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Comments on the Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information by the ISSB of the IFRS Foundation

The Japanese Institute of Certified Public Accountants (hereinafter the "JICPA," "we," "our," and "us") appreciates being given an opportunity to comment on the Exposure Drafts published by the International Sustainability Standards Board (hereinafter the "ISSB") in March 2022.

The JICPA supports the direction of developing consistent sustainability reporting standards from the perspectives of the growing importance of non-financial information in the capital markets and the necessity of further efforts toward sustainable development. In Japan and globally, more entities have implemented disclosure practices for non-financial information, and the information needs of investors have been growing. The JICPA strongly hopes that the IFRS Foundation's work on setting out not only accounting standards but also sustainability reporting standards will help create a high-quality and consistent corporate reporting system as a whole.

From that point of view, we welcome the publication of the ISSB's two Exposure Drafts of standards for the disclosure of sustainability-related financial information.

1. Establishing the status as global baseline of sustainability reporting standards

We agree with the ISSB's direction of establishing the globally consistent disclosure of sustainability-related financial information and the building blocks approach proposed to achieve the direction. Current status of sustainability reporting varies between countries and regions. We consider it <u>important for the ISSB to clarify a fundamental policy for providing a universal foundation</u> that reflects such variances <u>and has the status as a globally applicable baseline</u>.

We consider it imperative that IFRS Sustainability Disclosure Standards have the following characteristics so that the standards to be developed by the ISSB serve as a global baseline.

(1) IFRS Sustainability Disclosure Standards meets global common needs, that is, IFRS Sustainability Disclosure Standards are designed to help capital market participants assess enterprise value;

(2) The level and volume of disclosure requirements are neither excessive nor insufficient, and the requirements appropriately contain information necessary to meet the needs of users of information in the capital markets;

(3) Individual disclosures and metrics are not exclusively related to policies, regulations and practices of certain countries and regions, but are identified and defined in a broad and adaptable way;

(4) IFRS Sustainability Disclosure Standards become a foundation that appropriately refers to industry- and region-based measurement standards; and

(5) IFRS Sustainability Disclosure Standards is designed on the assumption that reporting practices develop on an ongoing basis and that the standards are developed accordingly.

From the perspective of achieving a long-term vision—the IFRS Sustainability Disclosure Standards establish the status as sustainability disclosure standards to be globally accepted, not prevailing in certain regions, and enable consistent sustainability disclosures across the capital markets—, we believe an effective approach is to establish a foundation of standards by sharing basic principles and disclosure requirements in the initial phase of the standard development process, and to expand and enhance requirements step by step according to enhancement of regulations and development of sustainability disclosure practices in jurisdictions. Many of the requirements provided for especially in the body of the standards of the Exposure Drafts are appropriate as elements constituting such standards. However, as we will comment later in "4. Industry-based disclosure topics and metrics," we consider it appropriate that the requirements concerning the details of industry-based metrics will be included in the standards according to future development.

2. Allocation of the roles of the global standard-setting body and jurisdictional standard-setting bodies, and collaboration among these bodies

From the perspectives of clarifying the status and roles of IFRS Sustainability Disclosure Standards as a global baseline and enhancing the effectiveness of them, we propose that the ISSB clarify the relationship between global standards (i.e., IFRS Sustainability Disclosure Standards) and country- and region-based standards (e.g., jurisdictional standards set out in Japan, EU, the U.S.) and the idea behind how entities should use these standards in implementing reporting practices.

We consider that global standards and jurisdictional standards for sustainability disclosures should not be mutually exclusive but rather should be mutually complementary. If global standards and jurisdictional standards are developed respectively and material differences exist between these standards, it would fail to ensure comparability between entities and meet the objectives of IFRS Sustainability Disclosure Standards. It is imperative to avoid such situations, and in this light, we consider that a collaborative approach is necessary for the global standard-setting body and country- and region-based standard-setting bodies to enable reporting practices that reflect the situations of sectors and regions in which entities operate.

In this collaborative approach, the global standard-setting body (i.e., the ISSB) is expected, based on a principles-based approach, to set out requirements concerning the objectives of reporting, basic principles, the contents of primary disclosure information, materiality and other general features, primary sector-based disclosure topics, metrics that can be standardized internationally, and other matters as a global baseline; and jurisdictional standard-setting bodies are expected to reflect relevant regulations and sustainability-related metrics requirements of their countries and regions as well as science-based evidence, and to set out and add a detailed calculation method for greenhouse gas emissions, the details of industry-based metrics reflecting regional factors, detailed climate risk scenarios, and other matters. We strongly hope that the ISSB and country-based standard-setting bodies strengthen their efforts to collaborate with each other to set out standards so as to especially avoid different requirements concerning the same matters being set out between the global standards and jurisdictional standards.

3. Ensuring the clarity and consistency of standard architecture

We consider that a set of standards for the disclosure of sustainability-related financial information should articulate the status of each standard and the area of requirements, ensure mutual consistency between each of the standards, and exclude unnecessary duplication. The published *[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* (hereinafter the "Draft S1") and *[Draft] IFRS S2 Climate-related Disclosures* (hereinafter the "Draft S2") will be the basis for a set of standards for the disclosure of sustainability-related financial information to be developed, thus they need to be designed considering future standard architecture.

