

Evaluation of the Implementation of IFRS S1 and IFRS S2 in Banking Sector Sustainability Reporting for the 2023 Period

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ARTICLE INFO	ABSTRACT
Keywords: Sustainability Report, International Financial Reporting Standards Sustainability, Banking Sector	<p>The Paris Agreement in 2015 is an international agreement to reduce the rise in global temperature and reduce its impact. As a developing country with the effects of greenhouse emissions that have a significant impact, Indonesia participates in reducing greenhouse gas emissions with a net zero emission target by 2060. This study aims to analyze the disclosure by banks based on the minimum requirements set out in the International Financial Reporting Standards Sustainability (IFRS S). The method used is a qualitative descriptive of the aspects of governance, strategy, risk management as well as the matrix and targets disclosed in the 2023 sustainability report of seven banks that are committed to the OJK to achieve Indonesia's net zero emission target. The result of this study is that in the aspect of governance, all banks have a unit that is responsible for implementing and supervising sustainability aspects related to governance, environmental and social. However, there are still banks that are inadequate in disclosing aspects of strategy, risk management, as well as matrices and targets.</p>

INTRODUCTION

Global warming and energy transformation have become topics of interest for governments, practitioners, academics and society in recent decades. The Intergovernmental Panel on Climate Change (IPCC) in 2021 has explained in its report that global temperatures are predicted to rise by 1.5 degrees Celsius in the next 20 years due to greenhouse gas emissions (Intergovernmental Panel on Climate Change (IPCC), 2023). The financial consequences of climate issues are largely due to strategic decisions taken by companies in responding to risks and optimizing existing opportunities. Companies must consider the environment in managing the risks they face which ultimately affect the company's performance (Fajar & Effriyanti, 2024).

In response to this issue, the International Sustainability Standards Board (ISSB) has issued the International Financial Reporting Standards Sustainability (IFRS S) in June 2023 which will take effect on January 1, 2024 (International Sustainability Standards Board (ISSB), 2023; International Sustainability Standards Board, 2023). Sustainability report is a form of corporate responsibility to the community, that the company not only runs its business to make profits, but also pays attention to environmental and social problems in its governance (Pratiwi et al., 2022).

Companies need to report four aspects of their sustainability reports based on the International Financial Reporting Standards Sustainability. The four aspects are governance, strategy, risk management, as well as matrices and targets (Doloksaribu & Firmansyah, 2024). One of the companies that has a big role in the economy is the banking sector. Banks have a vital role in the economy in Indonesia, through their role as capital providers for companies, banks are expected to be the drivers of the national economy (PERBANAS, 2024).

Banking in Indonesia is bound by the Financial Services Authority (OJK) regulations that require Financial Services Institutions to issue sustainability reports (Financial Services Authority Regulation, 2017). The sustainability report is published as one of the contributions of banking sector companies in improving environmental problems and generally succeeding the Sustainable Development Goals (SDGs) program (Thornton, 2023). Banking companies in Indonesia also support the development of sustainable reports towards achieving

the *Net Zero Emissions* (NZE) target by 2060 through the signing of a joint commitment between seven banking companies in Indonesia and the OJK (OJK, 2024).

The disclosure of company performance in *the sustainability report* can be discussed through two accounting theories. Based on the signal theory introduced by Spence in 1973, it is known that the owner of the information, in this case the company, sends financial performance information in a sustainability report that can be used by the recipients of the information, namely stakeholders (Yusri, 2020). In addition, in the agency theory initiated by Jensen and Meckling in 1976, it is explained that there is a difference between agents and shareholders, where agents prioritize personal interests, while shareholders expect large profits, so this affects the quality of disclosure in sustainability reports (Supriyono, 2019).

A case study on Bank X regarding the gap in the implementation of *International Financial Reporting Standards Sustainability* 1 and 2 conducted (Amelia & Djakman, 2024) states that of the four aspects required in *the International Financial Reporting Standards Sustainability*, the governance aspect is an aspect that can be fulfilled. Meanwhile, the other three aspects have not been fully disclosed.

Based on the description above, the research on sustainability disclosure carried out by banks, in this case, namely the seven banks that have committed with the OJK, will provide knowledge on how much disclosure by banks has been in accordance with the minimum requirements set out in *the International Financial Reporting Standards Sustainability*.

