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Materiality conflicts in dual suistanability-reporting regimes: indonesia's transition from impact-based OJK rules to ISSB financial materiality

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ABSTRACT

The contemporary architecture of corporate sustainability reporting is undergoing an unprecedented epistemological rupture, transitioning from a localized, impact-oriented paradigm under the Indonesian Financial Services Authority (OJK) toward a globally standardized, financial-materiality framework promulgated by the International Sustainability Standards Board (ISSB). This paradigm shift, culminating in the ratification of PSPK 1 and PSPK 2 effective January 1, 2027, precipitates a profound jurisprudential paradox regarding regulatory compliance and corporate fiduciary duties within emerging markets. Traditional orthodox normative legal research has systematically failed to decode the sociological frictions inherent in this dual-regime landscape, often falsely dichotomizing the frameworks as either mutually exclusive or seamlessly harmonized (Abhayawansa, 2022; Adams & Mueller, 2022). Eradicating these archaic theoretical lacunae, this research operationalizes a cutting-edge methodological fusion, integrating Socio-Legal Analysis with Project-Based Legal Epistemology. By dissecting the "asymmetrical incomplete overlap" between POJK No. 51/POJK.03/2017's mandatory economic, social, and environmental disclosure floor and the ISSB's investor-centric financial-materiality overlay, this study confronts the realities of symbolic compliance and governance-washing within the extractive and corporate sectors (Correa-Mejía et al., 2024; Dragomir et al., 2025). As a tangible project-based output, this manuscript engineers a highly prescriptive, four-step conflict-resolution protocol materialized through a concrete Academic Compliance Matrix. This matrix structurally reconciles dual-tagging mechanisms, value-chain boundary delimitations, and board-level accountability escalations, thereby establishing an indisputable, interoperable legal blueprint for transnational corporate governance and integrated compliance sustainability.

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Introduction

The global legal order is currently witnessing a tectonic metamorphosis in the governance of corporate externalities, migrating abruptly from the realm of voluntary corporate social responsibility (CSR) into the rigorous, heavily sanctioned domain of mandatory sustainability-related financial disclosures (Christensen, Hail, & Leuz, 2021). At the epicenter of this metamorphosis lies a fierce epistemological collision concerning the fundamental threshold of "materiality"—the legal and cognitive gateway that dictates what information a corporate entity is legally compelled to disclose to the public sphere (Oll et al., 2025). For the past decade, the prevailing logic within the Republic of Indonesia has been overwhelmingly governed by the impact-materiality doctrine, codified unequivocally through the Financial Services Authority Regulation No. 51/POJK.03/2017 (POJK 51) and its subsequent technical derivative, Circular Letter No. 16/SEOJK.04/2021 (SEOJK 16). This domestic regulatory architecture mandates public accountability across a broad spectrum of economic, social, and environmental indicators, demanding disclosures that reflect the corporation's outward impact on surrounding communities, ecological stability, and human rights, irrespective of immediate financial consequences to the entity itself (OJK, 2017, 2021).

However, the international financial architecture has aggressively pivoted. The International Sustainability Standards Board (ISSB), endorsed by the International Organization of Securities Commissions (IOSCO), has promulgated IFRS S1 and IFRS S2, effectively redefining materiality through an uncompromising investor-focused lens (ISSB, 2023a, 2023b; IOSCO, 2023). Under this globalized regime, sustainability matters are only deemed legally material if omitting, misstating, or obscuring them could reasonably be expected to influence the decisions of primary users of general-purpose financial reports (Jørgensen, Mjøs, & Pedersen, 2022). This constitutes financial materiality. The Indonesian Sustainability Standards Board's (Dewan Standar Keberlanjutan IAI) recent ratification of PSPK 1 and PSPK 2, adapting these ISSB standards for mandatory enforcement by January 1, 2027, has catapulted Indonesian issuers into a highly volatile legal labyrinth (IAI, 2025a, 2025b).

The state of the art in contemporary legal and accounting literature over the past three years has struggled to reconcile this collision. While extensive conceptual studies have mapped the philosophical divergences between stakeholder-oriented accountability and shareholder-centric financial relevance (Mezzanotte, 2023; Adams & Abhayawansa, 2022), they suffer from a profound theoretical lacuna: they persistently treat these regimes as abstract accounting problems rather than critical legal compliance risks intertwined with corporate fiduciary duties. Empirical scholarship has adeptly highlighted the pervasive pathology of "governance-washing" or symbolic label adoption—where corporations superficially claim alignment with double materiality without altering fundamental capital allocation or risk oversight behaviors (Miettinen, 2024; Setia et al., 2024; Ngu & Amran, 2024). Yet, these studies fail to provide a legally binding architectural solution. They diagnose the disease but fail to engineer the cure.

This manuscript launches a surgical academic intervention to obliterate this gap. We fundamentally reject the orthodox normative assumption that the integration of ISSB standards will automatically eclipse or smoothly harmonize with the OJK's impact-based mandates. Instead, this study introduces the concept of the "asymmetrical incomplete overlap". The legal reality is that the OJK rules prescribe a non-negotiable mandatory domestic floor for social and environmental disclosures (such as specific community complaints and employment metrics), which may completely evade the ISSB's financial materiality filter if they do not exhibit short-to-medium-term cash flow implications (Pesci, Vola, & Gelmini, 2023). Conversely, the ISSB/PSPK framework imposes an aggressive financial-materiality overlay, demanding granular Scope 3 greenhouse gas emissions data, sophisticated climate-resilience scenario analyses, and forward-looking financial connectivity that the existing SEOJK 16 structure fails to capture (GHG Protocol, 2011; Hummel & Jobst, 2024).

Consequently, compliance with either layer in isolation is legally perilous and practically insufficient. Attempting to navigate this dual-regime landscape using purely normative legal methodology is an exercise in academic futility, as the black-letter law cannot independently resolve the sociological and operational contradictions occurring within corporate boardrooms (Hathaway & Shapiro, 2023). Therefore, transcending the obsolete boundaries of traditional doctrinal analysis, this research pioneers a methodological fusion of Socio-Legal Analysis and Project-Based Legal Epistemology (Ellickson, 2022). By actively colliding the absolute legal text (Das Sollen) with the complex sociological realities of corporate compliance (Das Sein), this article does not merely narrate the regulatory friction; it engineers a definitive solution. The ultimate culmination of this research is the deployment of a tangible Project-Based Output: a legally robust, four-step conflict-resolution protocol materialized as an Academic Compliance Matrix, designed to operate as a plug-and-play regulatory technology for the Compliance and HSSE divisions of critical extractive and financial industries.

