15 July 2022

International Sustainability Standards Board
The IFRS Foundation Columbus Building,
7 Westferry Circus, Canary Wharf, London,
E14 4HD United Kingdom

**Opinion Paper on ISSB Exposure Drafts**

Dear Chair Faber and Vice-Chair Lloyd,

The Study Group on Disclosure Policies for Non-financial Information appreciates being given an opportunity to comment on the Exposure Drafts published by the International Sustainability Standards Board (ISSB) in March 2022.

The Study Group was inaugurated by Ministry of Economy, Trade and Industry of Japan in June 2021 with a view to sharing information on global trends regarding non-financial information and policies related to it, and discussing what directions policies should have in order to achieve high-quality disclosure of such information.

## I. Introduction

1. Since June 2021, the Study Group on Disclosure Policies for Non-financial Information has reviewed the prototype published by the group of five organizations in December 2020 and the ISSB prototype published in November 2021 (this is the collective term for a prototype of general requirements and for a climate-related disclosure prototype published by the IFRS Foundation), and presented "Preliminary Thoughts on the TRWG Sustainability Disclosure Prototypes" on March 25, 2022.

2. Furthermore, on the basis of the Preliminary Thoughts on the TRWG Sustainability Disclosure Prototypes, the Study Group has worked on reviews on the Exposure Draft of the General Requirements for Disclosure of Sustainability-related Financial Information (S1 Standard) and that of the Climate-related Disclosures (S2 Standard).

3. In addition, in the process of these deliberations, <u>the study group secretariat informed more than 400 industrial and other organizations about the trends of the IFRS Foundation's initiative to develop international sustainability standards, the ISSB prototype, and the contents of the Exposure Drafts</u> and conducted a questionnaire survey regarding industry's reactions in these regards. To date, the study group secretariat has received <u>opinions and comments from approximately 50 industrial organizations and companies in total</u>.

4. In light of the reviews conducted by the Study Group so far and an enormous volume of opinions received from industry, this Opinion Paper aims at communicating the views of the Study Group and comments from industry with respect to the following four points to the IFRS Foundation.
   (1) <u>Support</u> for the definition of sustainability-related financial information <u>which is clearly linked to enterprise value</u>
   (2) <u>Proposals</u> to achieve <u>value relevance</u> and the appropriate <u>balance between comparability and corporate originality</u>
      a) The <u>modality of materiality judgement</u> and the <u>optimization</u> of <u>the structure of standards</u>
      b) Supplements to the definitions of "<u>enterprise value</u>" and "<u>significant</u>"
      c) The <u>clarification of the position</u> of the "<u>Management Commentary</u>," and the <u>strengthening</u> of the <u>IASB-ISSB connectivity</u>

d) <u>Ensuring flexibility</u> in connection with the “<u>simultaneity</u>” of reporting

(3) <u>Answers</u> to the <u>question items</u>

a) Answers to the question items on S1 Standard (Draft)

b) Answers to the question items on S2 Standard (Draft)

(4) Individual comments from industry with respect to the industry-based metrics specified in Appendix B (reference material)

5. We encourage that this Opinion Paper can contribute to further discussion on draft sustainability disclosure standards by the IFRS Foundation and the ISSB (International Sustainability Standards Board).

## II. General Comments

**(1) Agree for the definition of sustainability-related financial information which is clearly linked to enterprise value**

6. The Study Group strongly agrees the fact that the Exposure Drafts concerned define sustainability-related financial information in a manner that clearly links it to enterprise value and furthermore define sustainability-related financial disclosures as the provision of information useful for the primary users of general purpose financial reporting (existing and potential investors, lenders, and other creditors) in their decision-making.

7. The Ministry of Economy, Trade and Industry defines and promotes “sustainability transformation (SX)” as the management transformation that “synchronizes” the sustainability improvement of corporate activities (e.g., sustainable innovations and business model updates) with the improvement of social sustainability and that overcomes an environment of increasing uncertainty, and as the strengthening of capital market functions.

8. We consider that the Exposure Drafts concerned have the potential to improve the functions of capital markets through effective and efficient information disclosure and accelerate the sustainability transformation (SX) of entities by clearly linking the definitions and purposes of sustainability-related financial information and sustainability-related financial disclosures to enterprise value.

9. In Japan, efforts toward enterprise value reporting based on integrated thinking have been made roughly over a decade. More than 700 listed companies have already made disclosures in their integrated reports, and efforts are underway to improve the quality of their disclosures.

10. We encourage that the initiatives of the IFRS Foundation as a whole will be further developed to improve the quality and quantity of integrated disclosure of financial information and sustainability-related financial information. From this aspect, we also agree with the preliminary thoughts published by the FRC (Financial Reporting Council) of the U.K. on February 9 this year in terms of the recommendation included therein for use of the “Managements Commentary” as an overarching framework for qualitative reporting covering financial and non-financial information.

11. Furthermore, we welcome the press release issued by the IFRS Foundation on May 25 this year and indicating its active encouragement to adopt the Integrated Reporting Framework that had become one of the Foundation’s assets. We suggest the IASB and ISSB to sufficiently cooperate with each other in the future in developing the “Management Commentary,” the “Integrated Reporting Framework,” and S1 and S2 Standards into a consistent system of disclosure standards.

12. Based on these propositions, we would like to offer some constructive proposals for the development of S1 and S2 Standards in terms of viability for disclosure preparers and benefit to users.

**(2) Proposals to achieve the value relevance and the appropriate balance between comparability and corporate originality**

13. First, we agree the significance of the IFRS Foundation/ISSB initiatives to improve the overall efficiency of capital markets by enhancing comparability among entities in terms of sustainability-related financial information.

14. We also agree the IFRS Foundation/ISSB proposal for a baseline approach and a building block approach. Given the diversity of sustainability-related financial disclosures among countries and regions, a baseline and building block approach is a particularly important approach for the development of IFRS Sustainability Disclosure Standards as international standards in global markets including emerging countries.

15. With respect to the disclosure of sustainability-related financial information, the manner of disclosure and relevant systems and practices are found to be diverse according to jurisdictions and regions, in comparison with accounting standards. In order to spread IFRS Sustainability Disclosure Standards in global markets including emerging countries on the basis of a baseline and building block approach, those standards need to strike a good balance between inclusivity and normativity in relation to relevant systems and actual operations in diverse jurisdictions.

16. In addition, the relevance between disclosed information and enterprise value (value relevance) is essential for the development of sustainability-related financial reporting into the reporting that is useful for the primary users of general purpose financial reporting in their decision-making.

17. It is difficult to properly evaluate enterprise value only from entities' disclosure of comparable metrics and targets, given the diversity of sources of corporate competitiveness and business models, and the fact that some entities opt to change their business models or industry sectors.

18. It is crucial that each entity discloses information that is unique to the entity, such as what kind of business model its management is aiming for, what matters are considered material, what efforts are being made to reform its business model, and how its efforts toward the transition of its business model, etc. have made progress over time.

19. Conversely, there is a concern that if disclosure requirements are excessively detailed and disclosure preparers manage to satisfy such requirements only as a matter of form, this situation may result in information disclosure with reduced relevance to enterprise value, which can be exemplified by the box-ticking type of disclosure in which the disclosed information is not linked to the business model or management strategy, or by the postponement of disclosure of essential information containing the originality of the entity concerned.

20. In particular, in the case of a sustainability-related issue such as responses to climate change, each entity's efforts and manner of innovation toward achievement of its targets should essentially be diverse, and it is necessary for disclosure standards to be consistent with the diversity of efforts made by the entity.

21. Furthermore, from the aspect of the inclusivity of disclosure requirements as a global baseline, it is also necessary to ensure that the applicability of such requirements in global markets including emerging countries is not reduced by those requirements becoming excessively detailed.

22. Accordingly, IFRS Sustainability Disclosure Standards should aim for the achievement of an appropriate balance between the comparability and corporate originality of disclosure details while focusing on the relevance between disclosed information and enterprise value. On the basis of these perspectives, we would like to propose the following four points.

**(2) a) The modality of materiality judgement and the optimization of the structure of standards**

23. First, with respect to standards as a whole, we agree the adoption of a structure consisting of S1 Standard, S2 Standard, and industry-based metrics (Appendix) as an effort to enhance comparability while adjusting the relevance between sustainability-related financial information, which varies according to theme and industry sector, and enterprise value.

24. In addition, in order for entities to appropriately express their original business models and strategies for the transition, etc. of such business models and ensure the relevance between disclosed information and enterprise value (value relevance) and a balance between comparability and corporate originality, it is desirable that the following actions should be implemented:

    (1) in principle, each entity should, rather than being required to consider the adoption of individual metrics, be required to make a two-stepped judgement (<u>two-stepped approach</u>) that involves the <u>identification of significant management issues</u> first and then the <u>disclosure of material information that appropriately expresses the management issues</u>;

    (2) <u>on the basis of the above principle</u>, <u>responses to the requirement of comparability should be factored in</u> by requiring the entity to <u>refer to and consider theme-based and/or industry-specific matters (those matters that users generally expect the management to identify as significant issues)</u> that should be referred to in the <u>identification of significant issues</u> and to <u>disclose the information whose disclosure is generally expected by users as material information</u> that expresses such matters; and

    (3) in so doing, <u>from the aspect of developing flexible and inclusive standards</u> as global baselines, specific disclosure requirements should, <u>for the time being,</u> be generalized and “<u>category-based</u>” or “<u>topic-based</u>” requirements rather than excessively detailed requirements; and <u>individual detailed metrics such as industry-based metrics should not be included as requirements under standards at first and should be regarded as reference points for the entity in determining its own metrics and considered over time in a stepwise manner from the aspect of their usefulness and applicability in the designing of international standards</u>

    (for example, with respect to the disclosure of information on the energy efficiency performance of houses in the homebuilding industry, a broader concept associated with the energy efficiency of houses should be a disclosure topic, rather than determining as requirements those individual metrics that pose issues from the aspect of international conformity).

25. Approaches that involve the selection of information to be disclosed upon identification of material management issues, etc. have been adopted by the International Integrated Reporting Framework and the GRI Standards, which can ensure the continuity between disclosed information and accumulated cases of actual work associated with existing sustainability reports and integrated reports.

26. In this regard, while S1 Standard (Draft) is roughly consistent with the concept of an appropriate balance between comparability and corporate originality described in paragraph 24 hereof above, there are some issues with regard to the details and positions of metrics and targets under S2 Standard (Draft).

27. First, paragraph 2 of S1 Standard (Draft) states, “A reporting entity shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed.”

28. On that basis, the provisions of S1 Standard (Draft) concerning the core contents of governance, strategy, risk management, and metrics and targets make it clear that the objective of sustainability-related financial disclosures is to enable understanding of the processes, etc. of governance, strategies for addressing relevant matters, and the processes, etc. of risk management in connection with “significant sustainability-related risks and opportunities.”

29. In addition, the provisions of paragraphs 29, 58, etc. of S1 Standard (Draft) specify that each entity should voluntarily determine what constitutes “significant sustainability-related risks and opportunities”

and "material information," and the provisions of paragraph 60 thereof make it clear that the provision of a disclosure that is not material in relation to specific disclosure requirements is not required.

30. According to these provisions, it is clear that a reporting entity makes judgements on the basis of the "two-stepped approach" under S1 Standard (Draft).

31. However, in S2 Standard (Draft), there is a mixture of favorable points and unfavorable points, particularly in relation to the disclosure requirements under "Metrics and Targets," in light of the concept of an appropriate balance between comparability and corporate originality described in paragraph 24 hereof.

| | First step (identification of risks and opportunities) | Second step (judgement on whether information is material) |
|---|---|---|
| Paragraph 10 | In identifying significant climate-related risks and opportunities, an entity shall refer to the disclosure topics defined in the industry disclosure requirements (Appendix B). | |
| Paragraph 11 | | In preparing disclosures to fulfil the requirements in paragraphs 12–15, an entity shall refer to and consider the applicability of cross-industry metric categories and the industry-based metrics associated with disclosure topics, as described in paragraph 20. |
| Paragraph 20(a) | | Information relevant to the cross-industry metric categories (see paragraph 21), which are relevant to entities regardless of industry and business model, (shall be disclosed)<br><br><Cross-industry metric categories (paragraph 21)><br>(a) Greenhouse gas emissions<br>(b) Transition risks<br>(c) Physical risks<br>(d) Climate-related opportunities<br>(e) Capital deployment<br>(f) Internal carbon prices<br>(g) Remuneration |
| Paragraph 20(b) | | Industry-based metrics (as set out in Appendix B) which are associated with disclosure topics and relevant to entities that participate within an industry, or whose business models and underlying activities share common features with those of the industry, (shall be disclosed) |

32. First, with respect to the identification of "significant risks and opportunities," paragraph 9 of S2 Standard (Draft) states, "An entity shall disclose information that enables users of general purpose financial reporting to understand the significant climate-related risks and opportunities," and paragraph 10 thereof states, "In identifying the significant climate-related risks and opportunities described in paragraph 9 (a), an entity shall refer to the disclosure topics defined in the industry disclosure requirements (Appendix B)." We consider that these details are appropriate from the aspect of an appropriate balance between comparability and corporate originality described in paragraph 24 hereof.

33. Furthermore, with respect to the disclosure of material information, paragraph 20(a) of S2 Standard (Draft) states that "information relevant to the cross-industry metric categories (see paragraph 21), which are relevant to entities regardless of industry and business model" shall be disclosed. In addition, for "transition risks," "physical risks," "climate-related opportunities," and "capital deployment," example metrics and information are provided in the "Illustrative Guidance," instead of identifying individual metrics in paragraph 21 of the Standard. Although whether all of the cross-industry metric categories described in paragraph 21 of the Standard should be regarded as "relevant to entities regardless of industry and business model" requires a separate discussion, the fact that disclosure requirements are indicated on a category basis is consistent with the concept of an appropriate balance between comparability and corporate originality described in paragraph 24 hereof.