We hope that the following improvements will be made from the perspective of ensuring the clarity and consistency of standard architecture.

(1) Requirements for governance and risk management out of the four core elements of the climate-related standards overlap with those in the general requirements. If other thematic standards contain similar requirements in the future, it may further increase complexity. We consider that as a general rule, thematic standards should only provide requirements that complement those in the general requirements.

(2) We acknowledge that industry-based disclosure topics and metrics presented in Appendix B of the Draft S2 have relevance to climate change, such as the use of water, waste, land and other

resources, but many of such disclosure topics and metrics are considered to belong to sustainability themes other than climate change. We therefore consider that a basic policy needs to be established to decide on how to address disclosure topics and metrics that have relevance to more than two themes in thematic standards and industry standards and also consider that the S2 Standard needs be organized based on the basic policy.

(3) In the Draft S2, entities are required to refer to industry-based disclosure topics to identify significant sustainability-related risks and opportunities. We consider that articulating sustainability theme-based key topics and industry-based key topics in standards is a very effective approach from the perspective of ensuring both relevance and comparability at the same time. However, disclosure topics are only presented in industry-based metrics in Appendix B of the Exposure Draft S2, and are not organized comprehensively in the main body of the standard. Given that disclosure topics are the key for deciding on disclosure information, we consider it imperative to specifically articulate disclosure topics in the main body of the thematic standards. We believe that organizing disclosure topics across sectors in industry standards into the overarching disclosure topics and including such topics in thematic standards will ensure coherence between thematic standards and sector-based standards and clarity in the standard architecture.

4. Industry-based disclosure topics and metrics

We understand that the background of the Exposure Drafts proposing industry-based requirements for disclosure topics and metrics is that factors causing significant risks and opportunities related to sustainability including climate change greatly differ between industries. We agree with (i) the necessity of ensuring the disclosure of information that reflects the characteristics of industries to which entities belong and (ii) the approach to classify industries and call for disclosing metrics that reflect industry-based disclosure topics. However, defining detailed industry-based metrics in standards could make the standards relatively rules-based one, which results in an inherent risk of undermining the value relevance of disclosure information.

We are aware that there is an issue as to whether industry-based requirements in Sustainability Disclosure Standards should provide only disclosure topics or provide both disclosure topics and metrics. In general, climate-related transition risks are often associated with the frameworks of jurisdictional-level policies, regulations and others, thus industry-based metrics highly relevant to enterprise value (significant risks and opportunities) often differ between jurisdictions. While it is easy for some industries, like the airline and shipping sectors, to globally standardize metrics that represent transition risks, it is difficult for many sectors to globally standardize and define certain metrics that reflect the diversity of emission control policies (decarbonization pathways). We have confirmed that industry-based metrics in the Draft S2 still include many US-specific metrics, and understand that the difficulty of internationalizing metrics is attributable to the limitation of metric standardization because there are various climate-related regulations and labeling systems.

With this understanding, we propose that requirements in thematic standards be limited to disclosure topics, not individual industry-based metrics, at the time of the initial issuance of standards. However, we consider it appropriate to present a list of industry-based metrics as a group of metrics that entities shall consider. For the development of industry standards, we propose taking into comprehensive consideration the architecture of a standard for industry-based metrics (including a structure of global requirements and country- and region-level requirements), the granularity and rigor of requirements, and the approach for conglomerates to choose and disclose metrics, and adopting a phased approach to develop standards in the future, in conjunction with the accumulation of disclosure practices that comply with the standards after the initial issuance.

5. Approach to materiality

We agree with the proposed basic approach to materiality. The key point of the approach proposed in the Exposure Draft is narrowing down disclosure information with a two-step approach—identifying significant risks and opportunities and disclosing material information. Identifying significant risks and opportunities in particular is a key process to determine what material information entities should disclose. However, the Exposure Draft does not specify the definition of significant risks and opportunities and the important points of the identification process thereof and the assessment of significance. We therefore strongly hope that they are specifically described in standards and guidance.

We think that the two-step approach above is designed in a consistent way to the two-step approach—identifying key matters and disclosing material information—in the Exposure Draft of Practice Statement *Management Commentary* (hereinafter the "MC Practice Statement") published by the International Accounting Standards Board (hereinafter the "IASB"). However, different terminologies "significant risks and opportunities" and "key matters" are used in these two-step approaches. It is important to ensure consistency between standards, especially regarding terminology, thus we strongly hope that the ISSB and the IASB work closely together. We believe this is an essential effort to be made in the expectation of developing future integrated reporting that connects IFRS Accounting Standards with IFRS Sustainability Disclosure Standards.

Since deciding on reporting matters may rely heavily on what matters an entity identifies material, we consider that the entity's core report, not an external reference, needs to provide aggregated disclosures on the system, policy and consequences of its materiality decision, including the following:

(1) Disclosure of policies for identifying significant risks and opportunities and deciding on material information; and

(2) Disclosure of processes of identifying significant risks and opportunities and deciding on material information, which include involvement of those charged with governance

Possible approaches to ensure the reliability of materiality assessment by entities are to provide an assurance for the disclosure of a materiality assessment process or for the consistency between identified significant risks and opportunities and general disclosure information. From the perspective of increasing the feasibility of providing such assurance, the aforementioned disclosures are needed.

