

Transformation of Sustainable Finance Regulation in Indonesia: Expanding the ESG Framework Through the Integration of IFRS S2 Pillars into the 2026 Draft POJK

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Introduction

Global sustainability reporting standards have undergone significant acceleration in recent years, particularly with the introduction of IFRS S2 (*Pernyataan Standar Pengungkapan Keberlanjutan/PSPK 2*) which focuses on the disclosure of climate-related risks and opportunities, published by the International Sustainability Standards Board (ISSB) in June 2023.

In the Indonesian context, Financial Services Authority Regulation Number 51/POJK.03/2017 (POJK 51/2017) marked the initial milestone in implementing sustainable finance for financial service institutions, issuers, and public companies. This regulation introduced an Environmental, Social, and Governance (ESG)

reporting framework as the foundational basis for sustainability transparency in Indonesia.

As demands for transparency grew and the need for decision-relevant information for investors intensified, the regulator formulated the 2026 Draft POJK (RPOJK). This draft does not merely update POJK 51/2017 administratively, but it substantially strengthens and deepens the sustainability reporting framework by integrating key elements of global standards, most notably IFRS S2.

This article aims to substantively analyse the differences between POJK 51/2017 and RPOJK 2026, emphasising that the transformation underway is not a shift away from ESG toward climate disclosure, but rather an expansion and deepening of the ESG framework through the integration of more advanced and structured climate-related disclosures.

A Deepened ESG Framework with Climate Disclosure

The fundamental distinction between POJK 51/2017 and RPOJK 2026 lies not in a paradigm shift, but in the broadening of scope and deepening of reporting substance.

POJK 51/2017 adopted a general ESG approach, emphasising a balanced treatment of economic, social, and environmental dimensions. This approach was broad and descriptive in nature, centred on communicating information about companies' sustainability-related activities.

RPOJK 2026 does not displace this ESG approach, rather it retains it as the primary foundation. This is evident in the continued requirement for comprehensive disclosure across economic, social, and environmental dimensions, including sustainability considerations beyond climate (beyond-climate disclosures).

What RPOJK introduces, however, is an additional layer of climate-related disclosure that is more structured, more quantitative, and more closely linked to business strategy and risk.

The transformation is therefore best understood as: “an evolution from conventional ESG to ESG-plus, enhanced by climate-related disclosure aligned with IFRS S2.”

Integration of the IFRS S2 Pillars into Indonesia's Sustainable Finance Framework

One of the most significant developments in the RPOJK is the incorporation of IFRS S2's four-pillar structure into Indonesia's sustainable finance implementation:

- Governance
- Strategy
- Risk Management
- Metrics and Targets

Unlike POJK 51/2017, which relied on a checklist-based approach, RPOJK adopts this structure to enhance the quality and relevance of disclosed information.

It is important to underscore that the IFRS S2 pillars do not stand independently, but they are integrated into the existing ESG framework. In this architecture: ESG remains the overarching framework (umbrella framework), while IFRS S2 serves as the structural enhancement, particularly for climate-related aspects. This approach produces a hybrid model in which reporting continues to cover all dimensions of sustainability, but with a greater depth of analysis applied to climate-related issues.

Strengthening Emissions Disclosure and Targets within the ESG Framework

Under POJK 51/2017, greenhouse gas (GHG) emissions disclosure was introduced but remained at a foundational level. RPOJK 2026 expands and deepens these requirements by adopting an approach aligned with international practice, including the disclosure of Scope 1, Scope 2, and Scope 3 emissions (on a phased basis).

In addition, RPOJK requires the establishment of short- and medium-term emissions targets, along with the reporting of progress against those targets. These changes signal that the environmental dimension of ESG is no longer merely descriptive, but it has evolved to become quantitative, measurable, and forward-looking. As such,

the "E" in ESG has undergone a significant deepening, particularly with respect to climate-related matters.

Transformation of the RAKB: From Administrative Document to Transition Plan

The Sustainable Finance Action Plan (*Rencana Aksi Keuangan Berkelanjutan/RAKB*) has also undergone a meaningful transformation under RPOJK. Previously more administrative in character, the RAKB has evolved into a strategic instrument that reflects a company's transition roadmap, including its mitigation and adaptation strategies, and their connection to the business model and long-term sustainability targets.

The RAKB under RPOJK mirrors the concept of a transition plan as envisioned in IFRS S2, whereby companies are expected to: outline their pathway toward a low-carbon economy, identify resource requirements, and align their sustainability strategy with long-term performance objectives. This demonstrates that the integration of IFRS S2 is not limited to the level of disclosure, but extends to corporate strategic planning.

Strengthening Enforcement through Independent Verification

RPOJK also introduces a phased mandatory independent verification (read: assurance) requirement, a provision absent from POJK 51/2017. This measure strengthens report credibility, data reliability, and corporate accountability. In this regard, Indonesia has gone further than the IFRS S2 baseline, which does not explicitly mandate assurance but encourages its adoption.

Linkage to Financial Performance: A Work in Progress

Although RPOJK has integrated the IFRS S2 pillars, the direct linkage between sustainability information and financial statements remains under development.

IFRS S2 emphasises the importance of quantifying financial impacts and establishing explicit linkages with financial reporting. RPOJK has begun moving in this direction through the disclosure of strategy, risk management, and performance

targets, however, it has not yet fully mandated the explicit quantification of financial impacts.

Accordingly, RPOJK's alignment with IFRS S2 may be characterised as *partially to substantially aligned*, particularly with respect to structure and core pillars, while full alignment on financial integration remains a work in progress.

Conclusion

RPOJK 2026 represents a significant evolution in Indonesia's sustainable finance regulatory landscape. The transformation at hand is not a pivot from ESG toward climate disclosure, but rather an expansion and deepening of the ESG framework through the integration of climate-related disclosures aligned with IFRS S2/PSPK 2.

The four pillars of IFRS S2: governance, strategy, risk management, and metrics and targets, have been incorporated into Indonesia's sustainable finance implementation without diminishing the broader scope of ESG coverage.

In this sense: POJK 51/2017 remains the foundation, while RPOJK reinforces that foundation with greater structure, analytical depth, and financial orientation. This positions Indonesia firmly on a path of global convergence, while preserving its local characteristics through an inclusive approach to the full spectrum of sustainability.

This article is available in two languages. The Indonesian version is the author's original work (available at ICSP Website: <https://institute-csp.org/media/icsp-member-articles/260406-ad/>). And the English translation is provided for the convenience of international readers. Please note that the translation was not prepared by the author and may not fully capture the intended nuance of the original text.