34. On the other hand, paragraph 20(b) of S2 Standard (Draft) provides that "industry-based metrics (as set out in Appendix B) which are associated with disclosure topics and relevant to entities that participate within an industry, or whose business models and underlying activities share common features with those of the industry," shall be disclosed. This provision requires the disclosure of the detailed metrics for 68 industries and in 350 types prescribed in Appendix B, irrespective of identified "significant climate-related risks and opportunities," which is not only inconsistent with the concept of an appropriate balance between comparability and corporate originality and the "two-stepped approach" described in paragraphs 23 and 24 hereof, but also disproportionate to S1 Standard (Draft) and the other provisions of S2 Standard (Draft) (paragraphs 11 and 20(a) thereof). From the aspect of the integrity of the entire Standard, it is necessary to make it clear in the main text of the Standard that the metrics whose disclosure is required under paragraph 20(b) thereof are those which the entity is expected to select for disclosure on the basis that these metrics correspond to the entity's identified significant climate-related risks and opportunities.

35. In addition, while the detailed metrics for 68 industries and in 350 types prescribed in Appendix B can be highly regarded owing to the amendments made to the metrics under the ISSB prototype from the aspect of international applicability, we understand that there are some points put forth against those metrics, such as that the metrics include those that continue to be problematic in terms of international applicability or usefulness as comparable metrics, those whose level of importance is low depending on business areas or business models, and those that are not strongly relevant to climate-related risks and opportunities. Also, the requirements are excessively detailed as a global baseline for various regions including emerging countries.

36. On the basis of these perspectives, we believe it is adequate to hold that the disclosure requirements under paragraph 20(b) of S2 Standard (Draft) are "information relevant to the industry-based disclosure topics set out in Appendix B," and that the industry-based metrics should be treated as subject to consideration at least initially.

37. Specifically, we recommend that, with paragraph 20(b) of S2 Standard (Draft) providing, "information relevant to the industry-based disclosure topics set out in Appendix B," a new paragraph should be established immediately after the current paragraph 22 of the Standard to provide, "The industry-based metrics associated with the disclosure topics set out in Appendix B shall be considered when a disclosure is prepared to satisfy the requirement prescribed in paragraph 20(b)," or to a similar effect.

38. Similarly, in light of the concept of an appropriate balance between comparability and corporate originality described in paragraph 24 hereof, we recommend amending the current paragraph 11 of the Standard to provide, "In preparing disclosures to fulfil the requirements in paragraphs 12–15, an entity shall use the metrics that the entity considers the most appropriate for explaining its situation. In so doing, the cross-industry metric categories , as described in paragraph 21 and the disclosure topics and industry-based metrics, as described in Appendix B shall be considered."

39. Moreover, it is desirable to further consider industry-based metrics from the aspect of international applicability and usefulness as comparable metrics. In particular, we believe that the study on such metrics should be deepened during a certain initial period in accordance with the following classifications before considering the method of application of such metrics:
    (1) industry-based disclosure topics that should be incorporated into the main body of S2 Standard (those disclosure topics that users generally expect the management to identify as significant issues);
    (2) industry-based metrics that should be incorporated into the main body of S2 Standard (those industry-based metrics that are relevant to disclosure topics, and that are generally expected by users as material information and whose global applicability/usefulness can be ensured); and
    (3) a set of industry-based metrics that should be positioned as a supplement to S2 Standard (those industry-based metrics which are difficult to globally apply and to be fair metrics, although they are relevant to the disclosure topics that users generally expect the management to identify as significant issues).

    In so doing, a potential approach to the metrics classified into (3) is to consider them taking account of the characteristics of the region/jurisdiction in cooperation with relevant organizations therein and refine those metrics as a set of metrics that entities can select. In this process, collaboration among the ISSB, the ISSB offices in various regions, and relevant organizations is also expected.

**(2) b) Supplements to the definitions of "enterprise value" and "significant"**

40. In order to ensure the value relevance of disclosed information indicated in paragraph 16 hereof and the effectiveness of the two-stepped approach specified in paragraph 24 hereof, the definitions of enterprise value and significance play important roles.

41. (Definition of "enterprise value")
Paragraph 5 of S1 Standard (Draft) defines enterprise value as "reflects expectations of the amount, timing and certainty 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" and "Information that is essential for assessing the enterprise value of an entity includes information that is provided by the entity in its financial statements and sustainability-related financial information." Furthermore, paragraph BC35 of the Basis for Conclusions provides, "Enterprise value is determined by capital market participants, based on how drivers of enterprise value affect their estimation of the amount, timing and uncertainty of future cash flows over the short, medium and long term." Accordingly, it is stated that enterprise value reflects users' assessment of future cash flows.

42. This concept is consistent with the objective of the Standard stating, "A reporting entity shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed."

43. Hence, paragraph 5 of S1 Standard (Draft) and paragraph BC35 of the Basis for Conclusion clarify the objective of the Standard stating that each entity's ability to generate future cash flows and the timing and uncertainty of future cash flows are reflected in its enterprise value, and that users demand, in order to assess the entity's enterprise value, material information about the significant sustainability-related risks and opportunities to which the entity is exposed.

44. Moreover, in the situation where positive and negative external factors involved in corporate activities are actively incorporated into the assessment of enterprise value in capital markets, social and environmental value is becoming an element constituting the enterprise value of entities that are not necessarily known for being highly capable of generating cash flows.

45. Meanwhile, Appendix A of S1 Standard (Draft) defines enterprise value merely as "The total value of an entity. It is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt." This may possibly give an impression that, among the short, medium, and long-term business operations that investors essentially observe in their estimation of an entity's enterprise value, various elements associated with its future (its efforts to create various types of value, including its ability to generate future cash flows, and the social/environmental value that it creates/impairs) are not sufficiently emphasized. This may result in confusion about how enterprise value should be understood under S1 and S2 Standards.

46. For that reason, we recommend supplementing the definition of enterprise value in Appendix A with the description of paragraph 5 of S1 Standard (Draft) and the aspect of value creation so that it provides, "The total value of an entity. It is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt. It reflects investors' assessment of the economic, social and environmental value that the entity creates or impairs, which includes its ability to generate future cash flows over the short, medium and long term, where this assessment is conducted in light of the entity's cost of capital that takes account of the timing of such value creation/impairment and the entity's risks and other relevant factors such as financing." On the basis of the above discussion, we consider that our proposal would match the direction that the ISSB aims for with the definition of enterprise value under S1 and S2 Standards.

47. (Definition of "significant")

In addition, in order to ensure the effectiveness of the two-stepped approach indicated in paragraph 24 hereof, it is extremely important that the identification of "significant risks and opportunities" in the first step is adequate. Nonetheless, the current S1 Standard (Draft) does not provide the definition of "significant risks and opportunities," any recommended method of identification of such risks and opportunities, and other relevant details, potentially posing the risk of entities' actions becoming inconsistent among them. Therefore, we propose that "significant risks and opportunities" should be defined in S1 Standard and guidance on identification of such risks and opportunities should be created.

**(2) c) The clarification of the position of the "Management Commentary," and the strengthening of the IASB-ISSB connectivity**

48. Moreover, we understand that the two-stepped approach, the importance of which is indicated in paragraph 24 hereof, is consistent with the relationship between "key matters" and "material information" in the revised Exposure Draft of IFRS Practice Statement 1 "Management Commentary" published in May 2021. In order to ensure the coherency and consistency between the "Management Commentary" and S1 and S2 Standards, we recommend it is necessary for the definition of "significant risks and opportunities" proposed in paragraph 47 hereof to be considered in an integrated and consistent manner with the consideration of the "Management Commentary" in close cooperation between the IASB and ISSB.

**(2) d) Ensuring flexibility in connection with the "simultaneity" of reporting**

49. In order to ensure the relevance between disclosed information and enterprise value, we believe it important to ensure that information contained in sustainability-related financial disclosures is for the same reporting period as information covered by general purpose financial reporting including the relevant financial statements. The integrity and connectedness of such sustainability-related financial disclosures and financial reporting should be considered on the basis of the same reporting period.

50. In this regard, we agree the provisions of paragraph 66 of S1 Standard (Draft) stating, "the sustainability-related financial disclosures shall be for the same reporting period as the financial statements."

51. On the other hand, we have reservations about the fact that paragraph 66 of the same Standard provides, "An entity shall report its sustainability-related financial disclosures at the same time as its related financial statements."

52. For example, the compilation of activities and energy consumption, which form the basis for calculating greenhouse gas emissions, takes at least one month, and this period is expected to be even longer for entities that operate globally or have many consolidated entities. These circumstances are different from those of financial information, which is more streamlined in its compilation. In addition, considering the time required for assurance of disclosed information, industry has pointed out that it would be practically difficult or costly to complete all the preparatory work for disclosure of a wide range of sustainability-related financial information within three months after the end of each fiscal year, which is the time when listed companies in Japan are required to submit statutory documents (annual securities reports) including audited financial statements.

53. Furthermore, statutory documents (annual securities reports) are assumed to be the documents in which sustainability-related financial information will be contained (general purpose financial reporting), and it is expected that core information will be presented in an aggregate and simultaneous manner in the future (*). Meanwhile, it is assumed that cross-references to integrated reports (disclosed by more than 700 companies in Japan) and sustainability reports will be used to provide more comprehensive information. In this connection, it has been pointed out that, with the rapid enhancement of the quality and quantity of sustainability-related financial information, significant additional costs would be required to synchronize

the publication of all sustainability-related financial information with the publication of statutory documents. In addition, given that the framework of disclosure systems based on laws and regulations differs from country to country and region to region, the practical burden of "simultaneous reporting" is likely to further increase for entities with a multinational presence.

(*) Report by “Working Group on Corporate Disclosure” of the Financial System Council (June 2022) proposed the establishment of a new section for sustainability information in statutory documents (annual securities reports).

54. In light of these circumstances, we believe that while requiring disclosure preparers to make their utmost efforts toward simultaneous and timely reporting, consideration should be given to individual circumstances that make it difficult to release all information at the same time and to the cost-benefit balance of disclosure practices. Specifically, regarding the simultaneous reporting required under paragraph 66 of S1 Standard (Draft), we recommend clearly stating in the Standard that, while, in principle, an entity should "report simultaneously" to the extent practicable, a certain period of time is allowed for the publication of cross-reference documents and other materials on the assumption that more significant sustainability-related financial information is included in core documents, as well as presenting this idea through Illustrative Guidance or other means.

Yours sincerely,

Dr. Tetsuo Kitagawa
Chair, Study Group on Disclosure Policies for Non-financial Information

## III. Answers to the Question Items

**a) Answers to the question items on S1 Standard (Draft)**

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) (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?

55. (<u>Regarding Question 1 (a)</u>)
<u>We believe that S1 Standard (Draft) clearly requires</u> an entity to identify and disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed.

56. (<u>Regarding Question 1 (b)</u>)
<u>We have some reservations</u> about whether the requirements proposed in S1 Standard (Draft) are appropriate in light of its objective (paragraphs 1 and 2). As stated in "II. General Comments" of this Written Opinion, we believe that, for both disclosure preparers and users, amendments such as <u>supplements to the definition of corporate value (Appendix A)</u> and <u>the adoption of flexible provisions on simultaneous reporting</u> can lead to the effective and also efficient disclosure of material information on significant sustainability-related risks and opportunities. Details on our awareness of individual issues are stated in the question items below.

57. (<u>Regarding Question 1 (c)</u>)
We believe that it is clear how the requirements proposed in the Exposure Draft concerned would be applied in combination with other IFRS Sustainability Disclosure Standards including the [draft] IFRS S2 Climate-related Disclosures, <u>except as pointed out below</u>.

58. According to paragraph 8 of S1 Standard (Draft) stating, "An entity shall apply this [draft] Standard in preparing and disclosing sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards." and paragraph 2 of S2 Standard (Draft) stating, "An entity shall apply this [draft] Standard in preparing and disclosing climate-related disclosures in accordance with [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information." the relationship between the two Standards is clear.

59. However, regarding how the provisions of S1 Standard (Draft) and those of S2 Standard (Draft) would be applied in combination with each other with respect to “materiality,” there are some parts where the relationship between the Standards is not always clear. Specifically, it concerns the relationship between paragraph 60 of S1 Standard (Draft) and paragraph B6 of Appendix B “Industry-based disclosure requirements” of S2 Standard (Draft).

60. First, paragraph 60 of S1 Standard (Draft) provides, “An entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from that disclosure is not material. This is the case even if the IFRS Sustainability Disclosure Standard contains a list of specific requirements or describes them as minimum requirements.”

61. On the other hand, paragraph B6 of Appendix B “Industry-based disclosure requirements” of S2 Standard (Draft) provides, “the responsibility for making materiality judgements and determinations rests with the reporting entity for all requirements in IFRS Sustainability Disclosure Standards, including this Standard. Therefore, an entity shall disclose information related to a specific requirement when it concludes that the information is material to the users of the information in assessing the enterprise value of the entity.”

62. Although these provisions use different expressions, which are “An entity need not provide...if the information resulting from that disclosure is not material” and “an entity shall disclose information related to a specific requirement when it concludes that the information is material,” these phrases state substantially the same content. In addition, as pointed out in paragraph 58 hereof above, the relationship between S1 Standard and S2 Standard and the application of paragraph 60 of S1 Standard (Draft) to S2 Standard (Draft) are clear. Therefore, the provisions of paragraph B6 of S2 Standard (Draft) are considered to be originally unnecessary.

63. In this regard, as pointed out in paragraph 34 hereof, we analysed that, from the aspect of alleviating the imbalance in detailedness of the requirements set out in S2 Standard (Draft) following the establishment of “industry-based metrics (as set out in Appendix B)” as a direct disclosure requirement in paragraph 20(b) of S2 Standard (Draft) irrespective of the identification of “significant climate-related risks and opportunities,” the establishment of paragraph B6 of Appendix B “Industry-based disclosure requirements” had been necessary for the purpose of confirmation.