6. Connectivity with financial reporting and management commentary

To help capital market participants assess enterprise value, we consider it critically important to secure connectivity between the disclosure of financial statements and the disclosure of sustainability-related financial information. We believe the value of the IFRS Foundation's work on sustainability reporting and its role lies in this point.

We also consider that the connectivity between sustainability disclosures and management policy, business model, strategies, MD&A and governance, which means management commentary, is important. To this end, we consider it imperative to have connectedness between the MC Practice Statement and IFRS Sustainability Disclosure Standards.

We heartily welcome the IFRS Foundation's amazing progress toward cooperation between the IASB and the ISSB and the direction presented to work toward building a corporate reporting framework that incorporates financial statements and sustainability disclosures based on the International Integrated Reporting Framework. We strongly hope that both the IASB and the ISSB will make necessary arrangements and agree on key terminology and definitions that may define a reporting concept, the basic principles of reporting materiality and other information, primary reporting elements (i.e., pillars in IFRS Sustainability Disclosure Standards), and a basic approach to reporting business performance (metrics) when finalizing IFRS Sustainability Disclosure Standards so as to have a consistent framework with the MC Practice Statement (or an alternative framework).

From the perspective of offering assurance engagements, it is essential to establish coherent and connective reporting standards for the comprehensive corporate reporting architecture. It is highly expected that audit of the financial statements and assurance of the disclosure of sustainability-related financial information are provided in an integrated way in the future. From this point of view as well, we hope that such reporting standards are developed with connectivity between financial reporting (financial statements and management commentary) and sustainability reporting.

7. Core report and external references

From the perspective of avoiding information overload in an entity's annual report, we agree with the policy for allowing the external references. However, relying excessively on external references may cause material sustainability information to not be disclosed in the core report and information to disperse across multiple reporting, which could prevent from recognizing the overall sustainability reporting.

From the perspective of ensuring the quality of the disclosure of material sustainability-related financial information, we consider it critically important to position the regulatory annual report for investors as the core report, and propose that the S1 Standard require reporting entities to identify core report of sustainability disclosures prepared in accordance with the ISSB's standards. From the perspective of achieving the objectives of the IFRS Foundation as well, we expect that the ISSB will clarify a regulatory annual report as the core report in principle.

In addition, from the perspectives of fulfilling the needs of users and achieving reporting objectives, we consider it undesirable that particularly material information is referred to external reporting and not included in the core report. We therefore consider it imperative that the ISSB's standards include a requirement specifying what information should be included in the core report. We hope that the ISSB will clarify the necessity of providing especially the following information in the core report. (The pieces of information listed below are considered to be minimum necessary information to be included and are not an exhaustive list of information. We expect that the ISSB will examine and finalize what information should be included in the core report.)

(1) sector(s) to which an entity belongs;

(2) structure of disclosure documents and mediums;

(3) what standards the entity complies with for disclosure (IFRS Sustainability Disclosure Standards and primary measurement criteria);

(4) scope of reporting (entities to report on a consolidated basis and the entity's value chain);

(5) governance, policy and process of the entity's materiality assessment;

(6) identified significant risks and opportunities; and

(7) primary disclosure information required for core content

8. Ensuring assurability

We believe the credibility of sustainability information is important, and therefore consider that a mechanism needs to be built to ensure disclosed sustainability information has credibility, in conjunction with the development of disclosure standards. We believe that independent assurance is a highly effective means of ensuring the credibility of information, and therefore consider that the ISSB's standard-setting approach should be designed in a way that ensures the assurability of sustainability information.

Sustainability-related financial information required by IFRS Sustainability Disclosure Standards constitutes the four core content areas of governance, strategy, risk management, and metrics and targets. The information of these areas includes information with different characteristics such as quantitative and qualitative information, historical and forward-looking information, and factual information and information about an entity's perception and assessment. The nature of credibility required differs between, for example, factual information and information about an entity's perception and assessment. In ensuring the assurability of information, we consider it important to categorize information according to such characteristics and define the nature of credibility required for disclosure information based on such categories.

We believe that since information about performance metrics is quantitative information, it has the highest level of assurability and is the area with most growing needs for assurance. We also believe that factual information about structure and processes among governance and risk management information has a high level of assurability. On the other hand, we understand that there is a need for enhancing the credibility of qualitative information about an entity's identification of significant risks and opportunities and its outlook of financial implications, for example, whether such information is determined based on objective evidence and process or is unbiased information representing management and board of directors' comprehensive view. We consider that particularly the requirements for strategy and metrics and targets in the proposed S2 Standard are effectively designed in terms of addressing such need and are a good starting point for further development of practices. The JICPA has also been considering the way assurance should be, and considers that ongoing efforts are needed to enhance assurability in disclosure standards while pioneering practices of disclosure and assurance are accumulated.

We hope that the ISSB will additionally work on the following points from the perspective of enhancing assurability. Please see each of our comments for more details about the points.