To ascend to the zenith of global jurisprudential discourse, the analysis of sustainability reporting cannot be confined to the superficial mechanics of statutory interpretation. It demands a rigorous philosophical deconstruction of how law, power, and compliance operate in a hyper-globalized, post-Westphalian legal order (Slaughter, 2024). This study anchors its epistemological foundation on two paramount critical transnational theories: The Theory of Polycentric Sovereignty and the Doctrine of Corporate Constitutionalism, heavily infused with the Socio-Legal perspectives of compliance culture.

The traditional monistic view of law posits that binding legal obligations flow exclusively downward from the sovereign state's legislative apparatus. This paradigm is profoundly obsolete in the context of global environmental and financial governance (Berman, 2025). The transition to ISSB-aligned PSPK standards exemplifies the triumph of Polycentric Sovereignty a framework where regulatory authority is distributed across a networked matrix of non-state actors, transnational standard-setters, and global capital markets (Pasquale, 2023). The ISSB, though formally a private standard-setting body, wields immense quasi-sovereign power. Its standards, once internalized by global asset managers and endorsed by IOSCO, construct a Lex Mercatoria of sustainability that de facto overrides or significantly alters the enforcement dynamics of domestic hard law (Anghie, 2024).

When Indonesian issuers face the dual regimes of POJK 51 and PSPK 1/2, they are not merely balancing two sets of national regulations; they are standing at the intersection of a jurisdictional clash between localized state sovereignty (aimed at protecting domestic socio-ecological interests) and transnational capital hegemony (aimed at protecting global portfolio values). Without a sophisticated integration protocol, the imposition of ISSB standards risks triggering what critical socio-legal scholars term "regulatory displacement," where the relentless demand for financialized, investor-grade data marginalizes and eclipses the equally critical, non-financialized impacts experienced by marginalized local communities and ecosystems (Villavicencio Calzadilla, 2023). The Polycentric Sovereignty framework allows us to meticulously decode this power asymmetry, revealing that the "asymmetrical incomplete overlap" is not a mere drafting error, but a structural manifestation of competing global and local legal rationalities.

Simultaneously, the theoretical architecture of this study relies on the doctrine of Corporate Constitutionalism to explain the transmutation of ESG from voluntary ethics to absolute legal liability (Coffee, 2024; Harper Ho, 2023). For decades, corporate sustainability was governed by the logic of Soft Law—guidelines, voluntary principles, and aspirational goals (such as the UN SDGs) that lacked punitive enforceability. The ratification of PSPK 1 and PSPK 2, converging with the existing administrative sanctions embedded within POJK 51, signifies the definitive "Hard Law Turn" in corporate governance (Brown, 2025).

Under Corporate Constitutionalism, the corporation is viewed not merely as a nexus of private contracts, but as a quasi-public entity bound by constitutional-level duties toward the environment and society at large (Condon, 2023). The obligation to conduct a rigorous dual-materiality assessment is no longer a peripheral marketing exercise; it has been elevated to the core of the Board of Directors' fiduciary duty (Joh, 2025). Failing to accurately map the intricate pathways between an environmental impact (e.g., toxic tailings from coal mining) and its subsequent financial risk (e.g., stranded assets or colossal litigation liabilities) is no longer categorized as poor public relations; it constitutes actionable market manipulation, securities fraud, and a fundamental breach of the fiduciary duty of care and loyalty (Mezzanotte, 2023; Fox et al., 2023).

To inject the crucial Socio-Legal dimension demanded by apex-tier jurisprudential standards, this study operationalizes Lawrence M. Friedman's concept of Legal Culture alongside Second-Generation Behavioral Law and Economics (BLE 2.0) to dissect the operational reality (Das Sein) of corporate compliance (Friedman, 2022; Jolls, 2023). The pure normative approach naively assumes that once the dual regimes (OJK and ISSB) are enacted, corporations will seamlessly and rationally comply (Thaler, 2025). Empirical sociology shatters this illusion.

In reality, the dual-reporting architecture induces severe cognitive heuristics and institutional biases within corporate compliance departments (Bar-Gill, 2024). Faced with the sheer complexity and conflicting data demands of impact versus financial materiality, corporations frequently resort to governance-washing—a sophisticated form of symbolic compliance (Correa-Mejía et al., 2024). Entities may superficially label their reports with "double materiality" tags while structurally maintaining a siloed, financially dominant risk assessment process, thereby treating the OJK's social mandates as a rudimentary, check-the-box formality (Dragomir et al., 2025).

This sociological pathology proves that textual regulatory alignment is wildly insufficient. Unless the legal mandates are translated into an inescapable, algorithmic Choice Architecture—a rigid Compliance Matrix that forces cross-functional data integration between Finance, Legal, and HSSE (Health, Safety, Security, and Environment) divisions—the transition to ISSB will simply camouflage systemic ecological risks beneath a veneer of sophisticated financial metrics (Sunstein, 2026; Solove & Hartzog, 2023). Consequently, the sociological critique directly necessitates the methodological shift toward Project-Based Legal Epistemology:

the creation of a physical, actionable regulatory technology (the protocol and matrix) to counteract the behavioral tendencies of symbolic corporate evasion.

Method

Repudiation of Orthodox Legal Formalism and The Turn to Socio-Legal Convergence
The orthodox paradigm of purely normative-doctrinal legal research—traditionally predicated upon the isolated, semantic exegesis of statutory instruments—has proven systematically inadequate for dissecting the polycentric complexities of contemporary transnational corporate governance. To analyze the collision between localized state mandates and globalized financial standards through a strictly positivist lens is to engage in an epistemological fallacy. Therefore, in strict adherence to the highest echelons of modern jurisprudential inquiry, this manuscript orchestrates a radical methodological mutation. We unequivocally repudiate pure legal formalism, substituting it with a sophisticated methodological fusion: the integration of Critical Socio-Legal Analysis with Project-Based Legal Epistemology (Ellickson, 2022; Hathaway & Shapiro, 2023).

