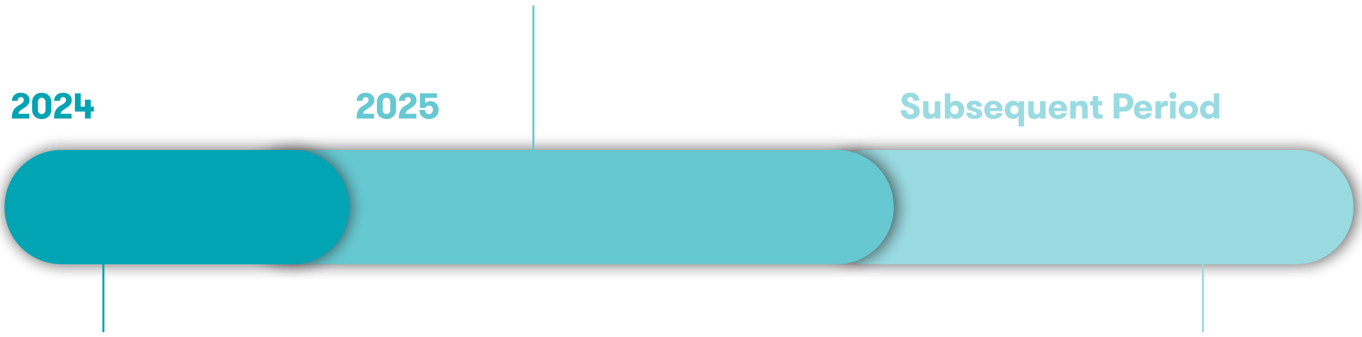
- No comparative information
- Report only climate-related risks and opportunities

Main Concept:

- **Scope 1: Direct Emissions**
  Sources owned or controlled by the company
- **Scope 2: Energy Indirect Emissions**
  Accounts of purchased electricity that is consumed by the company
- **Scope 3 Other Indirect Emissions**
  Consequence of activities that occur outside the company

Entity report with:

1. If, in the annual reporting period immediately preceding the date of initial application of this Standard, the entity used a method other than the GHG Protocol (2004), the entity is permitted to continue using that other method to continue using the other method
2. An entity is not required to disclose its Scope 3 GHG emissions



Effective Date

Apply Standard for annual reporting periods beginning on or after 1 January 2024

Continue to use that relief for the purposes of presenting that information as comparative information in subsequent reporting periods

*existing and potential investors, lenders, and creditors

**with earlier applications permitted

Benefits and Costs of Applying IFRS S1 and IFRS S2

	Expected Benefits Benefits of the implementation and ongoing application of new IFRS are likely to outweigh the costs	Likely Costs The cost might be new, however, ongoing costs were likely to decrease over time
Companies	Improve data quality of reporting company and access to capital	Increase personnel cost to manage data collection and disclosure processes
	Providing framework for better performance and longer-term value creation	Establishing, developing, and implementing internal system
	Improve reputation, justifying validity, and increase company's ESG performance in society	Modifying data collection, data analysis, and production of reported information
Investors	Achieving right investment decisions and avoid inefficiencies	Costs of modifying internal systems, data collection or data analysis processes
	Greater consistency, comparability, and verifiability of disclosures	

Challenges of ESG Reporting

Although ESG Reporting remains an essential part to a company's pre-IPO journey, there are multiple challenges companies need to consider while developing an ESG strategy.

Unstructured Data

ESG reporting often involves unquantifiable information, involving structured & unstructured data. Challenges include evaluating unstructured data and connecting it to measurable values.

ESG Reporting Costs

ESG reporting incurs three costs:
- preparation costs (data collection and outsourcing),
- proprietary costs (competitor advantage), and
- litigation costs (legal challenges from increasing public awareness).

Voluntary Disclosure

Voluntary disclosure allows firms to prioritize their resources, but selective sharing may lead to an incomplete picture, with positive information highlighted while negative aspects are hidden.

Lack of Standards

Although there are a variety of ESG frameworks for reporting, there is a lack of a universally adopted, standardized framework. This hinders the effective comparability of ESG metrics between firms.

Contact Us

Find out how Grant Thornton can assist you for your ESG reporting needs.

For inquiries, please contact our Business Development Partner at **bd@id.gt.com.**

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