(1) The main body of thematic standards should articulate overarching disclosure topics that an entity should take into account when identifying significant risks and opportunities (see No. 4 above);

(2) General requirements and thematic standards should include the definition of significance in identifying significant risks and opportunities and guidance to identify such risks and opportunities (including points of attention) (see No. 5 above);

(3) There should be a requirement to disclose its policies and processes for identifying significant risks and opportunities and materiality assessment (including the involvement of those charged with governance) (see No. 5 above);

(4) Consistency of IFRS Sustainability Disclosure Standards and management commentary should be ensured with standards (and their guidance) to be developed in the future (see No. 6 above);

(5) Mandatory disclosure should be included in core disclosure reporting, and standards should articulate what information should be included in such reporting (see No. 7 above); and

(6) More specific guidance should be provided for an entity to understand what information it should capture and measure to disclose its value chain information (see our response to Question 1 for the Draft S1)

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

Question 1—Overall approach
The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it. Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value. (a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer? (b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not? (c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 *Climate-related Disclosures*? Why or why not? If not, what aspects of the proposals are unclear? (d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

Our comment

(a) We consider that this standard states clearly that an entity would be required to disclose material information about all of the significant sustainability-related risks and opportunities.

(b) We agree that the Draft S1 and the Draft S2 are generally designed to require an entity to disclose information useful for the primary users of general purpose financial reporting to assess enterprise value and decide whether to provide resources to the entity as stated in the proposed objective in Paragraph 1. However, as we commented on the Exposure Draft, we consider that some material modifications need to be made.

From the perspective of providing useful information, we consider that additional work needs to be done on the following points.

(1) providing a guidance on approach to the identification of significant sustainability-related risks and opportunities, particularly on how to define and assess significance;

(2) articulating general disclosure topics in the main body of thematic standards (the S2

Standard and standards to be developed in the future), and linking such topics with industry-based metrics; and

(3) ongoing consideration of requirements for industry-based metrics (excluding these requirements at the initial phase and making radical improvements to enhance suitability)

(c) We consider that the relationship between the S1 Standard and the S2 Standard is clear.

(d) From the perspective of enhancing the assurability of disclosure information, we consider that additional work needs to be done on the following points.

Characteristics and assurability of disclosure information

Sustainability-related financial information required by this standard constitutes the four core content areas of governance, strategy, risk management, and metrics and targets. We consider the characteristics of information to be important to examine the assurability of each information and an approach of assurance. Based on our discussions, the characteristics of sustainability-related financial information can be organized as follows:

- quantitative information: metrics and targets mainly constitute figures and numbers. Criteria are set out for measuring many of the metrics with some exception such as criteria for measuring the amounts of assets or business activities vulnerable to climate-related risks;
- qualitative information: governance, strategy, and risk management mainly constitute narrative information (qualitative information). While governance and risk management constitute factual information on an entity's structure and processes among others, strategy mainly constitutes information on the entity's perception of the external environment, the financial effects of risks and opportunities, a resilience assessment, and others; and
- timeframe: strategy and targets include forward-looking information, and governance, risk management, and metrics mainly constitute the historical information

We believe that since performances metric is historical quantitative information, it has the highest level of assurability and is the area with most growing needs for assurance. We also believe that factual information about structure and processes among governance and risk management information has a high level of assurability.

On the other hand, we understand that there is a need for enhancing the credibility of qualitative information about an entity's perception of significant risks and opportunities and its outlook of financial effects, for example, whether such information is determined based on objective evidence and process or is unbiased information representing management and board of directors' comprehensive perception. We consider that particularly the requirements for strategy and metrics and targets in the proposed S2 Standard are effectively designed in terms of addressing such need and are a good starting point for further development of practices. The JICPA has also been considering the way assurance should be, and considers that ongoing efforts are needed to enhance assurability in disclosure standards while pioneering practices of disclosure and assurance are accumulated.

Scope of organizations to be reported and assurability

In the Exposure Draft, the scope of reporting entity is designed on the assumption of consistency with the disclosure of the financial statements. Including a requirement for the scope of reporting entity may improve the issue that the scope of organizations differs in the current sustainability reporting practices.

The Exposure Draft also contains requirements on the entity's value-chain, but we are concerned that guidance on how to capture and measure information on the entity's value chain may not be sufficiently provided. In light of enhancing assurability of information, it is desirable to categorize value-chain information according to the characteristics of value chain-related information and provide guidance on how to capture and measure the information based on such categories.

Our proposal of how value chain information should be organized according to its characteristics

Category of value chain-related information	Example	Who captures and measures information
Overview, details and results of how the reporting entity monitors its business partners' compliance status	Human rights due diligence	Reporting entity
External body's estimate of performances	Measurement of Scope 3 based on the estimate	Reporting entity
Information on performances captured by an external body	Scope 3 emissions performance	External organization

Our proposal of improvements to standards to enhance assurability

<u>We hope that the ISSB will additionally work on the following points from the perspective of enhancing assurability</u>. Please see each of our comments for more details about the points.

- The main body of thematic standards should articulate overarching disclosure topics that an entity should take into account when identifying significant risks and opportunities;
- General requirements and thematic standards should include the definition of significance in identifying significant risks and opportunities and guidance to identify such risks and opportunities (including points of attention);
- There should be a requirement to disclose its policies and processes for identifying significant risks and opportunities and materiality assessment (including the involvement of those charge with governance);

- Consistency of IFRS Sustainability Disclosure Standards and management commentary should be ensured with standards (and their guidance) to be developed in the future; and
- Regulatory annual report should be identified as the core disclosure report, and standards should articulate what information should be included in the report.