This hybridized architecture is explicitly engineered to violently collide the absolute rigidity of legal texts (Das Sollen) against the fluid, often pathological sociological realities of corporate operational compliance (Das Sein). By acknowledging that corporate entities frequently weaponize compliance ambiguities to engage in "governance-washing" and symbolic label adoption, this study transcended the mere descriptive comparison of legal clauses (Correa-Mejía et al., 2024; Miettinen, 2024). Instead, it interrogates the behavioral responses of corporate actors—specifically within extractive and critical infrastructure sectors—when confronted with the dual-reporting labyrinth. The Socio-Legal dimension investigates how the culture of compliance within Boards of Directors reacts to the competing accountability logics of impact materiality versus financial materiality (Friedman, 2022; Jørgensen et al., 2022).

Project-Based Legal Epistemology and Regulatory Engineering
In the contemporary era of hyper-globalization, apex-tier legal research must transcend the formulation of abstract policy recommendations; it is legally obligated to engineer executable, pragmatic solutions. Consequently, this investigation operationalizes Applied Legal Pragmatism and Project-Based Legal Epistemology (Ellickson, 2022). This philosophical framework posits that the validity of a legal theory is inherently contingent upon its capacity to be materialized into a functional regulatory technology.

Our methodology does not merely interpret the friction between the OJK and ISSB regimes; it structurally resolves it by generating a tangible, project-based output. The culmination of this analytical process is the architectural design of a specialized "Academic Compliance Matrix"—a definitive, plug-and-play regulatory instrument that mathematically and legally maps the intersection of domestic impact floors, financial-materiality overlays, and corporate fiduciary duties. This matrix serves as the ultimate empirical countermeasure against the heuristic biases and selective reporting strategies prevalent in boardrooms, functioning simultaneously as an internal auditing mechanism and a shield against transnational securities fraud litigation (Sunstein, 2026; Fox et al., 2023).

Structured Analytical Coding and Intersectional Data Matrix
The primary corpus of this investigation necessitates a highly structured, forensic document-analysis approach, treating regulatory texts not as passive literature, but as active algorithms of social control (Bowen, 2009; Marzuki, 2021). The primary legal data encompasses POJK No. 51/POJK.03/2017, SEOJK No. 16/SEOJK.04/2021, IFRS S1, IFRS S2, and the recently ratified Indonesian equivalents, PSPK 1 and PSPK 2 (OJK, 2017, 2021; ISSB, 2023a; IAI, 2025a).

To execute the intersectional analysis, this study deployed a ten-dimensional forensic coding framework to systematically deconstruct and contrast the two regimes: (1) Regulatory Status and Temporal Effectuation: Analyzing the transition timelines and binding authority of domestic versus global standards; (2) Reporting Objective and Teleology: Contrasting public accountability imperatives against investor-centric, decision-useful financial information; (3) Primary User Identification: Mapping the divergence between broad stakeholder audiences and the narrow constituency of capital providers (creditors and investors); (4) Materiality Trigger Thresholds: Dissecting the exact legal catalysts that legally compel disclosure under impact versus financial paradigms; (5) Organizational and Value-Chain Boundaries: Evaluating the jurisdictional limits of Scope 1, 2, and 3 emissions tracking (GHG Protocol, 2011); (6) Governance and Internal Control Mandates: Measuring the fiduciary escalation protocols required for board oversight; (7) Measurement and Scenario Analysis Methodologies: Scrutinizing the legal necessity of forward-looking climate resilience modeling; (8) Assurance, Liability, and Sanction Exposures: Calculating the legal risks spanning from administrative warnings to transnational securities fraud.

Through this rigorous comparative matrix, discrepancies were not merely noted; they were subjected to a deductive-inductive reasoning process. A legal contradiction was classified as irreconcilable only if one regime legally commanded an action that the other expressly prohibited. Where disclosures were merely additive or conditional, the intersection was classified as an "asymmetrical incomplete overlap," thereby demanding the deployment of the conflict-resolution protocol engineered in the subsequent phases of this study.

Results and Discussions

The Intersectional Analysis Dual Materiality

The Jurisprudential Paradox: Deconstructing the Asymmetrical Incomplete Overlap

The focal point of the jurisprudential paradox permeating Indonesia's transition to the ISSB baseline does not manifest as a direct, mutually exclusive statutory contradiction. Instead, our forensic dissection reveals an intricate phenomenon characterized as an "asymmetrical incomplete overlap". The OJK regulatory apparatus—specifically POJK No. 51/POJK.03/2017 and SEOJK No. 16/SEOJK.04/2021—operates as an impact-oriented regime explicitly engineered to enforce public accountability. Under this domestic framework, materiality is intrinsically tied to a corporation's outward externalities regarding economic, social, and environmental stability, mandating disclosures on community grievances, localized ecological degradation, and labor rights regardless of whether these factors exhibit immediate, quantifiable cash-flow implications for the issuer (OJK, 2017, 2021).

Conversely, the newly ratified ISSB framework (PSPK 1 and PSPK 2, operationalized via IFRS S1 and S2) strictly enforces a financial-materiality threshold. Within this globalized architecture, sustainability matters transition from peripheral ethical concerns to mandatory legal disclosures solely when their omission, misstatement, or obscuration could reasonably be expected to subvert the economic decisions of the primary users of general-purpose financial reports—namely, investors, lenders, and creditors (ISSB, 2023a; Jørgensen et al., 2022). The ISSB regime applies a highly calibrated selection filter, demanding granular data on Scope 3 value-chain emissions and forward-looking climate resilience scenario analyses that are profoundly absent from the prescriptive, albeit structurally shallower, SEOJK 16 template (GHG Protocol, 2011; Hummel & Jobst, 2024).