64. However, we believe the confirming provisions of paragraph B6 will not be necessary, if the imbalance of the disclosure requirements is corrected, if the provisions of paragraph 20(b) of S2 Standard (Draft) are changed to “information relevant to the industry-based disclosure topics set out in Appendix B” as proposed in paragraph 37 hereof, and if a new paragraph is established immediately after the current paragraph 22 of the Standard to provide, “The industry-based metrics associated with the disclosure topics set out in Appendix B shall be considered when a disclosure is prepared to satisfy the requirement prescribed in paragraph 20(b),” or to a similar effect.

Question 2—Objective

- 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?

65. (Regarding Question 2 (a))
We believe that the proposed objective of disclosing sustainability-related financial information is clear.

66. (Regarding Question 2 (b))
As we have pointed out in paragraphs 41-46 of "II. General Comments" hereof, we believe that the proposed definition of "sustainability-related financial information" is clear, except that the definition of "enterprise value" included in the definition of "sustainability-related financial information" is not sufficiently explained.

67. (Definition of enterprise value)
Paragraph 5 of S1 Standard (Draft) defines enterprise value as "reflects expectations of the amount, timing and certainty 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" and "Information that is essential for assessing the enterprise value of an entity includes information that is provided by the entity in its financial statements and sustainability-related financial information." Furthermore, paragraph BC35 of the Basis for Conclusions provides, "Enterprise value is determined by capital market participants, based on how drivers of enterprise value affect their estimation of the amount, timing and uncertainty of future cash flows over the short, medium and long term." Accordingly, it is stated that enterprise value reflects users' assessment of future cash flows.

68. This concept is consistent with the objective of the entire Standard stating, "A reporting entity shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed."

69. Hence, paragraph 5 of S1 Standard (Draft) and paragraph BC35 clarify the objective of the entire Standard stating that each entity's ability to generate future cash flows and the timing and certainty of future cash flows are reflected in its enterprise value, and that users demand, in order to assess the entity's enterprise value, material information about the significant sustainability-related risks and opportunities to which the entity is exposed.

70. Moreover, in the situation where positive and negative external factors involved in corporate activities are actively incorporated into the assessment of enterprise value in capital markets, social and environmental value is becoming an element constituting the enterprise value of entities that are not necessarily known for being highly capable of generating cash flows.

71. Meanwhile, Appendix A of S1 Standard (Draft) defines enterprise value merely as "The total value of an entity. It is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt." This may possibly give an impression that, among the short-, medium-, and long-term business operations that investors essentially observe in their estimation of an entity's enterprise value, various elements associated with its future (its efforts to create various types of value, including its ability to generate future cash flows, and the social/environmental value that it creates/impairs) are not sufficiently emphasized. This may result in confusion about how enterprise value should be understood under S1 and S2 Standards.

72. For that reason, we propose supplementing the definition of enterprise value in Appendix A with the description of paragraph 5 of S1 Standard (Draft) and the aspect of value creation so that it provides, "The total value of an entity. It is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt. It reflects investors' assessment of the economic, social and environmental value that the entity creates or impairs, which includes its ability to generate future cash flows over the short, medium and long term, where this assessment is conducted in light of the entity's cost of capital that takes account of the timing of such value creation/impairment and the entity's risks and other relevant factors such as financing." On the basis of the above discussion, we consider that our proposal would match the direction that the ISSB aims for with the definition of enterprise value under S1 and S2 Standards.

73. (Definition of "significance")
In addition, in order to ensure the effectiveness of the two-stepped approach indicated in paragraph 24 hereof, it is extremely important that the identification of "significant risks and opportunities" in the first step is adequate. Nonetheless, the current S1 Standard (Draft) does not provide the definition of "significant risks and opportunities," any recommended method of identification of such risks and opportunities, and other relevant details, potentially posing the risk of entities' actions becoming inconsistent among them. Therefore, we propose that "significant risks and opportunities" should be defined in S1 Standard and guidance on identification of such risks and opportunities should be created.

74. (Consistency with the "Management Commentary")
According to paragraph 3.15 of the Exposure Draft of the "Management Commentary" currently under consideration by the IASB, the objective of the "Management Commentary" is to provide "material information about factors affecting the entity's ability to create value and generate cash flows." Furthermore, according to the definitions of terms in Appendix A thereof, an ability to "create value" is an ability to "create or preserve value for the entity and hence for its investors and creditors."

75. Also from the aspect of development of standards consistent with these provisions of the "Management Commentary" and the future "Management Commentary" expected for the IASB and ISSB, we consider that the supplements proposed in paragraph 73 hereof to the definition concerned are adequate.

Question 3—Scope

- 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?

(No answer is provided.)

Question 4 -- Core content

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?

76. (Regarding items other than "strategy")
The disclosure objectives for governance, risk management, and metrics and targets proposed in the Exposure Draft are clear and appropriately defined, and the disclosure requirements are considered appropriate to the disclosure objectives.

77. (Regarding "strategy")
On the other hand, the disclosure objective on strategy and disclosure requirements based on the disclosure objective proposed in the Exposure Draft contain more references related to business models than the TCFD Recommendations. Business models are an extremely important element in assessing "enterprise value" and "future cash flows" as pointed out in paragraphs 41-46 of "II. General Comments"

and paragraphs 67-72 of "Question 2 -- Objective," and they are a core element of the "ability to create value" in "management commentary" mentioned in paragraph 74.

78. This Exposure Draft also defines "sustainability-related financial information" as information "providing a sufficient basis for users of general purpose financial reporting to assess the resources and relationships on which an entity's business model and strategy for sustaining and developing that model depend" (Appendix A), making clear that business models and strategies are inseparable.

79. Based on the above, we recommend that the item currently proposed as "strategy" be renamed "business model and strategy."

Question 5 -- Reporting entity

> 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?

80. (Regarding Question 5 (a))
(For or against the proposal)
We agree with the requirement in the Exposure Draft that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements, except for the following one point. In addition, we seek confirmation of two points regarding the Exposure Draft on reporting entities.

81. (Proposal: Acceptance of limited application in areas where information infrastructure is inadequate)
It is difficult for entities with business operations in regions where sustainability-related financial disclosure practices have not yet been established to collect and organize information from consolidated entities located in those regions in a short period of time, and it is expected to require a step-by-step approach and a certain period of time in order to establish an infrastructure to collect reliable information.

82. Immediately requiring entities with operations in those regions to provide sustainability-related financial information for the same reporting entity as the related financial statements would unnecessarily reduce the applicability of the standard and could, conversely, risk delaying the disclosure of the sustainability-related financial information that users seek. In light of this situation, we recommend to allow limited application of the standard, such as allowing disclosure of disclosable information, including qualitative explanations and quantitative information based on estimates, in regions where it is especially difficult to collect sustainability-related financial information.

83. (Confirmation 1: Regarding disclosure issues)
The S1 Standard (Draft) assumes that the information to be disclosed in sustainability-related financial disclosures is "material information" about "significant sustainability-related risks and opportunities"

identified by the entity. Conversely, it may upset the cost-benefit balance of disclosure to collect the same information for consolidated entities that have not identified "significant sustainability-related risks and opportunities" as for consolidated entities that have.

84. For example, when making sustainability-related financial reporting related to climate, it would upset the cost-benefit balance of disclosure practices to comprehensively collect information even on consolidated subsidiaries that have very little relevance to "significant climate-related risks and opportunities" (not material information).

85. Based on this, we would like to confirm that, entities for which no significant sustainability-related risks and opportunities are identified in light of the IFRS Sustainability Disclosure Standard are included in the scope of reporting entities but are not required to report (e.g., if the greenhouse gas emissions of a particular subsidiary are not material, that information is not required to be included).

86. (Confirmation 2: Treatment of other generally accepted accounting principles)
Paragraph 8 of the S1 Standard (Draft) stipulates that "An entity may apply IFRS Sustainability Disclosure Standards when the entity's related financial statements are prepared in accordance with IFRS Accounting Standards or other GAAP", providing that an entity may apply IFRS Sustainability Disclosure Standards even if it prepares its financial statements in accordance with generally accepted accounting principles other than IFRS.

87. Related to this point, it is assumed that non-IFRS generally accepted accounting principles may have different provisions for the scope of entities reporting financial statements than IFRS accounting standards. For example, some non-IFRS generally accepted accounting principles may allow a subsidiary that is not quantitatively or qualitatively material to be excluded from the scope of the reporting entities in the financial statements.

88. In such cases, we would like to confirm whether it is correct to understand that even if sustainability-related disclosures are prepared in accordance with the scope of the reporting entities under non-IFRS generally accepted accounting principles, they are still in compliance with the IFRS Sustainability Disclosure Standards.

89. (Regarding Question 5 (b))
(For or against the proposal)
We believe that the requirement to disclose information on sustainability-related risks and opportunities related to activities, interactions and relationships and use of resources along its value chain can be clearly and consistently applied, provided that the following proposals are incorporated.

90. (Concerns raised by preparers and users)
When preparers and users were invited to comment on the Exposure Draft, the following concerns were raised by the preparers and users in relation to the value chain:

(1) Appendix A of the S1 Standard (Draft) defines the value chain as "The full range of activities, resources and relationships related to a reporting entity's business model and the external environment in which it operates." However, this definition does not clearly define the scope of entities to be included in a value chain, and we are concerned that this could lead to significant differences in the scope of reporting among entities.
(2) Disclosure of information on value chains may lead to disclosure of information that is highly sensitive to business operations. For example, disclosing the results of a value chain analysis would disclose information on suppliers. However, disclosing information on suppliers that support each entity's technology is likely to be difficult because it could damage the competitiveness of the disclosing entity. In addition, disclosing risk information about specific trading partners and where in the value chain climate-related risks and opportunities are concentrated is likely to be difficult because it would lead to disclosing the risks of the trading partners in a way that is not intended by themselves.

91. (Proposal: Creating guidance)
To address these concerns, we recommend to supplement the definition by establishing guidance to help preparers consider what kinds of value chains to be included in the disclosure (for example, the size of the entity, e.g., whether to include sole proprietorships and small businesses; the scope of inclusion, e.g., up to how many tiers of contractors to be included; and the disclosure decision when business operations may be significantly affected, e.g., when it leads to the disclosure of confidential business information). We believe this would ensure clear and consistent application of disclosures about value chains.

92. (Regarding Question 5 (c))
(For or against the proposal)
We agree with the requirement in the Exposure Draft that "An entity shall disclose the financial statements to which the sustainability-related financial disclosures relate."

Question 6 -- Connected information

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| 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?<br>(a) (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? |

93. (Regarding Questions 6 (a) and (b))
(For or against the proposal)
We basically agree with the requirement stated in the S1 Standard (Draft), paragraph 42: "An entity shall provide information that enables users of general purpose financial reporting to assess the connections between various sustainability-related risks and opportunities, and to assess how information about these risks and opportunities is linked to information in the general purpose financial statements."

94. We then make the following two recommendations to facilitate a better understanding by users of the connection between sustainability-related risks and opportunities and the information in general purpose financial reporting, including financial statements, and to enhance the effectiveness of the standard.

95. (Proposal 1: Creating guidance on how detailed the information should be)
Regarding the "connected information" required to be disclosed by an entity, paragraph 43 of the S1 Standard (Draft) indicates that it "shall be clear and concise," and paragraph BC56, Basis for Conclusions, describes that the concept "could be used to explain the actual or potential implications of connections between risks and opportunities."

96. On that basis, paragraph 44 of the S1 Standard (Draft) and paragraph BC57, Basis for Conclusions, provide specific examples of "connected information," but these specific examples do not sufficiently cover a wide variety of types of information connections that exist. As a result, there may be differences in the types of disclosure among entities, and there is a concern that the comparability for users will not be ensured.

97. For this reason, we recommend that guidance that would contribute to the preparation for disclosing connected information be created by grouping together the types of "connected information" based on actual reported cases.

98. (<u>Proposal 2</u>: <u>Linkage to segment information</u>)
Paragraph 42 of the S1 Standard (Draft) does not specify the specific units of "connected information" to be disclosed.

99. In this regard, given that paragraph 15 of the S1 Standard (Draft) requires a description of an entity's business model in disclosing its strategy, it is considered reasonable to disclose by the business model or business domain.

100. In terms of linkage to financial information, IFRS 8, "Operating Segments," paragraph 5 (b), sets a requirement for an operating segment that its "operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance" and then requires disclosure at the reportable segments level determined based on operating segments by considering the quantitative thresholds.

101. In light of the above, <u>we recommend to clarify</u> that when identifying and explaining the connection between sustainability-related risks and opportunities and the information in general purpose financial reporting, including financial statements, <u>entities are required to disclose "connected information" by the unit of disclosure required by IFRS 8, "Operating Segments."</u>

Question 7 -- Fair presentation

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| 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.<br><br>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.<br><br>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?<br><br>(b) (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. |

102. (Regarding question 7 (a))
We believe that the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, is clear from the perspective of encouraging appropriate presentation.

103. (Regarding Question 7 (b))
We basically agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures as the presentation of the sources will lead to better understanding for both information preparers and users, and will facilitate the application of the standard, except for the following two points:

104. (Proposal 1: Organizing the positioning of individual standards)
Paragraph 51 of the S1 Standard (Draft) lists the disclosure topics in the SASB Standards and the CDSB Framework application guidance among others as standards that must be considered in the identification of sustainability-related risks and opportunities. However, given that the application of these two standards currently varies from country to country and region to region, we believe that it would not be appropriate to require an entity to comprehensively "consider" these specific standards, from the standpoint of inclusiveness and due process as international standards.

105. In addition, there are standards and guidance (e.g., indicators published by the World Economic Forum, GRI Standards, ISO, WICI Intangibles Reporting Framework for intellectual asset disclosure, Guidance for Collaborative Value Creation) that are being utilized in individual disclosure areas, so listing specific standards as "must-be-considered" standards would undermine the usefulness as an international standard.

106. Based on this, we recommend as follows: The second sentence of paragraph 51 of the S1 Standard (Draft) should read, "In addition to the IFRS Sustainability Disclosure Standard, an entity may consider the list below." And then this should be followed by "The following standards are illustrative and if there are standards more relevant to the sustainability-related financial information disclosed, then an entity may consider those standards as well."