Question 2—Objective (paragraphs 1–7)
The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value. Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information. Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability-related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements. Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets. The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value. (a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not? (b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

Our comment

(a) We consider that the disclosure objective is clear, which is to provide a sufficient basis for users of information to assess the implications of sustainability-related risks and opportunities on enterprise value.

(b) We consider that the definition of 'sustainability-related financial information' in Appendix A is clear. However, as for the later part of the definition "to assess the resources and relationships on which an entity's business model and strategy for sustaining and developing that model depend," we do not think the phrase "for sustaining and developing that model" is necessary because the meaning of the phrase is included in and understandable with the immediately preceding phrase "business model." It is desirable to make the definition as clear and simple as possible.

In addition, information about the entity's "reputation" is stated as a piece of information that should be included in sustainability-related financial information in Paragraph 6 (c) of the Draft S1, but it does not sound right to us. "Performance" and "prospects" stated in this item are included in the core content of the Draft S1, but we consider that "reputation" should not be included in this item given that reputation is not designated as a piece of information to be disclosed.

Question 3—Scope (paragraphs 8–10)
Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures. The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction's GAAP (so with IFRS Accounting Standards or other GAAP). Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

Our comment

We agree that sustainability standards can be applied by reporting entities even if their financial statements are not prepared and disclosed in accordance with IFRS Accounting Standards.

Question 4—Core content (paragraphs 11–35)
The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates. This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well-established work of the TCFD. **Governance** The Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be: to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant

sustainability-related risks and opportunities.

Strategy

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be:

> to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.

Risk management

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be:

> to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.

Metrics and targets

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be:

> to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

(a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

Our comment

Business model

- We think "strategy", one of the core content areas, should be "business model and strategy".
- The proposed IFRS Sustainability Disclosure Standards are based on the recommendations of the TCFD, but considering that an entity's business model (i) is of significant importance for the assessment of enterprise value, (ii) is a piece of information that should become a node to ensure the value relevance of sustainability information, we consider business model should be included as a primary core content element. Since the definition of 'sustainability-related financial information' in Appendix A of the Exposure Draft mentions an entity's business model, we can acknowledge that information about the entity's business model

plays an important role in understanding significant sustainability-related risks and opportunities.

The status of sustainability in an entity's management strategy

- There is a requirement for disclosing the effects of sustainability and climate change on an entity's management strategy. A requirement for disclosing the status of sustainability in the entity's management strategy should be added.
- We consider that a requirement for disclosing an entity's business model and strategy should be provided for in the MC Practice Statement (or alternative document), and strongly hope that a disclosure requirement consistent with such requirement will also be included in IFRS Sustainability Disclosure Standards.

Question 5—Reporting entity (paragraphs 37–41)
The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements. The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as: • its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain; • the assets it controls (such as a production facility that relies on scarce water resources); • investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and • sources of finance. The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate. (a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why? (b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why? (c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

Our comment

(a) We agree with this proposal.

From the perspective of helping users of information assess a reporting entity's significant sustainability-related risks and opportunities, we consider that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements. Consistency in the scope of reporting entity is also important from the perspective of helping users have the financial statements and sustainability-related financial information in a coherent and connective manner.

(b) We agree with the necessity of including information related to a reporting entity's significant risks and opportunities along its value chain in disclosures from the perspective of providing users with information necessary for them to assess the significant sustainability-related risks and opportunities.

We consider that the value chain information (e.g., business partners' labor practices and greenhouse gas emissions) the reporting entity is required to disclose covers its perception of risks and opportunities along its value chain and the information about its strategy for addressing them and the outcome thereof although the value chain information primarily belongs to such organizations outside the reporting entity. The value chain information is the information outside the scope of the reporting entity, and should be explained separately from the paragraphs of the reporting entity in the S1 Standard.

The reporting entity may collect information beyond its control to prepare value chain information in some cases, we therefore consider it imperative to accumulate practices and establish shared information infrastructure in order for the reporting entity to assess risks and opportunities and collect reliable information in a cost-effective way. We expect that the ISSB will develop guidance on the degree of accuracy and completeness that the reporting entity needs to ensure when collecting information beyond its control and on the use of estimates when sufficient data is not available.

(c) We agree with the proposed requirement because we consider it imperative to identify the related financial statements from the perspective of helping users have the financial statements and sustainability-related financial information in a coherent and connective manner.

Question 6—Connected information (paragraphs 42–44)
The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements.

(a)	Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?
(b)	Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

Our comment

(a) We do not think the requirement on connected information is clear enough because it does not specify requirements on what cases are deemed to meet connectivity although the exposure draft contains examples of connected information. It is critically important that information connected to the traditional financial reporting is disclosed in light of providing useful information for investors and other capital market participants. We therefore consider it necessary that the requirement for connectivity between sustainability-related financial information and the financial statements in particular is stated in a detailed and specific manner.

As examples, the following aspects of corporate reporting to enhance connectivity are stated in the JICPA Accounting System Committee's Study Series No. 6 "Discussions on Enhancement of Non-financial Information and Information Connectivity Based on Practices" (available only in Japanese).