Consequently, the intersection of these two paradigms engenders a dual-directional, yet legally asymmetrical, compliance gap (Baumüller & Sopp, 2022; de Villiers et al., 2024). The domestic mandate serves as an inescapable, mandatory impact-disclosure floor, whilst the PSPK framework imposes a highly sophisticated financial-materiality overlay. This asymmetry dictates that every single item prescribed by the OJK must be publicly reported to satisfy domestic administrative law, yet only a subset of these impact items—those that successfully breach the financial-materiality threshold by demonstrating a plausible pathway to enterprise value degradation—must be escalated into the general-purpose financial reporting apparatus mandated by PSPK 1 and PSPK 2 (Abhayawansa, 2022).

Sociological Frictions and the pathology of Governance-Washing

When standard normative analysis asserts that issuers can simply "comply with both," it demonstrates a catastrophic ignorance of corporate behavioral economics and compliance sociology. In the operational reality (*Das Sein*), corporate Boards of Directors face profound cognitive heuristics and resource constraints when attempting to harmonize conflicting materiality triggers. Empirical evidence surrounding early adopters of double-materiality frameworks demonstrates a pervasive tendency toward "governance-washing" (Correa-Mejía et al., 2024; Dragomir et al., 2025). Issuers frequently adopt the nomenclature of the ISSB to signal premium governance to global capital markets, whilst simultaneously treating the OJK's social and human rights mandates as performative, symbolic checklists (Setia et al., 2024).

This symbolic compliance is highly toxic in extractive economies like Indonesia. For instance, a coal mining conglomerate might rigorously calculate the transition risks of carbon pricing on its future cash flows (satisfying PSPK 2 financial materiality). However, simultaneously, it might obscure or selectively report localized water table contamination or indigenous community displacement because these impacts, while devastating locally, may not immediately threaten the conglomerate's aggregate global valuation. Under POJK 51, this omission constitutes an administrative violation; under a true double-materiality regime, it exposes the structural hypocrisy of treating sustainability reporting merely as a risk-mitigation tool for shareholders rather than a mechanism for polycentric accountability.

The legal vulnerability is therefore severely stratified. Domestically, evading the OJK's prescriptive impact disclosures invites administrative sanctions ranging from written reprimands to operational restrictions (OJK, 2017). Transnationally, however, the stakes are exponentially higher. Providing an unsupported claim of alignment with IFRS S1/S2—such as publishing incomplete Scope 3 data or fabricating climate-resilience scenarios—does not merely breach reporting guidelines; it traverses into the perilous territory of securities fraud, market manipulation, and the violation of fiduciary duty (IOSCO, 2023; Mezzanotte, 2023; Condon, 2023). In a polycentric legal order, investors relying on false ISSB-aligned disclosures can trigger devastating transnational litigation architectures, piercing the corporate veil and imposing strict liability on individual directors (Joh, 2025).

The Teleological Divergence: Shareholders versusu Stakeholders

To fully map this epistemological rupture, it is vital to juxtapose the teleological objectives of both regimes. As synthesized in Table 1 (Comparative Dimensions), the OJK framework is fundamentally a tool of holistic statecraft, designed to align the financial sector with national macroeconomic, environmental, and social resilience goals. Its primary users are regulators, labor unions, localized communities, and the broader republic. The materiality trigger is structurally rigid: if SEOJK 16 lists "public complaints" or "equal employment opportunity," the issuer is legally bound to disclose it, bypassing the need to prove financial resonance.

Conversely, the ISSB/PSPK architecture is unapologetically engineered by and for global capital logic. It translates ecological and social crises into the only language capital markets comprehend: risk and return. The ISSB standards do not demand climate scenario analysis to save the biosphere; they demand it to ensure that institutional investors are not left holding "stranded assets" when climate regulations inevitably tighten (Adams & Mueller, 2022; Christensen et al., 2021).

This teleological divergence necessitates a highly specialized legal maneuver by the reporting entity. A corporate entity cannot assume that an exhaustive impact report generated under OJK guidelines automatically satisfies the PSPK financial connectivity requirements, nor can it assume that a pristine, investor-grade ISSB report absolves it of its domestic public-interest obligations (Baumüller & Sopp, 2022). The Board of Directors must construct a meticulously documented jurisprudential bridge between the two assessments. They must deploy an institutionalized mechanism to determine when a localized community grievance (an OJK mandate) mutates into an operational disruption capable of affecting the cost of capital (an ISSB mandate).

The absence of such a bridge leads directly to the core problem identified in our critique: the illusion of resolution. It is fundamentally insufficient to recommend that companies simply "integrate" their reporting. Without a concrete, engineered protocol that forces compliance officers to visually and systematically cross-reference impact triggers against financial risks, the dual regime will merely double the administrative cost while halving the actual legal transparency (Hummel & Jobst, 2024; Nielsen, 2023). This absolute necessity paves the way for the deployment of the Project-Based Legal Epistemology output: The Academic Compliance Matrix, which will be extensively deconstructed in the subsequent analytical phase.

The Intersectional Analysis of Dual Materiality (Continued)

Granular Deconstruction of Climate and Social Metrics: The Asymmetry of Regulatory Depth

To transcend the superficiality of orthodox normative analysis, this manuscript initiates a granular, forensic deconstruction of the exact evidentiary standards demanded by the dual regimes. The jurisprudential conflict between the Indonesian Financial Services Authority (OJK) and the International Sustainability Standards Board (ISSB) is most violently exposed when examining the concrete metrics of climate change and social impact. By operationalizing a comparative intersectional methodology, we observe that the "asymmetrical incomplete overlap" is not merely a theoretical friction; it manifests as a deeply operational crisis within the data governance architectures of corporate entities.

The regulatory depth of the two frameworks operates in diametrically opposed directions. The ISSB's financial-materiality layer (PSPK 2/IFRS S2) wields unprecedented algorithmic and methodological supremacy regarding climate-related financial disclosures, demanding a level of quantitative precision that renders previous soft-law regimes obsolete. Conversely, the domestic OJK framework (SEOJK 16) exercises a prescriptive supremacy in the realm of social and localized environmental impacts, codifying strict, non-negotiable mandates that are profoundly blind to financial materiality thresholds. Navigating this asymmetrical depth requires more than a compliance checklist; it demands a radical re-engineering of the corporate fiduciary duty, forcing boards of directors to simultaneously manage hyper-financialized climate data and hyper-localized social grievances without sacrificing the integrity of either (Christensen et al., 2021; Baumüller & Sopp, 2022).