107. (Proposal 2: Definition of "disclosure topic")
Appendix A of the S1 Standard (Draft) defines a "disclosure topic" as "A specific sustainability-related risk or opportunity based on the activities conducted by entities within a particular industry as set out in an IFRS Sustainability Disclosure Standard or an industry-based SASB Standard."

108. In this regard, given the current situation where the application of the SASB Standards varies from country to country and region to region, as noted in paragraph 104, we believe that the current definition, which includes specific standards in a limited manner, is not appropriate from the standpoint of inclusiveness and due process as international standards.

109. Based on this, we recommend that the definition of "disclosure topic" be changed to "A specific sustainability-related risk or opportunity based on the activities conducted by entities within a particular industry as set out in an IFRS Sustainability Disclosure Standard or other standards."

Question 8 -- Materiality

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| 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'.<br><br>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.<br><br>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<br><br>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.<br><br>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. |
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110. (<u>Regarding Question 8 (a)</u>)
We believe that the definition and application of materiality is <u>clear</u> in the context of sustainability-related financial information.

111. We believe that the proposed definition of materiality is clear in that it is consistent with IAS 1, "Presentation of Financial Statements," paragraph 7, and also with the "Conceptual Framework for Financial Reporting," paragraph 2.11 based on the perspective of considering the linkage to financial information.

112. (<u>Regarding Question 8 (b)</u>)
We 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. Paragraph 5 of the S1 Standard (Draft) states, "Enterprise value reflects expectations of the amount, timing and certainty 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." The proposed definition and application of materiality is also consistent with this explicit statement that the time horizon perspective is reflected in the enterprise value.

113. In addition, paragraph 58 of the S1 Standard (Draft) states, "Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, in the context of the entity's general purpose financial reporting. This [draft] Standard does not specify any thresholds for materiality or predetermine what would be material in a particular situation." Therefore, materiality is considered as an entity-specific aspect and no thresholds or particular situation is assumed.

114. In addition, paragraph 60 of the S1 Standard (Draft) states that "An entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from that disclosure is not material. This is the case even if the IFRS Sustainability

Disclosure Standard contains a list of specific requirements or describes them as minimum requirements." This clarifies that the determination of materiality belongs to the entity.

115. We believe that clarifying that no thresholds or particular situation is included in the definition and that the determination of materiality belongs to the entity, as described above, will lead to the preparers themselves proactively determining the materiality of sustainability-related financial information, and to the provision of sustainability-related financial information that is specific and concrete information about the entity for users. The definition of materiality in the Exposure Draft is appropriate from this point of view as well.

116. (Regarding Question 8 (c))
In order to enhance the usefulness of the Exposure Draft and related Illustrative Guidance for identifying material sustainability-related financial information, we make the following additional proposal:

117. (Proposal: Defining and creating guidance on significant sustainability-related risks and opportunities)
Paragraph 51 of the S1 Standard (Draft) requires that when an entity identifies significant sustainability-related risks and opportunities, it considers IFRS Sustainability Disclosure Standards, including identified disclosure topics, as well as the disclosure topics in the SASB Standards.

118. In this regard, as indicated in the body text of paragraph 51 of the S1 Standard (Draft) and the definition of sustainability-related financial disclosures in Appendix A, we understand that the identification shall be based on the perspective of "whether it is useful to users of general purpose financial reporting when they assess an entity's enterprise value," but the Illustrative Guidance does not provide a statement related to this item. For this reason, we are concerned that the determination of identification of significant sustainability-related risks and opportunities may vary widely among entities, and that comparability among entities may not be adequately ensured.

119. In order to ensure comparability of sustainability-related financial disclosures among entities and to make disclosures useful for users in assessing an entity's enterprise value, we propose that the S1 Standard define "significant risks and opportunities" and that guidance be created for identifying such risks and opportunities. In doing so, it may be a good idea to provide evaluation criteria for determining materiality (e.g., relevance to an entity's ability to create enterprise value).

120. Also, when defining "significant risks and opportunities" and creating guidance for their identification, it is important to ensure consistency and coherence between "management commentary" and S1 and S2 Standards, as described in paragraph 48 of "II. General Comments" and in paragraph 75 of "Question 2 -- Objective."

Question 9 -- Frequency of reporting

> 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?

121. (Regarding making the reporting period the same)
Paragraph 66 of the S1 Standard (Draft) states that "the sustainability-related financial disclosures shall be for the same reporting period as the financial statements." We agree with this provision as it is essential from the perspective of ensuring the relevance between financial information and sustainability-related financial information and the effectiveness of disclosures based on connected information.

122. (Proposal: Flexibility in interpretation of "simultaneous reporting")
On the other hand, we have reservations about the requirement that "An entity shall report its sustainability-related financial disclosures at the same time as its related financial statements."

123. For example, the compilation of activities and energy consumption, which form the basis for calculating greenhouse gas emissions, takes at least one month, and this period is expected to be even longer for entities that operate globally or have many consolidated entities. These circumstances are different from those of financial information, which is more streamlined in its compilation. In addition, considering the time required for assurance of the disclosed information, the industry has pointed out that it would be practically difficult or costly to complete all the preparatory work for disclosure of a wide range of sustainability-related financial information within three months after the end of the fiscal year, the deadline for submission of statutory documents (annual securities reports).

124. In addition, statutory documents (annual securities reports) are assumed to be the documents in which sustainability-related financial information will be published (general purpose financial reporting), and it is expected that core information will be presented in a consolidated and simultaneous manner in the future (*). Meanwhile, it is assumed that cross-references to integrated reports (disclosed by more than 700 companies in Japan) and sustainability reports will be used to provide more comprehensive information. In this connection, it has been pointed out that, with the rapid enhancement of the quality and quantity of sustainability-related financial information, significant additional costs would be required to synchronize the publication of all sustainability-related financial information with the publication of statutory documents. In addition, given that the framework of disclosure systems based on laws and regulations differs from country to country and region to region, the practical burden of "simultaneous reporting" is assumed to further increase for entities with a multinational presence.
(*) The Report of the Working Group on Corporate Disclosure of the Financial System Council (June 2022) proposed the establishment of a new section for sustainability information in statutory documents (annual securities reports).

125. For example, some countries and regions have laws that set a uniform fiscal year end for entities. If entities operating in such countries and regions are included in the reporting scope of a reporting entity, and their fiscal years differ from that of the reporting entity, it is assumed to be practically difficult to provide sustainability-related financial disclosures at the same time as the financial statements of the reporting entity.

126. In relation to these circumstances, paragraph B93 of IFRS 10 "Consolidated Financial Statements" provides certain mitigating provisions for cases where it is not practicable to prepare consolidated financial statements at the same reporting date: "the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary". This provision assumes the following requirements: "(the most recent financial statements of the subsidiary shall be) adjusted for the

effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements," "In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months," and "the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period."

127. In light of the provisions established for the reporting date of financial statements as indicated in the previous paragraph, it is reasonable to establish certain mitigating provisions for sustainability-related financial reporting, which is disclosed as information that is connected to financial reporting.

128. In light of these circumstances, we believe that while requiring preparers to make their utmost efforts toward simultaneous and timely reporting, consideration should be given to individual circumstances that make it difficult to release all information at the same time and to the cost-benefit balance of disclosure practices. Specifically, regarding the simultaneous reporting required in paragraph 66 of the S1 Standard (Draft), <u>we propose</u> to clearly state in the standard that, while, <u>in principle, an entity should "report simultaneously" to the extent practicable, a certain period of time is allowed for the publication of cross-reference documents and other materials</u> <u>on the assumption that more significant sustainability-related financial information is included in core documents</u>, as well as <u>to present this idea through Illustrative Guidance or other means.</u>

129. Even if the exception proposed in the preceding paragraph is established to allow non-simultaneous disclosure of sustainability-related financial information and the related financial statements, we also propose to clearly establish a requirement that the reporting period for the disclosure of sustainability-related financial information and that for the related financial statements be the same.

Question 10 -- Location of information

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?

130. (Regarding Question 10 (a))
We agree with the proposals about the location of sustainability-related financial disclosures (disclosing information required by the IFRS Sustainability Disclosure Standards as part of the entity's general purpose financial reporting)

131. (Regarding Question 10 (c))
(For or against the proposal itself)
We basically agree with the proposal that 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. However, in order to enhance the effectiveness of cross-references, we make the following two proposals:

132. (Proposal 1: Specifying the core documents)

As a result of excessive use of cross-references and a reduction in the amount of information contained in the core documents of general purpose financial reporting, there is a concern that the primary users may be forced to review many times documents to which cross-references are made when using general purpose financial reporting, resulting in a situation where the convenience of the users may be reduced. We propose that a system be established to ensure the effectiveness of cross-references so that excessive use of cross-references in this manner will not reduce the usefulness of the core documents of general purpose financial reporting. For example, it may be a good idea to stipulate that important information that constitutes the backbone of the core document should always be included in the core document without allowing cross-references.

133. There is another concern that in case of a cross-reference to disclosed information on the Internet, the information may be updated from time to time, which may result in inconsistencies with the explanations given by the document that makes the cross-reference. In order to prevent such inconsistencies, we also propose that provisions be established for handling cases where cross-referenced information has been updated.

134. (Proposal 2: Specifying conditions for use of cross-references)
Paragraph 75 of the S1 Standard (Draft) provides as a condition for use of cross-references 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." However, it is not clearly indicated in paragraph 75 nor in the related paragraphs BC80 and BC81 of the Basis for Conclusions, what kind of situation being available on the same terms and at the same time refers to, and there is a concern that a common understanding between the preparers and the users may not be fostered.

135. In order to avoid such a situation where the preparer has trouble making a decision on the use of cross-references, we propose that a specific provision be established or that specific examples be added on the conditions for use of cross-references.

136. (Regarding Question 10 (d))
Paragraph 78 of the S1 Standard (Draft) states that "When IFRS Sustainability Disclosure Standards require the disclosure of common items of information, an entity shall avoid unnecessary duplication." This was followed by "For example, when an entity integrates its oversight of sustainability-related risks and opportunities, the disclosures on governance shall also be integrated rather than provided in the form of separate governance disclosures for each significant sustainability-related risk and opportunity." By using governance-related disclosures as an example, this paragraph recommends integrated disclosures, and we believe that clarity is ensured.

137. In addition, paragraphs 6 and 18 of the S2 Standard (Draft) stipulate that unnecessary duplication of disclosures should be avoided by referencing the provisions in paragraph 78 of the S1 Standard (Draft), and we believe that the S2 Standard (Draft) is also clear in this regard.

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors

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.

(No answer is provided.)

Question 12—Statement of compliance

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?

138. (Regarding the statement of compliance)
We agree with the provision in Paragraph 91 of S1 Standards (Draft) "An entity whose sustainability-related financial disclosures comply with all of the relevant requirements of IFRS Sustainability Disclosure Standards shall include an explicit and unqualified statement of compliance."

139. Paragraph BC85 of the Basis for Conclusions specifies "The Exposure Draft proposes issuing disclosure-only Standards and if an entity meets these disclosure requirements, it can assert compliance with IFRS Sustainability Disclosure Standard. A qualified statement of compliance with the IFRS Sustainability Disclosure Standards would not be permitted." We understand that a provision with the same meaning is provided within the body of the Standard in the ISSB prototype disclosed in advance to the Exposure Draft.

140. (Confirmation: the change from ISSB prototype)
With regard to this point, we would like to confirm the reason why its handling was changed during the process from the ISSB prototype to the Exposure Draft since no background has been shown in the Basis for Conclusions.

141. (Regarding exceptions)
Paragraph 62 of S1 Standards (Draft) specifies "An entity need not disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. If an entity omits material information for that reason, it shall identify the type of information not disclosed and explain the source of the restriction." We agree with this provision except for the following two points and also require a confirmation regarding exceptions.

142. (Confirmation 1: Handling of information disclosure when resulting in a law violation)
An entity may provide "non-disclosure clauses" that specify the technical information and other related information required for production as confidential and prohibit disclosure of such information to any entity other than the contracting party. Although countries and regions may have different provisions or may not have legally prescribed clauses, disclosing any confidential information covered by the "non-disclosure clauses" may lead to a law violation and render the entity to face a penalty and pay a fine.

143. Paragraph 62 of S1 Standards (Draft) specifies "An entity need not disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information." In such a case, handling of the situation of law violation resulted from information disclosure which is not explicitly prohibited is not clearly specified.

144. For example, in the case of "non-disclosure clauses" described in Paragraph 142, disclosing information while violating these clauses may lead to non-fulfillment of obligation with respect to the act on contract established by the related country or region and likely to result in a law violation. However, it is not

clearly specified if the case, in which the clauses related to non-fulfillment of obligation are established as general clauses and “disclosure of technical information under non-disclosure clauses” is not explicitly prohibited, corresponds to paragraph 62 of S1 Standards (Draft) “local laws or regulations prohibit the entity from disclosing that information.”

145. Thus, we would like to confirm if paragraph 62 of S1 Standards (Draft) “if local laws or regulations prohibit the entity from disclosing that information” includes the cases in which disclosure of related information is not directly prohibited but information disclosure based on the general clauses leads to a law violation.

146. (Proposal 1: Handling of confidential business information)
When we gathered opinions about S1 Standards (Draft) from the industry, even if disclosure was not a law violation, preparers mainly from manufacturers pointed out that disclosing confidential business information, which directly connected to a company’s value creation represented by research and development of new products and technologies, complying with this Exposure Draft could result in damages of the company and value-chained companies.

147. On the other hand, with regard to the confidential business information, some users expressed some concerns about progress of material information disclosure since the original intent of the provision is lost or abandoned and the provision is abused, if a provision which has the same intent as that of the exceptive clause for the case in which information disclosure is prohibited by the law established in paragraph 62 of S1 Standards (Draft).