- Information is organized as centered around an entity's business model and management strategy;
- Elements and items of disclosure information are interrelated or maintained with consistency;
- Non-financial information provides context to interpret financial information; and
- Quantitative KPIs are presented as a basis for qualitative descriptive information

The simultaneously published Draft S2 contains requirements for enhancing connectivity with financial information in various ways, we therefore consider it possible to incorporate these requirements into the S1 Standard in a way that makes the requirements general (unspecific). The table below is a (non-exhaustive) list of requirements identified by us because we consider connectivity between them and the financial statements to be particularly emphasized in the S2 Standard.

Requirements in the S2 Standard for climate-related disclosures	Examples of generalized requirements applicable to broader sustainability information
Financial effects of climate change	Disclosure of assessments of financial effects related to significant risks and opportunities
Resilience assessment based on the scenario analysis	
Resource allocation plans and cost of capital to transition to a low-carbon economy	Resource allocation plans and cost of capital to transition to a sustainable economy
Assets or business activities vulnerable to transition risks and physical risks	Disclosure of assets and business activities vulnerable to significant risks

Question 7—Fair presentation (paragraphs 45–55)
The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation. To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies. To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard. (a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not? (b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

Our comment

(a) We think the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed is simple and clear.

(b) Paragraph 51 of the Draft S1 articulates that an entity shall refer to IFRS Sustainability Disclosure Standards, including disclosure topics, to identify sustainability-related risks and opportunities. We agree with the idea that referring to, at an entity's own judgment, various standards and guidance including the SASB Standards and the CDSB Framework application guidance is useful from the viewpoint that the entity considers the factors of broad risks and opportunities and decides on what information to disclose.

However, we consider a modification is necessary to make to the level of requirement that an entity "shall consider" the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance, the most recent pronouncements of other standard-setting bodies, and others.

First, requiring the entity to consider these listed above could be interpreted as a substantive requirement although they do not follow the ISSB's standard-setting due process. We do not think that the approach to designate the sources of information that an entity should consider without following formal due process. In addition, even if this requirement is just asking a preparer to "consider" those listed above, the scopes of the pronouncements stated in Paragraph 51 (c) and (d) in particular are not clear, we are thus concerned that the information the preparer shall consider becomes too broad.

We therefore propose that the level of requirement in Paragraph 51 (a) through (d) be changed from "shall consider" to "may consider."

Question 8—Materiality (paragraphs 56–62)
The Exposure Draft defines material information in alignment with the definition in IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'. However, the materiality judgements will vary because the nature of sustainability-related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value. Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1. The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction. (a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

(b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?
(c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?
(d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

Our comment

(a) We think and agree that the definition and application of materiality is clear.

(b) We consider it necessary to further clarify the concept and application of significance, which is key in the application of materiality in this standard. One of the major characteristics of the Draft S1 is narrowing down disclosure information with a two-step approach—identifying significant risks and opportunities and disclosing material information. We strongly agree with this approach. Identifying significant risks and opportunities in particular is a key process to determine what material information entities should disclose. However, the Exposure Draft does not specify the definition of significant risks and opportunities and the important points of the identification process thereof, and the assessment of significance. We therefore strongly hope that they are specifically described in this standard and additional guidance.

We think that the two-step approach above is designed in a consistent way to the two-step approach—identifying key matters and disclosing material information—in the Exposure Draft of the MC Practice Statement published by the IASB. However, different terminologies "significant risks and opportunities" and "key matters" are used in these two-step approaches. It is important to ensure consistency between standards, especially regarding terminology, thus we strongly hope that the ISSB and the IASB work closely together. We believe this is an essential effort to be made in the expectation of developing future integrated reporting that connects IFRS Accounting Standards with IFRS Sustainability Disclosure Standards.

(c) We do not think the content of the illustrative guidance is sufficient. Please see our comment to question (b) above for additional work that we consider necessary to be done for this standard and guidance.

Question 9—Frequency of reporting (paragraphs 66–71)
The Exposure Draft proposes that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements.

Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

Our comment

We consider it important to discuss this by clearly separating the issues of the reporting period and disclosure date. How we think about each of the issues is as follows:

Reporting period:

Given the coherent use of the financial statements and the disclosure of sustainability-related financial information, we consider it important for an entity to report both of them for the same reporting period, and agree with the requirement that the reporting period be the same.

For example, in terms of information on greenhouse gas emissions, it is common in practice to analyze emissions intensity in association with information on net sales and expenses, for example. If the reporting period is different, sustainability-related metrics or data would not correlate with financial information, which could greatly undermine the usefulness of information. In addition, since countries already require entities to provide the narrative reporting of information about risks and opportunities and governance for the same reporting period as the financial statements, the importance of requiring an entity to disclose its sustainability-related financial information for the same reporting period as the financial statements in principle is obvious.

Disclosure date (timing):

We acknowledge that information to be disclosed in the same report are disclosed on the same date in general. This aligns with the practice to disclose the financial statements at the same time as information contained in an entity's annual report, such as its management policy, strategy, risks and governance that are defined as management commentary information.

On the other hand, it takes a certain amount of time to calculate and aggregate metrics such as greenhouse gas emissions. In determining Scope 2 emissions for example, an entity needs information on the emission factors of the electric utility companies for the relevant period. In Japan, the government has set out a process to calculate greenhouse gas emissions, which requires (i) electric utilities to report their emission factors of greenhouse gases to the government and (ii) the government to check the factors and disclose them to the public. The timing of fixed emission factors for the relevant period made available is December of the following year under current regulation. It is therefore inevitable for an entity to disclose tentative values or estimates based on the previous period's emission factors if the entity includes information on the amounts of greenhouse gas emissions in its mandatory annual report.