Climate Intelligence and Scenario Analysis: PSPK 2's Algorithmmic Supremacy over SEOJK 16

Under the auspices of POJK 51 and the technical guidelines of SEOJK 16, Indonesian public companies are legally obliged to disclose the amount and intensity of emissions produced by type, alongside their environmental performance and emission-reduction efforts (OJK, 2017, 2021). While SEOJK 16 provides illustrative examples that encompass Scope 1, Scope 2, and Scope 3 emissions, its operative statutory text lacks the coercive methodological rigidity required to prevent systemic governance-washing. The domestic regulation permits issuers vast interpretative latitude regarding the selection of measurement frameworks, the delineation of value-chain boundaries, and the exclusion of complex financed emissions, thereby allowing corporate entities to legally obscure the true magnitude of their carbon liabilities (Hummel & Jobst, 2024; Luque-Vílchez et al., 2023).

The ratification of PSPK 2, echoing the uncompromising strictures of IFRS S2, shatters this interpretative leniency. The ISSB framework mandates the unequivocal disclosure of material climate-related risks and opportunities, demanding absolute gross Scope 1, Scope 2, and Scope 3 greenhouse-gas emissions. Crucially, it strips away methodological ambiguity by compelling the application of the Greenhouse Gas Protocol, unless explicitly overridden by a jurisdictional authority or exchange (GHG Protocol, 2004, 2011; ISSB, 2023b). This constitutes a transition from descriptive environmental reporting to algorithmic climate intelligence.

Furthermore, IFRS S2 and PSPK 2 introduce a revolutionary legal mandate that entirely redefines corporate risk governance: climate-resilience scenario analysis. Issuers are legally commanded to disclose their climate resilience through rigorous scenario modeling that is commensurate with the entity's circumstances. This is not a speculative academic exercise; it is a binding requirement to mathematically connect plausible future climate trajectories (including catastrophic physical hazards and draconian regulatory transition risks) directly to the corporation's strategic business model, future cash flows, and access to capital (ISSB, 2023b; de Villiers et al., 2024).

SEOJK 16 contains no comparably detailed, express statutory mandate for forward-looking climate-resilience scenario analysis. Therefore, an Indonesian issuer operating an extractive coal matrix may perfectly execute a domestic Sustainability Report under OJK rules while simultaneously committing a catastrophic omission under the PSPK 2 framework. By failing to project the financial deterioration of its stranded assets under a 1.5°C global warming scenario, the issuer betrays the primary users of its general-purpose financial reports (existing and potential investors), thereby triggering potential transnational liabilities under the doctrine of corporate constitutionalism (Mezzanotte, 2023; Fox et al., 2023). Compliance with the domestic template, therefore, generates a deceptive illusion of alignment that leaves the corporate veil entirely vulnerable to international securities fraud litigation regarding climate omissions.

The Social Impact Divergence: SEOJK 16's Prescriptive Supremacy

While the ISSB dominates the architecture of climate finance, the epistemological pendulum swings violently back toward the sovereign state when analyzing social sustainability metrics. In this domain, the ISSB's financial-materiality threshold acts as a highly restrictive filter that systematically marginalizes critical human rights and community impacts if they fail to demonstrate a quantifiable short-to-medium-term disruption to enterprise value (Abhayawansa, 2022; Adams & Abhayawansa, 2022). IFRS S1 operates as a general principles-based standard; it does not contain a dedicated, granular social protocol of equivalent detail to its climate counterpart, relying instead on the issuer's judgment to identify material sustainability-related risks and opportunities (ISSB, 2023a; Pesci et al., 2023).

In stark contrast, the sovereign architecture of SEOJK 16 exercises uncompromising prescriptive supremacy. The domestic Indonesian framework expressly and unconditionally lists mandatory disclosures encompassing equal employment opportunity, the eradication of child and forced labor, remuneration equity, surrounding community impacts, and formalized public complaints mechanisms (including specific reporting forms such as F.18, F.20, F.23, and F.24) (OJK, 2021).

This creates a perilous socio-legal inversion. A severe social transgression—for example, the displacement of an indigenous community due to aggressive mining expansion—may be algorithmically categorized as "immaterial" under the PSPK 1 financial lens if the corporation possesses sufficient capital reserves to absorb minor local protests without affecting its global cost of capital (Setia et al., 2024; Ngu & Amran, 2024). Under the ISSB regime in isolation, this localized devastation might legally vanish from the general-purpose financial report. However, under the absolute, polycentric sovereignty of POJK 51 and SEOJK 16, this exact same event triggers a mandatory impact disclosure.

If a corporate board attempts to utilize the PSPK financial-materiality threshold as an excuse to omit these prescriptively mandated social items, they commit an egregious violation of domestic administrative law (OJK, 2017). The differing teleological objectives of the two regimes dictate that a unified corporate data inventory must be engineered to support both the rigid, judgment-free impact disclosures of the state and the highly analytical, financially connected disclosures demanded by global capital markets (Dragomir et al., 2025; Nielsen, 2023). The resolution to this asymmetrical conflict cannot be found in normative interpretation; it requires the deployment of a project-based regulatory technology.

Engineering the Cure: The Genesis of the Four-Step Conflict-Resolution Protocol

Culmination of this apex-tier jurisprudential inquiry fundamentally rejects the passive, descriptive conclusions that plague orthodox legal research. Acknowledging that permanent, parallel dual-reporting is a catastrophic inefficiency that inevitably breeds data duplication, organizational fatigue, and contradictory market signals, this study transitions into the realm of Project-Based Legal Epistemology (Ellickson, 2022; Hummel & Jobst, 2024). To cure the pathological governance-washing and resolve the jurisdictional clash between impact and financial materiality, we construct a mathematically and legally robust blueprint: The Four-Step Conflict-Resolution Protocol.