148. Based on the concerns of both preparers and users, we propose to establish an additional section for handling of confidential business information next to paragraph 62 of S1 Standards (Draft), a section which says “A company can omit disclosure of related information by explaining that it is not appropriate to disclose information since information disclosure is likely to lead to significant damages of company value.”

149. (Proposal 2: Treatment of the case in which access to information is difficult since it is just before the closing date)
It is assumed that there may be a case in which it is difficult to judge whether disclosure of an item, of which disclosure is determined to be required, is prohibited based on the local laws or regulations due to time constraint in such a case a major acquisition of company is performed at the timing near the closing date.

150. With regard to this point, paragraph B45 of IFRS 3 “Business Combinations” specifies “If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete.” and permits the acquirer to retrospectively adjust and fix the provisional amounts within the measurement period of one year.

151. Based on the fact that a provision is provided, which allows submitting a provisional report and then retrospectively adjusting it as shown above in the financial statements, we consider that it is reasonable to establish a rule with the same intent in the sustainability-related financial statements.

152. Thus, we propose to establish a rule to allow performing a provisional disclosure or providing a statement that explains why disclosure is difficult, and then retrospectively settling the disclosure within one year, if it is difficult to gather information timely and appropriately in practice for such a case in which a company is included in the reporting scope just before the closing date.

Question 13—Effective date

> 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?

153. (Regarding Question 13 (a))
(Why a certain time period is required)
About this question, several opinions are heard from the preparers who apply the proposed standards, which claim that the effective date should be set to a date after a certain period later from the date of issue of the final Standard since the following preparations are required:
    - Understanding the current state of the information of which disclosure is newly required
    - Developing the process for gathering the sustainability information (including the development of internal governance system)
    - Selecting the target companies, including the value chain companies, which are asked to gather information
    - Securing the human capitals required to perform the tasks written above, etc.

154. In addition to the above, as mentioned in paragraph 125 of Question 9 "Frequency of reporting," there were some opinions saying that some preparations are required to provide reports at the same timing and for the same period specified in paragraph 66 of S1 Standards (Draft) due to the differences of systems between countries and regions.

155. (About the period actually required)
On the other hand, regarding the period required for preparation mentioned in paragraphs 153-154, there were some opinions saying "several years are required" but no specific number of years was mentioned due to the following reasons:
    - It is difficult to provide an explicit period since the whole picture of the Standard Draft is not defined yet.
    - It is not possible to present a specific number of years at this point since it involves management judgement for arrangement of company structure and development of processes.

156. (Regarding Question 13 (b))
We agree with the proposal of Exposure Draft which indicates that a company does not request disclosure of the comparative information in the first period in which this Standards (Draft) is applied in order to facilitate timely application of the Standard.

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?

157. (Basically agree with the global baseline)
We strongly agree with the development of IFRS Sustainability Disclosure Standards conducted by IFRS Foundation based on the concept of the global baseline.

158. As shown in Paragraph BC78 of S1 Standard (Draft) Basis for Conclusions, IFRS Foundation provides the IFRS Sustainability Disclosure Standard as a global baseline, and each regulators and jurisdiction supplements the standard with the information that meets the information needs of other stakeholders, if necessary.

159. Such an approach is a rational method to satisfy the public policy needs in each regulatory agency and jurisdiction while ensuring the international comparability as a global baseline.

160. Based on the above discussion, the following discusses the concerns that could limit the ability of the IFRS Sustainability Disclosure Standards to be used in such a manner in the proposal of the Exposure Draft.

161. (Concern: Consideration of diversity in countries and regions)
As mentioned in paragraph 104 of Question 7 “Fair presentation,” although paragraph 51 of the S1 Standard (Draft) lists the disclosure topics in the SASB Standards and the CDSB Framework application guidance among others as standards that must be considered in the identification of sustainability-related risks and opportunities, application of such standards varies depending on the applied country or region.

162. In addition, as mentioned in paragraph 125 of Question 9 “Frequency of reporting,” the fiscal year end may be uniformly established by a law in some countries and regions. If a reporting company or value chain performs business in such a country or region, there is a concern that providing disclosure of the sustainability-related financial information and related financial statements at the same time may bear a heavy burden on the preparers since it is not possible to cope with such a situation by unifying the fiscal year end and so on.

163. As described in the above, when applying the sustainability disclosure standards, based on the fact that there are differences in the progress of sustainability disclosure and the disclosure system and framework depending on the country and region, inclusivity to the circumstances specific to the country and region should be ensured by adopting the proposals such as "allowing limited application in areas where information infrastructure is inadequate" in paragraph 82 of Question 5 "Reporting entity" and "flexibility in interpretation of "simultaneous reporting"" in paragraph 128 of Question 9 "Frequency of reporting."

Question 15—Digital report

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)?

164. When developing the taxonomy and digital reports for the sustainability-related financial information, we believe it is better to adopt the policy to build a single large ecosystem for company disclosure while incorporating the existing platform for the taxonomy and digital reports related to the financial report. This point is consistent with the concept of "Connected information" described in Question 6.

165. In addition, based on the fact that development of taxonomy has been performed based on XBRL for financial reports until now, we consider it is desirable to follow this policy also for the sustainability-related financial information.

166. Based on the above discussion, when developing the taxonomy and digital reports for the sustainability-related financial information, we believe it is necessary to have a detailed discussion on the granularity and contents of the information to be categorized as the taxonomy and digital reports when developing the design since it is assumed that the volume of qualitative disclosure items increases compared with the financial information.

167. In addition, with regard to specific disclosure requirements, we consider it is important to develop the design of disclosure framework which can ensure comparability since there may be some cases that have different prerequisites or calculation methods.

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?

168. (Regarding Question 16 (a))
The following provides our comments on the benefits and costs expected by applying this proposal, which should be considered by ISSB when analyzing the effects generated by proposing S1 Standard (Draft).

169. (Regarding benefits)
Making S1 Standard effective launches a large concept which forms the center pole (global baseline) of international sustainability-related financial disclosure. It is expected that the above discussion will lead to an arrangement of various ways of sustainability-related financial disclosure, and then lead to enhanced comparability of sustainability-related financial disclosure between companies, improved usefulness of the disclosure information itself, and higher efficiency of the capital markets.

170. (As the <u>prerequisite for benefits</u>: <u>Cooperation with other organizations</u>)
On the other hand, in addition to the IFRS Foundation, we understand that the EC (European Commission) and SEC (US Securities and Exchange Commission) are also considering similar standards or rules for sustainability-related financial disclosure. If there is a discrepancy between the standards and rules published by each of these entities and the standards published by the IFRS Foundation, the benefits mentioned in the preceding paragraph are expected to decline significantly. Therefore, in applying this Exposure Draft, <u>we encourage the ISSB to cooperate with the EC and the SEC as necessary and sufficient</u>.

171. (Regarding costs)
As mentioned in paragraph 153 of Question 13 "Effective date," when the Exposure Draft is to be applied and when the sustainability-related financial disclosure is developed by the preparer, many additional costs will be incurred on the part of the preparer to establish a system for grasping the current situation regarding information that is newly required to be disclosed, to establish a sustainability information collection process, and to secure human capital for that purpose.

172. In addition, as mentioned in the answer to Question 5 "Reporting entity," sustainability-related financial disclosure also requires disclosure of information on the value chain. However, in many cases, the companies included in the value chain are not required to disclose the same level of information as the listed companies by regulations. In this case, it is expected that applying this standard and additional standards that will be established for each sustainability points in the future will incur significant additional costs.

173. Based on these points, towards finalization of this standard, we request that the benefits and costs should be further balanced for both the user and the preparer.

174. (<u>Regarding Question 16 (b)</u>)
We would like to provide a comment on the cost that should be considered by ISSB and related to the continuous application of the proposal for this Exposure Draft.

175. We understand that in contrast to financial reports, sustainability-related financial disclosure is on the way to develop the internationally uniformed standard, and the standard for climate-related disclosure developed this time <u>will be more frequently revised compared with the accounting standard</u> based on the future international movement.

176. While it is necessary to revise the standards based on the international movement, it is expected that costs will be incurred for information collection corresponding to revisions of the standard for the preparer and increased complexity of disclosed information comparison over time according to revisions of the standard for the user of the sustainability-related financial disclosure. We believe that a consideration is required for continuous application of the standard.

Question 17—Other comments

| |
|---|
| Do you have any other comments on the proposals set out in the Exposure Draft? |

177. (Regarding the structure of core content)
S1 Standard (Draft) requires disclosure based on the TCFD recommendations focusing on four types of core contents: "governance," "strategy," "risk management," and "metrics and targets." On the other hand, Paragraph BC43 of the Basis for Conclusions specifies "Information focusing on this core content is necessary for users of general purpose financial reporting to assess enterprise value. The core content provides structure for the requirements, and are not intended to indicate that information must be reported in any specific order or prescribed format." It shows that the provision of core content does not intend to prescribe a specific order or style of disclosure.

178. With regard to this point, since the published S2 Standard (Draft) is a climate-related disclosure, it is considered that it has a high affinity with the provision based on the TCFD recommendations. On the other hand, with regard to the sustainability issues other than climate-related issues, the disclosure order and format focusing on the four core contents in the same way as the climate-related disclosure is not necessarily an appropriate disclosure style of the relevant sustainability issues for the users and preparers.

179. Thus, by clearly stating in the main body of S1 Standard (Draft) the statement in paragraph BC43 of the Basis for Conclusions, it is necessary to focus on four types of core contents set forth in S1 Standard (Draft), and to clarify that flexibility will be maintained with respect to the specific order or style of disclosure when considering new disclosure standards for sustainability issues in the future.

180. (Contribution to further development of standard in the future)
As described in Paragraph 9, both public and private entities are making sustained effort to enhance both the quality and quantity of unified report of companies in Japan. For example, the Ministry of Economy, Trade and Industry, providing the secretariat service for the study group, published Guidance for Collaborative Value Creation as the framework to provide support for the unified company reports and improve the quality of communication between the preparer and the user, and now it is performing an update task of the guidance by incorporating the sustainability transformation (SX) concept described in Paragraph 7.

181. To enhance disclosure of investment to human capitals, Cabinet Secretariat is studying the comprehensive disclosure policy which provide guidance to the preparer. It is expected that communication between the preparer and the user is deepened through such policy adjustment.

182. In addition, with regard to the discussion on the disclosure of natural capitals including the water resources, the Ministry of the Environment and the Financial Services Agency participate in the Task-force of Nature-related Financial Information Disclosure (TNFD) forum and awareness of the interested parties including companies is starting to grow.

183. Based on such a series of efforts and the feedbacks on them from the preparer and the user, we are going to aggressively contribute to development of international standards in the future.

**b) Answers to the question items on S2 Standard (Draft)**

Question 1—Objective of the Exposure Draft

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|---|
| Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting:<br>• to assess the effects of climate-related risks and opportunities on the entity's enterprise value;<br>• to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and<br>• to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities.<br>Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.<br>(a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?<br>(b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?<br>(c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why? |

184. (Regarding Question 1 (a))
This Exposure Draft defines the users of climate-related disclosure as the users of general purpose financial report (Existing and potential investors, lenders and other creditors), and then defines the objective of S2 standard as enabling the users to assess the effects of significant climate-related risks and opportunities on the entity's value. We agree with it except for the following points.

185. Paragraph 1 of S2 Standard (Draft) specifies "The objective of [draft] IFRS S2 *Climate-related Disclosures* is to require an entity to disclose information about its exposure to significant *climate-related risks and opportunities*, enabling users of an entity's *general purpose financial reporting*:" however as is the answer in Question 8 of S1 Standard (Draft), the Exposure Draft does not explicitly specify the matters that are classified as "significant" climate-related risks and opportunities.

186. We understand that the word "significant" used in S2 Standard (Draft) has a concept different from that of "material" and "materiality", however since there is no specific explanation of the word, and we have a concern that understandings of the word may vary depending on the readers. Therefore, as we proposed paragraph 47 of "II. General Comments," we recommend that the definition in the S1 Standard and additional guidance should be provided for the concept of "significant".

187. In addition, we believe that changing the title of the S2 Standard to "Climate-related Financial Disclosure" will improve the consistency of the title, the purpose, and the requirements.

188. (Regarding Questions 1 (a) and (c))
The purpose of this Exposure Draft is to focus on the information that enable the user of general purpose financial report to evaluate the effects of the climate-related risks and opportunities on the company value.

189. On the other hand, we have reservations about if the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1 of S2 Standard (Draft). As described in paragraph 22 of "II. General Comments" of this Opinion Paper, IFRS Sustainability Disclosure Standards should aim

to achieve an appropriate balance between comparability and corporate originality of disclosure details while focusing on the relevance between disclosed information and enterprise value. From this viewpoint, we believe that the position of the industry-based metrics defined in Appendix B should be amended according to the proposal described in paragraph 37 of “II. General Comments.” Individual issues are discussed in detail in the question items below.

Question 2—Governance

> Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. To achieve this objective, the Exposure Draft proposes
>
> that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities.
>
> The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies. The related TCFD's recommendations are to: describe the board's oversight of climate-related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities.
>
> Paragraphs BC57–BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.
>
> Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

190. We <u>agree with</u> the objective of climate-related financial disclosure on governance in <u>paragraph 4 of S2 Standard (Draft)</u> since it is useful for the preparer of disclosure to understand the information that should be disclosed according to the IFRS Sustainability Disclosure Standards.

191. <u>Paragraph 5 (c) of S2 Standard (Draft)</u> describes "the appropriate skills and competencies to oversee strategies designed to respond to climate-related risks and opportunities," however <u>the provision of "the appropriate skills and competencies" lacks concreteness and should be amended to a concrete provision</u>. For example, one possible way is to delete "appropriate."

192. In <u>paragraph 6 of S2 Standard (Draft)</u>, the provision "In preparing disclosure fulfill the requirements in paragraph 5, an entity shall avoid unnecessary duplication in accordance with [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* has been added. This dispels concerns about duplication of general requirements and climate-related disclosures, and we <u>agree with</u> this.