Given such circumstances, we consider it desirable to set out an exemption in the S1 Standard in such cases as it takes a certain amount of time to calculate metrics due to external factors, while metrics are required to be disclosed on the same reporting date as the financial statements in principle.

Question 10—Location of information (paragraphs 72–78)
The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital. However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting. The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information. Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements. The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication. (a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not? (b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location? (c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not? (d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

Our comment

(a) From the perspective of ensuring the quality of material sustainability-related financial disclosures, we consider it critically important to position regulatory annual report for investors as the core report, and propose that the S1 Standard require reporting entities to identify a core report.

We agree with the policy for allowing the external references as it is necessary to avoid information overload in the core report. However, relying excessively on external references for reporting may cause material sustainability information to not be disclosed in the core report and information to disperse across multiple reporting, which could prevent from recognizing the overall sustainability reporting. In light of addressing such concerns, we think that entities should be required to clarify (i) the status of each of their reporting if they refer to external reporting mediums and (ii) what parts of such references are within the scope of disclosures made in accordance with IFRS Sustainability Disclosure Standards.

In addition, from the perspectives of fulfilling the needs of users and achieving reporting objectives, we consider it undesirable that particularly material information is referred to external reporting and not included in core report. We therefore consider it imperative that the ISSB's standards include a requirement specifying what information should be included in core publications. We hope that the ISSB will clarify the necessity of providing especially the following information in the core report. (The pieces of information listed below are considered to be minimum necessary information to be included and are not an exhaustive list of information. We expect that the ISSB will examine and finalize what information should be included in the core report.)

- sector(s) to which an entity belongs;
- structure of disclosure documents and mediums;
- what standards the entity complies with for disclosure (IFRS Sustainability Disclosure Standards and primary measurement criteria);
- scope of reporting (entities to report on a consolidated basis and the entity's value chain);
- governance, policy and process of the entity's materiality assessment;
- identified significant risks and opportunities; and
- primary disclosure information required for core content

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)

The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate.

The Exposure Draft also includes a proposed requirement that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible.

(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

(b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

(c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

Our comment

(a) Paragraph 64 requires an entity, if it has updated the estimate of metrics, to modify comparative information as well. We propose that the ISSB modify the requirement to one that an entity, if it has changed measurement method and scope, modify and disclose the measurement method and scope of comparative information. The reason is that Paragraph 63 mainly requires an entity to disclose comparative information for metrics, and the intent of Paragraph 64 requiring the entity to modify the comparative information is considered to ensure year-to-year comparability through disclosures based on the same measurement method and range.

From what we understand, estimate in the Exposure Draft is expected to be the estimate of information that an entity is not able to measure based on its specific data, like Scope 3 emissions, and the estimate of financial effects is not expected to be modified. When an entity discloses the assessment results of financial effects estimated in prior periods as a piece of comparative information, it would be meaningless to modify the estimate of the assessment results from the perspective of enhancing the usefulness of that information, but it would rather be a factor to reduce the usefulness of that information. We propose that the ISSB clarify what kind of estimate is specifically expected when using the word "estimate" in the context of comparative information.

Question 12—Statement of compliance (paragraphs 91-92)

The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements.

The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

Our comment

We agree with the policy that an entity would be required to claim comprehensive compliance with IFRS Sustainability Disclosure Standards. We also agree with including the provision that permits an entity to deviate from the requirement if an apparent constraint by law or regulation exists.

Question 13—Effective date (Appendix B)
The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard. (a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others. (b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

Our comment

(a) How long it takes entities to implement disclosure practices in a way that complies with all of the requirements of IFRS Sustainability Disclosure Standards depends on the volume and rigor of requirements and the degree of accumulation of disclosure practices at the entities. We commented on the volume and rigor of requirements in another part of this letter. In order to apply this standard, entities are likely to need certain amount of time and resources for preparing to meet the requirements especially for industry-based metrics, value chain information including Scope 3 emissions (especially when the standard requires the entities to ensure the completeness of that information from the initial phase), and disclosure date (timing).

The degree of accumulation of disclosure practices at entities depends on whether or not they have disclosed integrated reporting and sustainability reporting as well as climate-related information in accordance with the recommendations of the TCFD and requirements from CDP. Many global companies with large market capitalization in Japan raising funds from overseas institutional investors have proceeded with disclosure practices in response to such recommendations and requirements, but the number of such companies has still not reached a majority of listed companies. It is difficult to predict how long and how much cost would be needed for companies that have not disclosed information in accordance with such voluntary international frameworks to prepare themselves for complying with the requirements of this standard, but a considerable period of time would be needed for such companies.

Acknowledging such circumstances, the approach we consider effective and realistic is to expand requirements in phases in order to realize globally consistent sustainability disclosures that the ISSB aims at. If the standard requires entities to fully disclose industry-based metrics and Scope 3 emissions in particular and disclose all information on the same date with the financial statements, a considerable period of time would be needed for the entities to apply the standard. Incorporating such requirements into the standard in phases in the future is expected to bring about a positive effect on the smooth application of IFRS Sustainability Disclosure Standards.