This protocol acts as the foundational architecture for the forthcoming Academic Compliance Matrix, designed to be seamlessly integrated into the enterprise risk management systems of high-impact issuers. The four foundational pillars of this protocol are articulated as follows:

Step 1: The Establishment of the Mandatory Domestic Floor (The Absolute Sovereign Baseline) The initiation of the compliance sequence strictly forbids the premature application of any financial materiality filter. The protocol mandates that the reporting entity first establishes a comprehensive, non-negotiable domestic floor. This requires the automated ingestion and cataloging of every single disclosure item expressly prescribed by POJK No. 51/POJK.03/2017, SEOJK No. 16/SEOJK.04/2021, and any intersectional sectoral regulations (e.g., specific Ministry of Energy and Mineral Resources mandates for extractive industries) (OJK, 2017, 2021). This floor operates under pure impact-materiality logic; the items are deemed legally significant by the sovereign state a priori, and their disclosure is compulsory regardless of their anticipated effect on the entity's cash flows or access to finance (Abhayawansa, 2022). This step entirely nullifies the risk of domestic administrative sanctions and preserves the fundamental doctrine of polycentric public accountability.

Step 2: The Application of the Financial-Materiality Overlay (The Transnational Capital Filter) Once the mandatory domestic impact inventory is firmly established, the protocol applies the ISSB/PSPK analytical overlay. The entity’s cross-functional governance teams must systematically subject the entire universe of identified sustainability topics (both from the domestic floor and broader stakeholder engagements) to the rigid PSPK financial-materiality test (ISSB, 2023a; IAI, 2025a). The critical legal question transitions from "Does this impact society?" to "Could the omission, misstatement, or obscuration of this sustainability-related risk or opportunity reasonably be expected to influence the decisions of primary users of general-purpose financial reports?" (Jørgensen et al., 2022). For every topic that breaches this threshold, the entity must construct a documented, evidentiary "risk pathway," identifying the specific time horizon (short, medium, long term) and the precise financial channel (e.g., asset impairment, increased cost of capital, operational disruption) through which the sustainability matter will affect the entity’s prospects (Christensen et al., 2021).

Step 3: Algorithmic Dual-Tagging and Boundary Reconciliation (The Jurisprudential Bridge) This step represents the core innovation of the project-based output. To prevent the siloing of data and the illusion of alignment, the protocol mandates an algorithmic dual-tagging taxonomy. Every data point within the corporate inventory must be legally classified into one of three distinct ontological categories: (A) Impact-Only (Domestic Mandatory): Items vital to public accountability but lacking a demonstrable financial-risk pathway. (B) Financial-Only (PSPK/ISSB Mandatory): Forward-looking financial risks (e.g., transition risks of future carbon taxes) that lack an immediate, localized sociological impact. (C) Dual-Materiality Intersection: Topics that satisfy both the sovereign impact requirement and the global financial-relevance test. Crucially, this step forces the entity to execute a rigorous Boundary Reconciliation. Because PSPK 2 requires extensive value-chain (Scope 3) reporting that SEOJK 16 may not strictly enforce, the matrix requires compliance officers to explicitly document and legally justify any divergence in organizational boundaries, measurement methodologies, and reporting timeframes between the two lenses, thereby ensuring absolute traceability and auditability (Nielsen, 2023; Baumüller & Sopp, 2022).

Step 4: Fiduciary Escalation and Assurance-Ready Control Mechanisms (The Constitutional Enforcement) The final phase of the protocol transcends administrative procedure and enters the realm of corporate constitutionalism (Coffee, 2024). Recognizing that materiality determinations are inherently subjective and prone to heuristic biases (optimism bias, status quo bias), the protocol establishes a strict governance escalation mechanism. Any contested materiality judgments—such as a dispute between the HSSE division claiming high social impact and the Finance division claiming low financial relevance—cannot be unilaterally dismissed by lower-level management. They must be legally escalated to the highest echelons of corporate governance: the Board of Directors and the Audit Committee (Luque-Vílchez et al., 2023). The board's final determination must be logged within an internal control system, backed by assurance-ready empirical evidence (Mio, Fasan, & Costantini, 2020). This creates an impenetrable legal shield against future allegations of transnational securities fraud or "governance-washing," proving that the directors exercised their absolute fiduciary duty of care in executing the integrated reporting mandate (Joh, 2025; Mezzanotte, 2023).

Project Based Legal Epistemology: The Architecture of The Aca demic Compliance Matrix

The Methodological Imperative of Regulatory Technology

Within the zenith of transnational jurisprudential scholarship, the articulation of abstract policy recommendations is universally condemned as an obsolete academic exercise. The pinnacle of modern legal epistemology—anchored in the doctrine of Pragmatic Juridical Holism—demands that legal theory undergo an epistemological transubstantiation into a tangible, executable regulatory technology. Consequently, this manuscript does not merely describe the jurisdictional friction between the Indonesian Financial Services Authority (OJK) and the International Sustainability Standards Board (ISSB); it fundamentally resolves this tension through the deployment of Project-Based Legal Epistemology.

To definitively cure the pervasive socio-legal pathology of "governance-washing" and symbolic label adoption observed in early double-materiality adopters, corporate entities require an algorithmic constraint—a rigid Choice Architecture that eliminates heuristic biases and forces cross-functional compliance. This algorithmic constraint is physically realized in this study through the Academic Compliance Matrix. This matrix serves as an indisputable plug-and-play regulatory blueprint, engineered to synthesize the absolute sovereign mandates of POJK No. 51/POJK.03/2017 with the relentless financial-materiality overlay of PSPK 1 and PSPK 2. By bridging the chasm between Das Sollen (the legal text) and Das Sein (corporate operational reality), the matrix operates as both a sophisticated internal auditing mechanism and an impenetrable legal shield against transnational securities fraud litigation.

Structural Blueprint of the Intersectional Matrix

The Academic Compliance Matrix is meticulously constructed upon the Four-Step Conflict-Resolution Protocol engineered in the preceding analysis. It translates the theoretical "asymmetrical incomplete overlap" into a highly structured, visual taxonomy that dictates board-level fiduciary execution. The architecture of the matrix is divided into four interdependent legal vectors:

Vector Alpha (The Absolute Sovereign Baseline): This column operationalizes the mandatory domestic floor, indexing the prescribed socio-environmental disclosures mandated by SEOJK No. 16/SEOJK.04/2021 (e.g., K3L/HSSE incidents, community grievances, equal employment). These items are governed by impact materiality and are legally non-negotiable under Indonesian administrative law, regardless of their immediate financial resonance.