METHOD

The method used in this study is qualitative descriptive. Qualitative research is research related to aspects of quality, value, and understanding of the facts obtained that do not come from numerical measures (Gunawan, 2022). Qualitative data comes from primary and secondary sources. Primary sources can come from direct interviews from sources while secondary sources can be obtained from reports published by companies (Sekaran & Bougie, 2016).

The data source used in this study is in the form of secondary data, namely 2023 sustainability report data from seven banks that have a commitment to the OJK to take part in the success of Indonesia's *Net Zero Emissions* (NZE) program. Meanwhile, the data used in this study are aspects of disclosure of governance, strategy, risk management, as well as matrices and targets in the company's sustainability report.

The sampling technique used is *Purposive Sampling* which is carried out with certain considerations, not based on strata, region but based on the purpose of the research. The sample in this study is seven banking companies that have a commitment to OJK.

Research Sample Table

It	Company Name	Code
	Bank Mandiri	BMRI
	Bank Negara Indonesia	BBNI
	Bank Rakyat Indonesia	BBRI
	Bank Central Asia	BBCA
	CIMB Niaga	BNGA
	Bank Syariah Indonesia	BRIS
	Bank Jabar Banten	BJBR

RESULTS AND DISCUSSION

The seven banks have prepared sustainability reports based on the mandate of the Financial Services Authority Regulation No. 51 of 2017. This study assesses four aspects of disclosure, namely governance, strategy, risk management, as well as matrices and targets. In the sustainability reports of Bank Mandiri, Bank Nasional Indonesia, Bank Pembangunan Daerah Java and Banten, Bank Syariah Indonesia and Bank Central Asia revealed that these banks have conducted an assessment of the impact of financial risks arising from climate change and environmental turmoil.

Governance Aspects

The governance aspect requires companies to disclose structures, processes, and procedures for managing and monitoring climate change-related risks and opportunities. In practice, companies usually have a board of directors structure to carry out managerial management, while monitoring is carried out by the supervisory board (POJK.03/2016, 2016).

The disclosure of governance aspects at the seven banks has integrated sustainability principles in their organizational structures. The seven banks have established a structure to implement and supervise activities related to sustainable finance and manage economic, social, and environmental impacts. For example, at Bank Central Asia, the Director of Planning and Finance is responsible for climate change-related initiatives, while Bank Syariah Indonesia has established an ESG committee to strengthen overall sustainability governance. At Bank Mandiri, supervision of the integration of environmental, social and corporate governance aspects is carried out by the Board of Commissioners through the Risk Monitoring Committee, while the committee at the board of directors level monitors and makes strategic decisions on the integration of environmental, social and governance aspects as well as the implementation of sustainability. Bank CIMB Niaga already has a sustainability work unit whose work is supervised by the Director in Charge of Sustainability. Bank Negara Indonesia established an ESG management department to manage the climate framework.

Bank Rakyat Indonesia has an ESG committee to evaluate sustainability implementation. The West Java and Banten Regional Development Banks do not state that they have a special unit related to ESG, but in their sustainability supervision is directly supervised by members of the board of commissioners and directors, but there has been no special separation for social, environmental, and economic impact responsibilities because each position is interrelated and has responsibility for the impact of these three aspects.

Strategic Aspects

The strategy aspect is a way prepared by the company to manage sustainability-related risks and opportunities described in its plan and achievement timeframe (International Sustainability Standards Board (ISSB), 2023). Based on the analysis of seven banks, it is known that Bank Mandiri, Bank Negara Indonesia, Bank Central Asia, Bank CIMB Niaga and Bank Rakyat Indonesia have set a strategic plan to achieve Indonesia's *net zero emissions* target by a maximum of 2060. Meanwhile, other banks did not explicitly mention in their sustainability reports the target year of achieving *net zero emissions*.

The seven banks have also prepared a Sustainable Finance Action Plan (RAKB). However, not all of them have confirmed the timeframe to support the achievement of Indonesia's target of *net zero emissions*. An example of a time-lapse disclosure is the one made by CIMB NIAGA Bank which has integrated climate and social risk factors in the risk management framework in line with the global target towards *net zero* carbon emissions by 2050 and has implemented integrated risk management in the credit and investment process to ensure climate resilience and in accordance with *the International Financial Reporting Standards Sustainability 2* is the disclosure of the impact of long-term climate risks on financial performance and position.