Question 3—Identification of climate-related risks and opportunities

> Paragraph 9 of the Exposure Draft proposes that an entity be required to identify and disclose a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity would be required to refer to the disclosure topics defined in the industry disclosure requirements (Appendix B).
>
> Paragraphs BC64–BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.
>
> (a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?
>
> (b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

193. (Regarding Question 3 (a))
We believe that the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities is clearly prescribed.

194. (Regarding Question 3 (b))
As specified in paragraph 10 of S2 Standard (Draft), we believe that referring to the disclosure topics defined in the industry-based disclosure requirements when identifying and explaining the significant climate-related risks and opportunities improve the comparability of disclosure and provide a useful start point for an entity to consider concrete risks and opportunities. We agree with the proposal since it is considered to be consistent with the two-stepped approach described in paragraph 24 of "II. General Comments."

195. We believe it should also be considered that disclosure topics that identify climate-related significant risks and opportunities should be positioned in the body of the S2 Standard since the two-stepped structure, which consists of identification of significant and specific climate-related risks and opportunities referring to concrete topics and disclosure of material information that represents identified significant information, is the fundamental element of the S2 Standard.

196. On the other hand, paragraph 11 of S2 Standard (Draft) prescribes "In preparing disclosures to fulfil the requirements in paragraphs 12–15, an entity shall refer to and consider the applicability of cross-industry metric categories and the industry-based metrics associated with disclosure topics, as described in paragraph 20."

197. As indicated in paragraph B7 of Appendix B, the industry-based disclosure topics and associated metrics are not exhaustive. In addition, as mentioned in paragraph 35 of "II. General Comments," as for the industry-based metrics prescribed in Appendix B, we understand that there are some points put forth against those metrics, such as that the metrics include those that continue to be problematic in terms of international applicability or usefulness as comparable metrics, those whose importance is low depending on the business region or business model, and those that are not strongly relevant to climate-related risks or opportunities. Also, the requirements are excessively detailed as a global baseline for various regions including emerging countries.

198. Based on these points, in order to implement disclosure that satisfies the requirements described from paragraphs 12 to 15, in light of the appropriate balance between comparability and corporate originality, since the most appropriate metrics shall be selected from not only the industry-based metrics prescribed in Appendix B but also various metrics including them, we propose in paragraph 11 to provide "In preparing a disclosure to fulfill the requirements in paragraphs 12-15, an entity shall use the metrics that the entity considers the most appropriate for explaining its situation. In so doing, the cross-industry metric categories prescribed in paragraph 20 and the disclosure topics and industry-based metrics prescribed in Appendix B shall be considered."

Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain

Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity's business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically-specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity's value chain.

As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity's value chain. The proposals would also require an entity to disclose where in an entity's value chain significant climate-related risks and opportunities are concentrated.

Paragraphs BC66–BC68 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?

(b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

199. (Regarding Question 4 (a))
We understand the importance of the information about the effects of significant climate-related risks and opportunities on an entity's business model, including in its value chain, however we would like to propose partial amendments of the Exposure Draft since various concerns are expressed by the preparers and users.

200. (Concern 1: Concern of the definition of value chain)
As indicated in the answer to Question 5 "Reporting entity" of the S1 Standard (Draft), the Exposure Draft defines the value chain as "The full range of activities, resources and relationships related to a reporting entity's business model and the external environment in which it operates." However, since the current definition does not clearly define the scope of entities to be included in a value chain, both the preparers and users have expressed concerns that this could lead to significant differences in the scope of reporting among entities.

201. (Concern 2: Concern of affects on the business)
The preparers and users have also expressed concerns that disclosing the information related to the value chain may lead to disclosure of information that is highly sensitive to the business operations and result in the affects on the preparer's business. For example, disclosing the results of a value chain analysis would disclose information on suppliers. However, disclosing information on suppliers that support each entity's technology is likely to be difficult because it could damage the competition strategy of the entity. In addition, disclosing risk information about specific trading partners and where in the value chain climate-related risks and opportunities are concentrated is likely to be difficult because it would lead to disclosing the risks of the trading partners in a way that is not intended by themselves.

202. To address these concerns, as mentioned in the answer (paragraph 91) of S1 Standard (Draft), we propose to supplement the definition by issuing guidance to help preparers consider what kinds of value chains to be included in the disclosure (for example, the size of the entity, e.g., whether to include sole proprietorships and small businesses; the scope of inclusion, e.g., up to how many tiers of contractors to be included; and the disclosure decision when business operations may be significantly affected, e.g., when it leads to the disclosure of confidential business information).

203. (Regarding Question 4 (b))
From the following viewpoint, re-examination is required on the point that the disclosure required for an entity about concentrations of climate-related risks and opportunities should be qualitative rather than quantitative.

204. Since it is difficult to show the quantitative information about concentrations of climate-related risks and opportunities of an entity, it is anticipated that the volume of qualitative information increases. Since Basis for Conclusions (paragraph BC67) also indicates “However, relevant quantitative disclosures may create measurement challenges for preparers,” we believe it is appropriate as recognition of current situation.

205. On the other hand, we believe that it is not necessary to confine that information “should be qualitative” since it is appropriate that the type of information to be disclosed should be determined by the entity based on the availability and materiality of information. Thus, we propose that paragraph 12 (b) should be “An entity shall disclose qualitative or quantitative information that enables users of general purpose financial reporting to understand its assessment of the its assessment of the current and anticipated effects of significant climate-related risks and opportunities on its business model.”

Question 5—Migration plan and carbon offset

> Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.
>
> Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate-related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity.
>
> An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity's enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity's emissions targets. This proposal reflects the need for users of general purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets.
>
> The Exposure Draft proposes that entities disclose information about the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity's climate-related strategy are complementary to, but fundamentally different from, the entity's emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance.
>
> The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets.
>
> Paragraphs BC71–BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.
>
> (a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?
>
> (b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.
>
> (c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?
>
> (d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

206. (<u>Regarding question 5</u>)
The proposed disclosure requirements for transition plans generally covers the information required by users of the general purpose financial report, <u>we basically agree with it except for the following two points</u> regarding paragraph 13(a)(i)(1) of S2 Standard (Draft).

207. (<u>Proposal 1. Regarding legacy assets</u>)

Paragraph 13(a)(i)(1) of S2 Standard (Draft) requires disclosure of "information about changes the entity is making in strategy and resource allocation to address the risks and opportunities identified in paragraph 12." One example of such a change is the "Plans for legacy assets."

208. On the other hand, legacy assets are defined in Appendix A as "An asset that has remained on an entity's statement of financial position for a long period of time and has since become obsolete or has lost nearly all of its initial value." However, it is assumed that such assets have already been impaired for accounting purposes and have poor monetary importance.

209. Disclosure requirements based on the current definition require disclosure of plans for assets that have already been impaired and are considered not to be useful information for users of the general purpose financial report. On the other hand, if a company has assets in its possession that it is expected to lose value as transition to a low-carbon economy, information about those assets is considered to be useful to its users.

210. Based on the above, we would like to propose the definition of legacy assets in Appendix A as "An asset that has remained on an entity's statement of financial position for a long period of time and that a company expects in its transition plan that they may become obsolete or lose nearly all of its initial value in the future."

211. In addition, it is not necessary to indicate that what is presented as "including strategies to manage carbon-energy- and water- intensive operations, and to decommission carbon-energy- and water-intensive assets" is included in the "plans and critical assumptions for legacy assets" since it is for the entity to determine in its transition plan whether an asset is a legacy asset, as proposed in paragraph 210. Based on the above, we propose to delete the provision "including strategies to manage carbon-energy- and water-intensive operations, and to decommission carbon-energy- and water-intensive assets".

212. Even if the proposal in paragraph 211 is not accepted, the assets identified in the provision "including strategies to manage carbon-energy- and water-intensive operations, and to decommission carbon-energy- and water-intensive assets" may be indispensable infrastructure for economic activities and security, and the provision that is uniformly premised on disposal may lack neutrality as a disclosure standard.

213. At the very least, the phrase "strategy to decommission carbon-energy- and water-intensive assets" should be changed and the last sentence of paragraph 13 (a)(i)(1) needs to be amended to "This information includes plans and critical assumptions for *legacy assets*, including strategies to manage carbon-energy- and water-intensive operations, and strategies for carbon-energy- and water-intensive assets)."

214. (Proposal 2. Regarding carbon-energy- and water-intensive operations and assets)
Paragraph 13(a)(i)(1) of S2 Standard (Draft) also requires disclosure of carbon-energy- and water-intensive operations and carbon-energy- and water-intensive assets. However, there are opinions from industry that it is difficult to make a judgement because "intensive" is a relative criterion. Enforcement difficulties are also expected for regulatory agencies that introduce IFRS Sustainability Disclosure Standards.

215. If this requirement is retained notwithstanding the proposal in paragraph 211, we believe it is necessary to provide specific criteria that contribute to the judgement of "intensive".

Question 6—Current and anticipated effects

The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.

The TCFD's 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons

associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and

opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks).

Similar concerns were raised by members of the TRWG in the development of the climate-related disclosure prototype following conversations with some preparers. The difficulty of providing single-point estimates due to the level of uncertainty regarding both climate outcomes and the effect of those outcomes on a particular entity was also highlighted. As a result, the proposals in the Exposure Draft seek to balance these challenges with the provision of information for investors about how climate-related issues affect an entity's financial position and financial performance currently and over the short, medium and long term by allowing anticipated monetary effects to be disclosed as a range or a point estimate.

The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

Paragraphs BC96–BC100 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?

(b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?

(c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

216. (<u>Regarding question 6 (a)</u>)

We agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to so, in which case qualitative information shall be provided.

217. The reason is that factors that affect financial performance, financial position, and cash flow are not limited to climate change, and from various factors, it may be difficult to strictly classify and quantitatively indicate only factors related to climate change. In addition, it is assumed that disclosure of anticipated effects must be qualitatively explained in view of the possibility of legal liability. Based on the above, we believe that disclosure of qualitative information, not limited to quantitative information, should be accepted.

218. In addition, when quantitative information is provided, we agree with allowing disclosure of a single amount or a range as it also promotes the disclosure of quantitative information and provides more reliable information.

219. (Regarding Question 6 (c))
We agree with proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium, and long term because it is useful for the users of general purpose financial reporting.

220. However, the anticipated effects over the short, medium, and long term are forward-looking information, and if there is a significant change in assumptions, the disclosed forward looking information may not necessarily be realized. Therefore, it is necessary to require that the key assumptions used in estimating the effects be disclosed together so that the users of general purpose financial reporting can fully understand the characteristics of the information.

221. In addition, it is necessary to inform the preparers, users, and regulatory agencies of the following points through the description in the Basis for Conclusions.

   (1) The users should be informed that the information regarding the expected effects is based on certain assumptions and does not guarantee its realization. In addition, the preparers should be informed that it is desirable to display cautions regarding information on anticipated effects at the time of disclosure.

   (2) The regulatory agencies should be informed that climate-related disclosures may include long-term estimates, and it is desirable to avoid making the disclosure content passive due to penalties applied to forward-looking information.

Question 7—Climate resilience

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general purpose financial reporting need to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity's analysis of the resilience of its strategy to climate-related risks. These requirements focus on:

- what the results of the analysis, such as impacts on the entity's decisions and performance, should enable users to understand; and
- whether the analysis has been conducted using:
  - climate-related scenario analysis; or
  - an alternative technique.

Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity's findings from the analysis inform its strategy and risk management decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity's strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.

Although scenario analysis is a widely accepted process, its application to climate-related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses.

Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing.

Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy. Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value.

The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience.

Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term.

It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate-related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.

Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?

(b) The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.

 (i) Do you agree with this proposal? Why or why not?

 (ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?

 (iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

(c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

(d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

(e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

222. (Regarding Questions 7 (b) (i))
We agree with the proposal that if an entity is unable to perform a climate-related scenario analysis, it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis, and stress tests) instead of scenario analysis.

223. It is important for companies to explain their resilience to climate change, and scenario analysis is considered to be an influential method for that purpose. However, as indicated in paragraph BC90 of Basis for Conclusion, "at this time the application of climate-related scenario analysis for entities is still developing." Therefore, we believe it is rational to accept methods other than scenario analysis.

224. (Regarding Questions 7 (b) (ii))
We agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reasons.

225. (Regarding Questions 7 (b) (iii))

We disagree with requiring all entities to undertake climate-related scenario analysis to assess climate resilience.

226. As shown in paragraph BC90 of Basis for Conclusion, the application of scenario analysis for entities is still developing, and it is difficult to say that this analysis method is well established in various industries. It is also possible that a scenario analysis is less meaningful in explaining climate resilience for companies where the effect of climate-related risks and opportunities is less important.

227. (Regarding Question 7 (e))
We believe that the proposed disclosure requirements may not appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change.

228. When applying the proposed disclosure requirements, it is expected that the cost will be significantly higher on the preparer side, especially for a company that performs resilience assessment for the first time.

229. We recommend that the ISSB publish a guidance document or a collection of best practices related to climate resilience assessment (including analysis using climate scenarios and analysis using other methods) to reduce the burden on the preparer and improve the quality of the analysis.

Question 8—Risk management

An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities.

Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response.

Paragraphs BC101–BC104 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

230. We agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess, and manage climate-related risks and opportunities.

231. In paragraph 18 of S2 Standard (Draft), the provision "In preparing disclosures to fulfil the requirements in paragraph 17, an entity shall avoid unnecessary duplication in accordance with [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*." has been added. This dispels concerns about duplication of general requirements and climate-related disclosures, and we agree with this.

Question 9—Cross-industry metric categories and greenhouse gas emissions

The Exposure Draft proposes incorporating the TCFD's concept of cross-industry metrics and metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the

Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD's criteria were considered. These criteria were designed to identify metrics and metric categories that are:

- indicative of basic aspects and drivers of climate-related risks and opportunities;
- useful for understanding how an entity is managing its climate-related risks and opportunities;
- widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and
- important for estimating the financial effects of climate change on entities.