Vector Beta (The Transnational Capital Filter): This column applies the PSPK/ISSB financial-materiality test. It forces the entity to legally determine whether the omission or misstatement of the specific sustainability matter could reasonably influence the decisions of primary capital providers. This necessitates the documentation of specific risk pathways, such as Scope 3 emissions exposure or transition risks identified via climate-resilience scenario analysis.

Vector Gamma (Algorithmic Dual-Tagging & Boundary Reconciliation): This column represents the jurisprudential bridge. It demands the explicit categorization of each data point as Impact-Only, Financial-Only, or Dual-Material. Furthermore, it legally compels the reconciliation of organizational and value-chain boundaries, ensuring that the descriptive data submitted to the OJK aligns with the quantitative metrics submitted to global investors.

Vector Delta (Fiduciary Escalation & Constitutional Enforcement): The ultimate failsafe of the matrix, this column dictates the governance escalation pathway. It legally mandates that contested materiality judgments or severe boundary discrepancies be elevated to the Board of Directors or the Audit Committee, supported by assurance-ready internal controls. This translates administrative compliance into absolute corporate constitutionalism and fiduciary duty.

Table 1. The Dual-Regime Academic Compliance Matrix (Project-Based Regulatory Technology)

Vector Alpha: Domestic Mandatory Floor (POJK 51 / SEOJK 16 Impact)	**Vector Beta: ISSB / PSPK Financial Materiality Overlay (IFRS S1/S2)**	**Vector Gamma: Algorithmic Dual-Tagging & Boundary Reconciliation**	**Vector Delta: Fiduciary Escalation & Assurance-Ready Controls**
A1. Occupational Health, Safety, and Environment (HSSE/K3L) SEOJK 16 dictates mandatory disclosure of environmental performance and operational safety metrics, treating localized incidents as a priori material impacts.	B1. Asset Impairment & Operational Risk Pathway Are HSSE incidents capable of disrupting operational continuity, triggering severe litigation, or accelerating asset stranding, thereby affecting future cash flows?	Tag: Dual- Material Reconciliation: The entity must align the localized accident rate reported to OJK with the quantified financial provisions for litigation and remediation disclosed under PSPK 1.	Escalation: Audit Committee Ensure internal audit verifies the financial valuation of environmental liabilities before public disclosure. Prevents discrepancies between sustainability and financial reports.
A2. Surrounding Community Impacts & Grievances (Forms F.18, F.20, F.23, F.24) Express prescription of community complaints and human rights impacts resulting from extractive or industrial operations.	B2. License to Operate & Reputational Capital Does the localized community grievance possess the magnitude to delay project expansion, revoke operational licenses, or increase the cost of capital?	Tag: Conditional (Impact-Primary) Reconciliation: If deemed financially immaterial, it retains an “Impact-Only” tag and is disclosed strictly to satisfy SEOJK 16. If escalating to license revocation, it triggers PSPK 1 disclosure.	Escalation: Board Of Directors The Board must formally ratify the decision that a specific community grievance does not pose a systemic financial risk, thereby protecting against future transnational fraud claims.
A3. General Emissions Intensity (Descriptive) SEOJK 16 requires the amount and intensity of emissions by type but provides high interpretative latitude regarding the exact boundaries of value-chain emissions.	B3. Absolute Gross Scope 1, 2, and 3 Emissions (GHG Protocol) PSPK 2 mandates strict algorithmic intelligence: absolute gross emissions across the entire value chain, utilizing the GHG Protocol standard.	Tag: Financial-Dominant (Dual) Reconciliation: The entity must explicitly state that the descriptive emissions data provided for SEOJK 16 is mathematically derived from the rigorous Scope 3 mapping mandated by PSPK 2.	Escalation: External Assurance Methodological assumptions regarding Scope 3 data collection from third-party suppliers must be validated by independent assurance to mitigate the risk of algorithmic misrepresentation.
A4. Generic Climate Reduction Efforts Broad, descriptive narratives detailing the	B4. Climate-Resilience Scenario Analysis PSPK 2 commands forward-looking,	Tag: Financial-Only (Forward-Looking) Reconciliation: Aspirational narratives (OJK) must not contradict the	Escalation: Chief Risk Officer / Board The Board must integrate the climate-resilience scenarios into the overarching

corporation's aspirational efforts to reduce its environmental footprint.	commensurate scenario modeling connecting plausible climate trajectories to the strategic business model and access to finance.	mathematical transition risks calculated under the 1.5°C or 2°C scenarios (PSPK 2). Boundaries must integrate future time horizons.	Enterprise Risk Management (ERM) framework, elevating sustainability from a CSR function to a core fiduciary duty.

Integrated Governance Implications Fiduciary Escalation

Eradicating Governance-Washing through Algorithmic Accountability

The deployment of the Academic Compliance Matrix represents a terminal disruption to the era of superficial corporate sustainability. By operationalizing this matrix, the corporation mathematically eradicates the sociological pathology of governance-washing. Previously, corporate compliance officers possessed the heuristic latitude to selectively emphasize favorable financial metrics (e.g., investment in renewable energy) while legally burying devastating localized impacts (e.g., toxic waste runoff) by exploiting the definitional chasm between OJK and ISSB standards.

The matrix structurally annihilates this latitude. Vector Gamma (Algorithmic Dual-Tagging) acts as an uncompromising jurisprudential bridge, forcing the entity to declare its epistemological stance on every single sustainability topic. If an extractive mining conglomerate attempts to classify catastrophic ecological degradation as "financially immaterial" under PSPK 1 to hide it from global investors, Vector Alpha ensures it remains hyper-visible under the mandatory OJK floor. Conversely, if the entity attempts to use the simplified SEOJK 16 emissions template to obscure massive Scope 3 value-chain liabilities, Vector Beta legally compels the deployment of the GHG Protocol and climate-resilience scenario analysis. The matrix ensures that the "asymmetrical incomplete overlap" is continuously reconciled within a singular, auditable, and immutable digital reporting taxonomy, thereby aligning with the highest tenets of Techno-Regulatory Epistemology and algorithmic justice.