In addition, through Bank Mandiri's framework, there is a commitment to achieve net zero emissions by 2030 through operational activities with three main pillars, namely *Sustainable Banking, Operation and Sustainability Beyond Banking*. Bank Central Asia has also made a climate change *roadmap* with a climate resilience target of 2026-2030. Meanwhile, Bank Negara Indonesia through the framework and roadmap has affirmed that it will achieve *net zero operational emissions* by 2028. Bank Rakyat Indonesia is committed to reducing emissions by 2050.

Risk management aspects

The risk management aspects disclosed by the company should include the process of identifying, assessing and managing sustainability risks. Banks should disclose the flow of climate change risks to changes in financial performance, banks need to pay attention to physical risks and transitions (*Banking Climate Risk Stress (Crst) Guide*, n.d.).

Based on the analysis of the seven banks, it is known that Bank Central Asia, Bank Mandiri, Bank Negara Indonesia, Bank CIMB Niaga, Bank Rakyat Indonesia and the West Java and Banten Regional Development Banks have disclosed aspects of risk management in terms of physical risk analysis and transition risk to financial performance as required in the *climate risk management guidelines* from the OJK.

For example, the Central Asian Bank has identified and analyzed the physical risks and transition risks associated with climate change. These two risk assessments are carried out in the Bank's operational activities and the climate change-sensitive finance industry sector. Bank Central Asia has also mapped the financial risks due to climate change from its loan portfolio. In terms of risk management, BNI has also assessed the risks of industrial sectors with high emissions in the loan portfolio by setting a *Loan Exposure Limit* for each industry.

Matrix and target aspects

The matrix and target aspects require companies to disclose key performance indicators that can be measured periodically (International Sustainability Standards Board, 2023). Based on the analysis of seven banks, it is known that Bank Central Asia, Bank Mandiri, Bank CIMB Niaga, Bank Nasional Indonesia, Bank Rakyat Indonesia and the Regional Development Bank of West Java and Banten have disclosed aspects of the matrix and targets in accordance with *the International Financial Reporting Standards Sustainability*.

In its 2023 sustainability report, Bank CIMB Niaga has set targets to reduce greenhouse gas emissions/carbon emissions and increase green portfolio financing. In compliance with *the International Financial Reporting Standards Sustainability 2*, Bank CIMB Niaga reports on its greenhouse gas matrix and sets targets to increase positive impacts on a sustainable basis. Meanwhile, Bank Negara Indonesia has calculated the greenhouse gas effects of scope 1, 2, and 3 official trips as well as financing emissions from corporates. Bank Negara Indonesia divides the emission target into two, namely operational and financing. Bank Mandiri has also calculated emissions from operational activities covering scopes 1, 2, and 3 in accordance with greenhouse gas protocols. Bank Rakyat Indonesia also revealed that it has reduced carbon emissions in scopes 1, 2 and 3.

The West Java and Banten Regional Development Bank revealed the use of transportation fuel and *generator sets* as aspects that are taken into account in scope 1 emissions, while scope 2 uses electricity usage data from the State Electricity Company, and scope 3 uses data on air service travel, tree planting and environmental conservation. However, the West Java and Banten Regional Development Banks stated that they have not disclosed the matrix and targets used to evaluate climate risks and opportunities that are in line with the management and risk process.

CONCLUSION

Based on the results of the analysis of the sustainability reports of the seven banks, it is known that all banks have made efforts to disclose all aspects required by the OJK which refer to the *International Financial Reporting Standards Sustainability*. In terms of governance, all banks have units that are responsible for implementing and supervising sustainability aspects related to governance, environmental and social. However, there are still banks that are inadequate in disclosing aspects of strategy, risk management, as well as matrices and targets. Further research can be carried out by analyzing more sustainability reports that are not limited to these seven banks. This is to get a broader picture of sustainability disclosure in accordance with *the International Financial Reporting Standards Sustainability* carried out by banking sector companies.

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