The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.

The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity's investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol.

To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:

- separately Scope 1 and Scope 2 emissions, for:
  - the consolidated accounting group (the parent and its subsidiaries);
  - the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and
- the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity share or operational control method in the GHG Protocol Corporate Standard).

The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.

Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energyefficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.

For Scope 3 emissions, the Exposure Draft proposes that:

- an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;
- an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;
- if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and
- if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.

Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes nonmandatory Illustrative Guidance for each cross-industry metric category to guide entities.

Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?

(b) Are there any additional cross-industry metric categories related to climaterelated risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.

(c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?

(d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in $CO_2$ equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane ($CH_4$) separately from nitrous oxide ($NO_2$))?

(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:

  (i) the consolidated entity; and

  (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

| | |
|---|---|
| (f) | Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why? |

232. (Regarding Question 9 (a))
The seven cross-industry metric categories are recommended to be disclosed in the TCFD Guidance (Guidance on Metrics, Targets, and Transition Plans). We agree with the proposal to adopt them as cross-industry metric categories except for the following points.

233. The internal carbon prices in paragraph 21(f) and remuneration in paragraph 21(g) of S2 Standard (Draft) is in the process of being introduced by companies, and it is also expected that the introduction will have little significance in industries with low emissions. Based on this, regarding paragraphs 21(f) and (g), we recommend that the disclosure be required as to whether internal carbon prices and remuneration are set in an entity first, then that an entity that have set the internal carbon prices and remuneration be required to disclose the detailed information that follows, and that those that have not be required to explain the reason.

234. (Regarding Question 9 (c))
The GHG Protocol is the most widely used standard for measuring greenhouse gas emissions by companies, and we agree with requiring entities to use it in principle.

235. On the other hand, depending on the country/region, there may be a system whereby companies disclose their greenhouse gas emissions based on their own calculation method of greenhouse gas emissions established by the country/region. Therefore, we would like to propose that paragraph 21(a)(i) of S2 Standard (Draft) states "its absolute gross greenhouse gas emissions generated during the reporting period, measured in accordance with the *Greenhouse Gas Protocol Corporate Standard*, expressed as metric tonnes of CO2 equivalent (when a calculation method other than the *Greenhouse Gas Protocol* is used, an entity can disclose the value based on the calculation method after clarifying the difference with the corporate standard of the *Greenhouse Gas Protocol*, classified as:"

236. (Regarding Question 9 (e))
We recommend that partial amendment should be made to the requirement to disclose Scope 1 and Scope 2 emissions for each of a) the consolidated accounting group, b) associates, joint ventures, unconsolidated subsidiaries, or affiliates not included in the consolidated accounting group.

237. (Associates, joint ventures, unconsolidated subsidiaries, or affiliates)
Regarding associates, joint ventures, unconsolidated subsidiaries, or affiliates not included in the consolidated accounting group, the preparers do not have control. Therefore, it is considered that obtaining data from these companies often puts a significant burden on the preparers or is often impossible to deal with in practice.

238. For this reason, we disagree with making uniform disclosure requirements for associates, joint ventures, unconsolidated subsidiaries, and affiliates not included in the consolidated accounting group.

239. On the other hand, excluding all information from these companies from disclosure may lead to concerns that information on significant climate-related risks and opportunities will not be adequately disclosed. Therefore, for associates and joint ventures that are important in the business activities of a company, we would like to propose revising the disclosure requirements to the content that requires disclosure of Scope 1 and Scope 2 emissions if information can be obtained.

240. "Affiliates" is a term used in IFRS 9 "Financial Instruments", but is not defined in both IFRS 9 and S2 Standard (Draft). Given that other terms (associates, joint ventures, and unconsolidated subsidiaries) have relevant provisions in the IFRS accounting standards, requiring data to be submitted without defining "affiliates" is considered to be inappropriate because there is a concern that the scope of "affiliates" greatly varies between companies.

241. (Regarding consolidated companies)
Some companies have hundreds of consolidated subsidiaries worldwide, but some consolidated subsidiaries have almost no GHG emissions. Therefore, it is impractical to collect data on the scope 1 and scope 2 emissions from strictly all consolidated subsidiaries.

242. Based on the above, regarding the scope 1 and scope 2 emissions, we believe that the scope of consideration should be limited to consolidated companies, associates, and joint ventures, and that an entity itself should decide the scope of reporting based on materiality. Specifically, regarding paragraph 21(a)(iii) of S2 Standard (Draft), we recommend that the following amendments should be made.
"for Scope 1 and Scope 2 emissions disclosed in accordance with paragraph 21(a)(i)(1)-(2), the entity shall disclose emissions separately for the following. However, it is only limited to cases where the emission of the following entities is material.
(1) the consolidated accounting group (the parent and its subsidiaries)
(2) associates and joint ventures (limited to entities that have materiality in terms of financial position, financial performance, and cash flows and when their information is collected within the associates or joint ventures and is available to the entity).

243. (Regarding Question 9 (f))
We basically agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities subject to materiality as the Scope 3 emissions are an important metric, and some companies calculate and disclose them.

244. On the other hand, Scope 3 emissions has problems such as low availability of necessary data and variations in the method for calculating emissions among companies. The TCFD also points out that there are the data and methodological challenges associated with calculating Scope 3 emissions, and while Scope 1 and 2 emissions are required to be disclosed by all companies regardless of their materiality assessment, the disclosure of Scope 3 emissions is subject to materiality.

245. Based on this situation, it is considered that it is practically difficult to treat Scope 3 emissions and Scope 1 and Scope 2 emissions in the same way at this time.

246. Therefore, we propose the following three points.

(1) First, in the quantification of emissions, emission data calculated using activity data and emission factors are often used. However, in the calculation, there is a case of using activity-specific data (primary data) and a case of using estimates based on various data such as industry average data (secondary data). Therefore, in paragraph 21(a) of S2 Standard (Draft), it is necessary to clearly indicate that it is possible to report emissions based on estimates, and to indicate the type of calculation method.
(2) In addition, Scope 3 emissions cover all indirect emissions generated in a company's value chain, but it is not reasonable to require calculating Scope 3 emissions related to corporate activities that do not lead to significant climate-related risks and opportunities because the costs associated with such work cannot justify the benefits to be gained. The decision on which activities to include in Scope 3 emissions should be made by a company based on materiality. The scope of data collection and calculation will be clarified, which will be useful for corporate judgement by making paragraph 21(a)(vi)(1) of S2 Standard (Draft) as follows: "an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions. In doing so, an entity shall include entities that are affected by significant climate-related risks and opportunities identified in paragraph 12(a)."

(3) Furthermore, from the perspective of balancing the importance of Scope 3 emissions information with practical challenges, for an entity that have difficulty to disclose Scope 3 emissions, we would propose requiring the entities to explain plans and roadmaps for disclosure, including specific targets for how much disclosure should be made on what year, along with the inability to disclose information at this time.

Question 10—Target

> Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity's targets compare with those prescribed in the latest international agreement on climate change.
>
> The 'latest international agreement on climate change' is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what degree its own targets compare to the targets in the Paris Agreement.
>
> Paragraphs BC119–BC122 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.
>
> (a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?
>
> (b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

247. (Regarding Question 10 (a))
We agree with the disclosure requirements regarding climate-related target proposed in paragraph 23 of S2 Standard (Draft). However, the following two points must be clarified.

(a) Since the routes to achieve carbon neutrality vary by country, region, industry, and company, roadmaps and plans are set in each jurisdiction based on such diverse situations and consistency with the Paris Agreement. Companies often set specific targets based on such a roadmap. Therefore, we recommend that paragraph 23(e) specify "how the target compares with those created in the latest international agreement on climate change (including the roadmap of each jurisdiction or industry based on the international agreement), and whether it has been validated by a third party."

(b) It is necessary to clarify what "sectoral decarbonisation approach" in paragraph 23(f) exactly means. Some jurisdictions or industry groups have set roadmaps for each sector based on the latest international agreements. We would like to confirm that those are also included in "sectoral decarbonisation approach".

248. (Regarding Question 10 (b))
The definition of the proposed "latest international agreement on climate change" is clear.

Question 11—Requirements for each industry

The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype.

The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype.

The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. In this case, the Exposure Draft proposes amendments (relative to the SASB Standards) to include references to international standards and definitions or, where appropriate, jurisdictional equivalents.

Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the industry-based requirements.

(a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

(b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

(c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. The proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).

Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals for financed or facilitated emissions.

(d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?

(e) Do you agree with the industries classified as ‘carbon-related’ in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?

(f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?

(g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?

(h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don’t agree, what methodology would you suggest and why?

(i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

Overall, the proposed industry-based approach acknowledges that climate-related risks and opportunities tend to manifest differently in relation to an entity’s business model, the underlying economic activities in which it is engaged and the natural resources upon which its business depends or which its activities affect. This affects the assessment of enterprise value. The Exposure Draft thus incorporates industry-based requirements derived from the SASB Standards.

The SASB Standards were developed by an independent standard-setting board through a rigorous and open due process over nearly 10 years with the aim of enabling entities to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner. The outcomes of that process identify and define the sustainability-related risks and opportunities (disclosure topics) most likely to have a significant effect on the enterprise value of an entity in a given industry. Further, they set out standardised measures to help investors assess an entity’s performance on the topic.

Paragraphs BC123–BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals related to the industry-based disclosure requirements.

While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment of other requirements in the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49–BC52).

(j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

(k) Are there any additional industry-based requirements that address climaterelated risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

| |
|---|
| (l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why? |

249. (Regarding Questions 11 (a) (b) (j))
Approaches indicated in S2 Standard (Draft) need to be amended.

250. As indicated in paragraph 23 in "II. General Comments," we agree with the adoption of a structure consisting of S1 Standard, S2 Standard, and industry-based metrics (Appendix) as an effort to enhance comparability while adjusting the relevance between sustainability-related financial information and corporate value, which varies according to theme and industry.

251. (Structure required for disclosure standards)
In addition, in order for entities to appropriately express their original business models and strategies for the transition, etc. of such business models and ensure the relevance between disclosed information and enterprise value (value relevance) and a balance between comparability and corporate originality, it is desirable that the following actions should be implemented:

(1) in principle, each entity should, rather than being required to consider the adoption of individual metrics, be required to make a two-stepped judgement (two-stepped approach) that involves the identification of significant management issues first and then the disclosure of material information that appropriately expresses the management issues;

(2) on the basis of the above principle, the entity's responses to the requirement of comparability should be factored in by requiring the entity to refer to and consider theme-based and/or industry-specific matters (those matters that users generally expect the management to identify as significant issues) that should be referred to in the identification of significant issues and to disclose the information whose disclosure is generally expected by users as material information that expresses such matters; and

(3) in so doing, from the aspect of developing flexible and inclusive standards as global baselines, specific disclosure requirements should, for the time being, be generalized and "category-based" or "topic-based" requirements rather than excessively detailed requirements; and individual detailed metrics such as industry-based metrics should not be included as requirements under standards at first and should be regarded as reference points for the entity in determining its own metrics and considered over time in a stepwise manner from the aspect of their usefulness and applicability in the designing of international standards

(for example, with respect to the disclosure of information on the energy efficiency performance of houses in the homebuilding industry, a broader concept associated with the energy efficiency of houses should be a disclosure topic, rather than determining as requirements those individual metrics that pose issues from the aspect of international conformity).

252. (Proposal: Amendment of position of paragraph 20(b))
Paragraph 20(b) of S2 Standard (Draft) provides that "industry-based metrics (as set out in Appendix B) which are associated with disclosure topics and relevant to entities that participate within an industry, or whose business models and underlying activities share common features with those of the industry," shall be disclosed. This provision requires the disclosure of the detailed metrics for 68 industries and in 350 types prescribed in Appendix B, irrespective of identified "significant climate-related risks and opportunities," which is not only inconsistent with the concept of an appropriate balance between comparability and corporate originality and the "two-stepped approach" described in paragraphs 23 and

24 in "II. General Comments," respectively, but also inharmonious with the other provisions of S2 Standard (Draft) (paragraphs 11 and 20(a)).

253. Specifically, while the detailed metrics for 68 industries and in 350 types prescribed in Appendix B can be highly regarded owing to corrections made to those metrics at the time of prototype from the aspect of international applicability, we understand that there are some points put forth against those metrics, such as that the metrics include those that continue to be problematic in terms of international applicability or usefulness as comparable metrics, those whose importance is low depending on the business areas or business models, and requirements are excessively detailed as a global baseline for various regions, including emerging markets.

254. On the basis of these perspectives, we believe it is reasonable to hold that the <u>disclosure requirements under paragraph 20(b) of S2 Standard (Draft)</u> are "information relevant to the industry-based disclosure topics set out in Appendix B," and that the industry-based metrics should be treated as <u>subject to consideration</u> at least initially.

255. Specifically, we recommend that, with <u>paragraph 20(b) of S2 Standard (Draft)</u> providing "<u>information relevant to the industry-based disclosure topics</u> set out in Appendix B," a new paragraph should be established after the current paragraph 22 to provide "<u>The industry-based metrics associated with the disclosure topics set out in Appendix B shall be considered</u> <u>when a disclosure is prepared to satisfy the requirements prescribed in paragraph 20(b)</u>" or to a similar effect.

256. Moreover, it is desirable to further consider industry-based metrics from the aspect of international applicability and usefulness as comparable metrics. In particular, we believe that the study on such metrics should be deepened during a certain initial period in accordance with the following classifications before considering the method of application of such metrics:
(1) industry-based disclosure topics that should be incorporated into the main body of S2 Standard (those disclosure topics that users generally expect the management to identify as significant issues);
(2) industry-based metrics that should be incorporated into the main body of S2 Standard (those industry-based metrics that are relevant to disclosure topics and that are generally expected by users as material information and whose global applicability/usefulness can be ensured); and
(3) a set of industry-based metrics that should be positioned as supplements to S2 Standard (those industry-based metrics which are difficult to globally apply and to be fair metrics, although they are relevant to the disclosure topics that users generally expect the management to identify as significant issues).
In so doing, a potential approach to the metrics classified into (3) is to consider them taking account of the characteristics of the region/jurisdiction in cooperation with relevant organizations therein and refine those metrics as a set of metrics that companies can select. In this process, collaboration among the ISSB, the ISSB offices in regions, and relevant organizations is also expected.