The Fiduciary Security Doctrine and Board Liability

Within the elite discourse of Q1 corporate law, the implications of this matrix transcend mere administrative reporting; they strike at the absolute core of the Fiduciary Security Doctrine. The transition from voluntary Soft Law guidelines to the Hard Law regime of PSPK 1 and PSPK 2 fundamentally redefines the legal exposure of the Board of Directors. Sustainability reporting is no longer a peripheral public relations exercise; it has been integrated into the constitutional architecture of corporate governance.

Under this new transnational legal paradigm, the failure to rigorously execute the Academic Compliance Matrix constitutes a direct breach of the fiduciary duty of care and loyalty. Should a Board of Directors unilaterally prioritize the ISSB's investor-centric financial materiality while deliberately omitting the prescriptive social impact mandates of POJK 51, they invite immediate administrative sanctions, reputational destruction, and potential operational paralysis orchestrated by the sovereign state.

Conversely, if the Board rigidly adheres only to the domestic SEOJK 16 template, neglecting the sophisticated climate-resilience scenario analyses and Scope 3 quantifications demanded by PSPK 2, they construct an illusion of compliance that masks systemic financial vulnerabilities. When these hidden transition risks inevitably materialize—resulting in stranded assets or a catastrophic repricing of the corporation's debt—global institutional investors will weaponize the omitted PSPK data to launch transnational securities fraud litigation, market manipulation claims, and derivative suits. Vector Delta of the matrix provides the ultimate legal fortification against this existential threat. By mandating that all contested materiality judgments be escalated to the Audit Committee and backed by assurance-ready internal controls, the matrix establishes a documented evidentiary trail of rational, polycentric risk management, shielding the corporate veil from retroactive legal perforation.

Transnational Meta-Law and the Horizon of Capital Market Resilience

The broader jurisprudential impact of this project-based intervention aligns perfectly with the Theory of Polycentric Sovereignty and Transnational Meta-Law. Indonesia's adoption of the ISSB baseline via PSPK 1 and PSPK 2 does not signify the surrender of national sovereignty to global capital; rather, it marks the genesis of a networked, polycentric regulatory ecosystem. The Academic Compliance Matrix functions as the functional syntax of this Meta-Law, seamlessly translating the localized, socio-ecological imperatives of the Indonesian state into the universally standardized, quantitative risk language demanded by global capital markets.

Ultimately, this methodological fusion generates a regulatory architecture that actively fortifies the resilience of the global capital market. By legally forcing the interoperability of impact and financial materiality, the matrix ensures that institutional investors receive a geometrically complete picture of enterprise value—one that correctly prices both immediate cash-flow disruptions and the long-term, systemic degradation of the socio-ecological baseline. This is not merely an exercise in accounting harmonization; it is a masterclass in Pragmatic Juridical Holism, proving that sophisticated legal engineering can simultaneously protect the fundamental human rights of localized stakeholders while preserving the macroeconomic stability of the transnational financial architecture.

Conclusions

The contemporary architecture of corporate sustainability reporting has irrevocably crossed the Rubicon, permanently departing from the obsolete, voluntary paradigms of corporate social responsibility (CSR) and entering the hyper-regulated, highly scrutinized domain of transnational hard law (Christensen, Hail, & Leuz, 2021; Coffee, 2024). This jurisprudential evolution, catalyzed by the Republic of Indonesia's transition from the strictly impact-oriented OJK regime (POJK No. 51/POJK.03/2017 and SEOJK No. 16/SEOJK.04/2021) toward the globally dictated, investor-centric financial-materiality baseline of the ISSB (PSPK 1 and PSPK 2), precipitates a profound epistemological crisis. Orthodox normative legal scholarship has fundamentally failed to decode this crisis, mistakenly diagnosing the friction between these dual reporting regimes as an irreconcilable, mutually exclusive statutory contradiction (Adams & Mueller, 2022; Jørgensen, Mjøs, & Pedersen, 2022).

Shattering this archaic normative illusion, this manuscript executes a definitive methodological fusion—integrating Socio-Legal Analysis with Project-Based Legal Epistemology—to unveil the absolute legal reality: the coexistence of these regimes constitutes an "asymmetrical incomplete overlap" (Hathaway & Shapiro, 2023). The OJK regulatory apparatus constructs an inescapable, sovereign-mandated impact-disclosure floor designed to enforce polycentric public accountability, compelling disclosures on localized ecological degradation and community human rights regardless of their immediate financial resonance (OJK, 2017, 2021). Conversely, the ISSB/PSPK architecture imposes a sophisticated financial-materiality overlay, demanding algorithmic climate intelligence, Scope 3 value-chain quantifications, and forward-looking climate-resilience scenario analyses aimed exclusively at safeguarding global enterprise value (ISSB, 2023a, 2023b).

The teleological divergence between these two paradigms breeds a highly toxic sociological pathology within corporate boardrooms: governance-washing (Correa-Mejía et al., 2024). Issuers confronted with this dual labyrinth frequently exploit regulatory ambiguities to engage in symbolic compliance, selectively disclosing hyper-financialized climate metrics to appease international capital markets while systematically obfuscating devastating localized social impacts, thereby treating domestic administrative law as a perfunctory checklist (Dragomir et al., 2025; Setia et al., 2024).

To annihilate this heuristic evasion, this study deploys the ultimate weapon of modern legal engineering, anchored in the philosophy of Pragmatic Juridical Holism (Nourse & Shaffer, 2026). We postulate that a legal theory is exclusively validated by its capacity to materialize into functional, executable regulatory technology. Consequently, this research engineered a prescriptive Four-Step Conflict-Resolution Protocol, physically manifested as the Academic Compliance Matrix.

This matrix enforces absolute algorithmic accountability. It mandates the establishment of the domestic mandatory floor, applies the transnational capital filter, algorithmically dual-tags every sustainability data point (Impact-Only, Financial-Only, Dual-Material), and legally compels the reconciliation of contradictory reporting boundaries (Baumüller & Sopp, 2022). Most crucially, it constitutionalizes the compliance process by escalating all contested materiality judgments directly to the Board of Directors and the Audit Committee. This escalation is fortified by assurance-ready internal controls, thereby transforming the matrix into an impenetrable legal shield against both domestic administrative sanctions and catastrophic transnational securities fraud litigation (Joh, 2025; Mezzanotte, 2023). Compliance is no longer an administrative burden; it is the zenith of the corporate fiduciary duty.

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