(b) We agree with the proposal to relieve entities from disclosing the previous period's numbers as a piece of comparative information in the first year of application.

Question 14—Global baseline
IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards. Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

Our comment

We agree with the ISSB's direction of establishing the globally consistent sustainability information disclosures and the building blocks approach. The progress of sustainability reporting varies between countries and regions. We hope that the ISSB will clarify a policy for providing a universal foundation that reflects such variances and has the status as a globally applicable baseline.

We consider it imperative that IFRS Sustainability Disclosure Standards have the following characteristics so that these standards serve as a global baseline. We expect that the ISSB will clarify the definition of the comprehensive global baseline and a basic policy for such standard development.

(1) IFRS Sustainability Disclosure Standards meets global common needs, that is, IFRS Sustainability Disclosure Standards are designed to help capital market participants assess enterprise value;

(2) The level and volume of disclosure requirements are neither excessive nor insufficient, and the requirements appropriately contain information necessary to meet a broad range of user needs;

(3) Individual disclosures information and individual metrics are not exclusively related to policies, regulations and practices of certain countries and regions, but are identified and defined in a broad and adaptable way;

(4) IFRS Sustainability Disclosure Standards become a foundation that appropriately refers to and use industry- and region-based measurement standards; and

(5) IFRS Sustainability Disclosure Standards is designed on the assumption that reporting practices develop on an ongoing basis and that the standards are developed accordingly.

If the global baseline is positioned as a globally shared practical norm on which jurisdiction-specific requirements are built, the scope and granularity of requirements in the Exposure Draft may need to be reconsidered. Too detailed industry classifications and industry-based metrics in particular may not reflect global circumstances or adapt to changes in industry structures and regulatory environments such as climate change regulations in the future. We therefore consider it appropriate to establish a foundation of standards in the initial phase of developing them and to work out the details as the next step while closely monitoring the accumulation of practices and expanding and enhancing standards in phases. In this light, it is desirable to exclude industry-based metrics set out in Appendix B of the proposed S2 Standard, except for disclosure topics, from requirements at the current phase. (We consider that a list of industry-based metrics is useful as a reference for entities to decide on disclosure metrics. One possible approach to take is, for example, to set a certain transition period for entities to implement standards for industry-based metrics and present the list of metrics to be taken into account when the entities decide on disclosure metrics during the transition period.)

Question 15—Digital reporting
The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S2 *Climate-related Disclosures* Standards are the sources for the Taxonomy. It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation. Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

Our comment

We have nothing to comment on.

Question 16—Costs, benefits and likely effects
The ISSB is committed to ensuring that implementing the Exposure Draft proposals appropriately balances costs and benefits. (a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of

these proposals? (b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

Our comment

We have nothing to comment on.

Question 17—Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

Our comment

Disclosure of materiality

Since deciding on reporting matters for the disclosure of sustainability-related financial information may rely heavily on what matters an entity identifies material, we consider that the entity's core report, not an external reference, needs to provide aggregated disclosures on the system, policy and consequences of its materiality decision, including the following:

(1) Disclosure of policies for identifying significant risks and opportunities and deciding on material information; and

(2) Disclosure of processes of identifying significant risks and opportunities and deciding on material information, which include involvement of those charged with governance

Possible approaches to ensure the reliability of materiality assessment by entities are to provide an assurance for the disclosure of a materiality assessment process or for the consistency between identified significant risks and opportunities and general disclosure information. From the perspective of increasing the feasibility of providing such assessment, the aforementioned disclosures are needed.

Connectivity with financial reporting and management commentary

To help capital market participants assess enterprise value, we consider it critically important to secure connectivity between financial statements and sustainability related financial information. We believe the value of the IFRS Foundation's work on sustainability reporting and its role lies in this point.

We also consider that the connectivity between sustainability disclosures and management policy, business model, strategies, MD&A and governance, which means management commentary, is important. To this end, we consider it imperative to have connectedness between the MC Practice Statement and IFRS Sustainability Disclosure Standards.

We heartily welcome the IFRS Foundation's amazing progress toward cooperation between the IASB and the ISSB and the direction presented to work toward building a corporate reporting framework that incorporates financial statements and sustainability disclosures based on the International Integrated Reporting Framework. We strongly hope that both the IASB and the ISSB will make necessary arrangements and agree on key terminology and definitions that may define a reporting concept, the basic principles of reporting materiality and other information, primary reporting elements (i.e., pillars in IFRS Sustainability Disclosure Standards), and a basic approach to report business performance (metrics) when finalizing IFRS Sustainability Disclosure Standards so as to have a consistent framework with the MC Practice Statement (or an alternative framework).

From the perspective of offering assurance engagements, it is essential to establish coherent and connective reporting standards for the comprehensive corporate reporting architecture. It is highly expected that audit of the financial statements and assurance of the disclosure of sustainability-related financial information are provided in an integrated manner in the future. From this point of view as well, we hope that such reporting standards are developed with connectivity between financial reporting (financial statements and management commentary) and sustainability reporting.

Yours faithfully,

Takako Fujimoto
Executive Board Member — Business Accounting Standards and Practice/Corporate Disclosure
The Japanese Institute of Certified Public Accountants