257. (<u>Supplement</u>: relationship between S1 Standard (Draft) 60 and S2 Standard (Draft) Appendix B "Industry-based disclosure request" B6)
Relatedly, regarding how the requirements of the S1 Standard (Draft) and the provisions of the S2 Standard (Draft) are applied in combination for the 68 industries and 350 types of metrics specified in "Appendix B," there are some parts where the relationship is not always clear. Specifically, it is <u>the relationship between S1 Standard (Draft) 60 and S2 Standard (Draft) Appendix B "Industry-based disclosure requirements" B6</u>.

258. First, paragraph 60 of S1 Standard (Draft) stipulate that "An entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from that disclosure is not material. This is the case even if the IFRS Sustainability Disclosure Standard contains a list of specific requirements or describes them as minimum requirements."

259. On the other hand, paragraph B6 in S2 Standard (Draft) Appendix B "Industry-based disclosure requirements" stipulates that "the responsibility for making materiality judgements and determinations rests with the reporting entity for all requirements in IFRS Sustainability Disclosure Standards, including this Standard. Therefore, an entity shall disclose information related to a specific requirement when it concludes that the information is material to the users of the information in assessing the enterprise value of the entity."

260. Although these provisions use different expressions, which are "An entity need not provide...if the information resulting from that disclosure is not material" and "an entity shall disclose information related to a specific requirement when it concludes that the information is material," these phrases state substantially the same content. In addition, as pointed out in paragraph 58 hereof above, the relationship between S1 Standard and S2 Standard and the application of paragraph 60 of S1 Standard (Draft) to S2 Standard (Draft) are clear. Therefore, the provisions of paragraph B6 of S2 Standard (Draft) are considered to be originally unnecessary.

261. In this regard, as pointed out in paragraph 34 hereof, we analysed that, from the aspect of alleviating the imbalance in detailedness of the requirements set out in S2 Standard (Draft) following the establishment of "industry-based metrics (as set out in Appendix B)" as a direct disclosure requirement in paragraph 20(b) of S2 Standard (Draft) irrespective of the identification of "significant climate-related risks and opportunities," the establishment of paragraph B6 of Appendix B "Industry-based disclosure requirements" had been necessary for the purpose of confirmation.

262. However, we believe the confirming provisions of paragraph B6 will not be necessary, if the imbalance of the disclosure requirements is corrected, if the provisions of paragraph 20(b) of S2 Standard (Draft) are changed to "information relevant to the industry-based disclosure topics set out in Appendix B" as proposed in paragraph 37 hereof, and if a new paragraph is established immediately after the current paragraph 22 of the Standard to provide, "The industry-based metrics associated with the disclosure topics set out in Appendix B shall be considered when a disclosure is prepared to satisfy the requirement prescribed in paragraph 20(b)," or to a similar effect. These points are also considered to suggest the necessity of amending paragraph 20(b) of the current S2 Standard (Draft).

263. (Regarding Question 11 (k))
When we asked for comments from industrial groups and companies regarding prototypes and the Exposure Drafts in a questionnaire, the following concerns were raised regarding about 40 individual industry-metrics among the industry-based requirements, for example.

- It includes metrics that belong to themes other than climate change and are not strongly related to climate change.
(Example: Regarding "RT-EE-410a.1: Percentage of products by revenue that contain IEC 62474 declarable substances" of "Electrical & Electronic Equipment," IEC62474 is an international standard related to transmission of information on contained chemical substance for responding to chemical regulations and have a different purpose as compared with climate-related disclosure.)
- In terms of international applicability and usefulness as comparable metrics, metrics that continue to be problematic are included. (Example: Regarding "CG-AM-410a.2" of "Appliance Manufacturing," AHAM Sustainability Standard is a voluntary standard in the United States and inappropriate as an international standard for countries and regions without a certification system.)
- It includes metrics that may have a negative effect due to disclosure on competition.
(Example: In "IF-EU-000.E：Total wholesale electricity purchased" of "Electric Utilities & Power Generators", there are concerns about negative effect such as the risk of disadvantage in procurement negotiations by combining the information with other disclosure information such as the purchase price of wholesale electricity, which may lead to the identification of the procurement unit price.)

264. From the perspective of responding to these specific concerns, as indicated in paragraph 255, it is desirable that, with paragraph 20(b) of S2 Standard (Draft) providing “information relevant to the industry-based disclosure topics set out in Appendix B,” a new paragraph should be established after the current paragraph 22 to provide “The industry-based metrics associated with the disclosure topics set out in Appendix B shall be considered when a disclosure is prepared to satisfy the requirements prescribed in paragraph 20(b)” or to a similar effect.

265. For specific comments on each industry-based metric, please refer to the attached “Examples of opinions and comments from industry associations and companies about Appendix B (reference material).”

266. (Regarding Question 11 (l))
We generally agree with the concept of industry classification used to ensure the applicability of industry-based disclosure requirements. Then, from the viewpoint of making the application by the preparer more effective, we would like to make one suggestion.

267. In paragraph B9 in S2 Standard (Draft) Appendix B, it provides that, in the case of entities participating in a broad range of activities that are likely to span more than one industry (conglomerates, etc.), more than one set of industry-based requirements may be required to be applied. However, in this description, it is not clear which industry classification an entity should adopt. Therefore, we recommend that the ISSB should issue a guidance document outlining the concept of industry classification selection.

Question 12—Costs, benefits, and likely effects

Paragraphs BC46–BC48 of the Basis for Conclusions set out the commitment to ensure 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?

(c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

268. (Regarding Questions 12(a) and (b))
Making S2 Standard effective launches a large concept which forms the center pole (global baseline) of international climate-related disclosure. It is expected that this will lead to the arrangement of the various climate-related disclosures that currently exist, and then lead to enhanced comparability of climate-related disclosures among companies, improved usefulness of the disclosed information itself, and higher efficiency of the capital markets.

269. On the other hand, in addition to the IFRS Foundation, we understand that the EC (European Commission) and SEC (US Securities and Exchange Commission) are also considering similar standards or rules for climate-related disclosure. If there is a discrepancy between the standards and rules published by each of these entities and the standards published by the IFRS Foundation, the benefits mentioned in the preceding paragraph are expected to decline significantly. Therefore, in applying this Exposure Draft, we encourage the ISSB to cooperate with the EC and the SEC as necessary and sufficient.

270. In addition, when the Exposure Draft is to be applied, many additional costs will be incurred on the part of the preparer to establish a system for grasping the current situation regarding information that is newly required to be disclosed, to establish a sustainability information collection process, and to secure human capital for that purpose.

271. In addition, as mentioned in the answer to Question 4 "Concentration of climate-related risks and opportunities in the company value chain," S2 Standard (Draft) also requires disclosure of information on the value chain. However, in many cases, the companies included in the value chain are not required to disclose the same level of information as the listed companies by regulations. In this case, it is expected that many additional costs will be incurred by applying this standard.

272. Based on these points, towards finalization of this standard, we request that the balance between benefits and costs be satisfactory to both the user and the preparer.

273. (Regarding Question 12 (c))
We believe that this Exposure Draft also includes disclosure requirements in which the benefits may not outweigh the costs associated with preparing that information.

274. The first point is the disclosure requirements for the industry-based metrics stipulated in Appendix B in paragraph 20(b) in S2 Standard (Draft). Paragraph 20(b) requires the disclosure of detailed industry-based metrics for 68 industries and 350 types, regardless of significant climate-related risks and opportunities. It is inconsistent with the direction to seek a balance between comparability and corporate originality mentioned in "II. General Comments." In addition, regarding the industry-based metrics, we understand that there are some points put forth against those metrics, such as that the metrics include those that are problematic in terms of international applicability or usefulness as comparable metrics, those whose importance is low depending on the business characteristics or business models, and those

that are not strongly relevant to climate-related risks or opportunities. Also, the requirements are excessively detailed as a global baseline for various regions including emerging countries.

275. Requiring disclosure of metrics with such challenges, regardless of significant climate-related risks and opportunities, may incur significant costs and may not outweigh their benefits for some companies. Therefore, we believe that amendment is necessary as response has been made in Question 11.

276. The second point is the disclosure requirements regarding greenhouse gas emissions in paragraph 21(a) of S2 Standard (Draft). Requiring the disclosure of Scope 1 and Scope 2 emissions separately for a) the consolidated accounting group, b) associates, joint ventures, unconsolidated subsidiaries, or affiliates not included in the consolidated accounting group may put a significant burden on the preparers and the benefits may not outweigh the costs associated with preparing that information.

277. Therefore, as response has been made in Question 9, regarding scope 1 emission and scope 2 emission, we believe that the scope of consideration should be limited to consolidated companies, associates, and joint ventures, and that an entity itself should decide the scope of reporting based on materiality.

Question 13—Testability and enforceability

Paragraphs C21–24 of [draft] IFRS S1 *General Requirements for Disclosure of Sustainabilityrelated Financial Information* describes verifiability as one of the enhancing qualitative characteristics of sustainability-related financial information. Verifiability helps give investors and creditors confidence that information is complete, neutral and accurate. Verifiable information is more useful to investors and creditors than information that is not verifiable.

Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

(No answer is provided.)

Question 14—Effective date

Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach.

Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application.

[Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* requires entities to disclose all material information about sustainabilityrelated risks and opportunities. It is intended that [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS S1 *General Requirements for Disclosure of Sustainabilityrelated Financial Information* could take longer to implement.

Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*? Why?

(b) 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 in the Exposure Draft.

(c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

278. (Regarding Question 14 (a))
The effective date of this Exposure Draft should be the same as that of S1 Standard. In order to apply S2 Standard appropriately, it is necessary to apply it at the same time with the basic rules stipulated in S1 Standard. Therefore, the Exposure Draft should not come into effect alone.

279. (Regarding Question 14 (b))
(Why a certain time period is required)
As response has been made in Question 13 "Effective date" of S1 Standard (Draft), about this question, several opinions are heard from the preparers who apply the proposed standards, which claim that the effective date should be set to a date after a certain period later from the date of issue of the final Standard since the following preparations are required:

- Understanding the current state of the information of which disclosure is newly required
- Developing the process for gathering the sustainability information (including the development of internal governance and system)
- Selecting the target companies, including the value chain companies, which are asked to gather information

- Securing the human capitals required to perform the tasks written above, etc.

280. In addition to the above, as mentioned in response to Question 9 “Frequency of reporting” of S1 Standard (Draft), there were some opinions saying that some preparations are required to provide reports at the same timing and for the same period specified in paragraph 66 of S1 Standards (Draft) due to the differences of systems between countries and regions.

281. (About the period actually required)
On the other hand, regarding the period required for preparation, there were some opinions saying “several years are required” but no specific number of years was mentioned due to the following reasons:
   - It is difficult to provide an explicit period since the whole picture of the Standard Draft is not defined yet.
   - It is not possible to present a specific number of years at this point since it involves management judgement for arrangement of company structure and development of processes.

Question 15—Digital report

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 of sustainability-related financial information, 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 S1 *General Requirements for Disclosure of Sustainability-related Financial Information* 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)?

(No answer is provided.)

Question 16—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 climate change. 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?

282. (Basically agree with the global baseline)
We strongly agree with the development of IFRS Sustainability Disclosure Standards conducted by IFRS Foundation based on the concept of the global baseline.

283. As shown in paragraph BC78 of S1 Standard (Draft) Basis for Conclusions, IFRS Foundation provides the IFRS Sustainability Disclosure Standard as a global baseline, and each regulators and jurisdiction supplements the standard with the information that meets the information needs of other stakeholders, if necessary.

284. Such an approach is a rational method to satisfy the public policy needs in each regulatory agency and jurisdiction while ensuring the international comparability as a global baseline.

285. Based on the above discussion, the following discusses the concerns that could limit the ability of the IFRS Sustainability Disclosure Standards to be used in such a manner in the proposal of the Exposure Draft.

286. (Concern: Consideration of diversity in countries and regions)
Regarding industry-based metrics indicated in S2 Standard (Draft) Appendix B, we understand that there are some points put forth against those metrics, such as that the metrics include those that are problematic in terms of international applicability or usefulness as comparable metrics, those whose importance is low depending on the business areas or business models, and those that are not strongly relevant to climate-related risks and opportunities. In addition, the requirements are excessively detailed as a global baseline for various regions including emerging countries.

287. In addition, as mentioned in the answer to Question 4 "Concentrations of climate-related risks and opportunities in an entity's value chain," in the definition of the value chain in S2 Standard (Draft), the scope of entities to be included in the value chain is not clarified, and there are concerns that there will be a big difference in the scope of reporting between companies. Clarification of the value chain concept that should be included in the disclosure target is required.

288. Furthermore, Scope 3 greenhouse gas emission required in paragraph 21 of S2 Standard (Draft) has a problem of method of data collection and calculation, although it is an important metric. On the other hand. Therefore, for Scope 3 emission to function as a global baseline, we consider that it is necessary to take in a proposal as stated in response to Question 9 "Cross-industry metrics categories and greenhouse gas emissions."

289. Thus, when the Sustainability Disclosure Standards are to be applied, based on the fact that there are differences in the progress of sustainability disclosure and disclosure systems / frameworks depending on the country or region, it is necessary to ensure inclusiveness to the circumstances specific to the country / region by adopting proposals such as making the industry-based metrics subject to consideration (as proposed in the response to Question 11), providing guidance on the concept of the value chain (as proposed in the response to Question 4), and consideration for handling Scope 3 emission (as proposed in the response to Question 9).

Question 17—Other comments

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|---|
| Do you have any other comments on the proposals set out in the Exposure Draft? |

(No answer is provided.)