SSBJ
Sustainability Standards Board of Japan
Fukoku Seimei Building 20F, 2-2-2 Uchisaiwai-cho, Chiyoda-ku, Tokyo 100-0011 JAPAN
Phone. +81-3-5510-2727 URL https://www.asb.or.jp/en/

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Emmanuel Faber, Chair
Suzanne Lloyd, Vice-Chair
International Sustainability Standards Board
The IFRS Foundation
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

Comments on the Exposure Draft (ED/2022/S1) *General Requirements for Disclosure of Sustainability-related Financial Information*

Introduction

1. The Sustainability Standards Board of Japan ('the SSBJ' or 'we') welcome the opportunity to provide our comments on the International Sustainability Standards Board (the 'ISSB')'s Exposure Draft (ED/2022/S1) IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ('proposed S1 Standard'), published in March 2022. Our comments on the Exposure Draft (ED/2022/S2) IFRS S2 *Climate-related Disclosures* ('proposed S2 Standard') have been submitted separately and we expect that they are read together with our comments in this letter. In this letter, we refer to the proposed S1 Standard and the proposed S2 Standard collectively as the 'ED'.

Development of global standards

2. Sustainability-related financial disclosures is an issue to be addressed globally, and we believe that the ISSB can develop internationally consistent standards. However, sustainability-related financial disclosures have a relatively short history compared to financial statements, and the number of jurisdictions and entities that provide such disclosures is smaller than the number of those that disclose financial statements. In addition, sustainability-related financial disclosures are yet to be fully established within the corporate reporting system, and we observe that we are currently in the trial-and-error stage. Accordingly, we believe that it is important to provide stakeholders around the world sufficient opportunities to participate in the standard-

setting process, and that it is necessary to put in place processes allowing flexible standard-setting, acknowledging that sustainability disclosure standards may be more frequently subject to change when compared with accounting standards.

3. Our understanding is that IFRS Sustainability Disclosure Standards that will be developed by the ISSB will not automatically become global standards. Rather, it is for each jurisdiction to decide whether to apply them, and the ISSB does not have the authority to determine who should or could apply them. Accordingly, we believe that IFRS Sustainability Disclosure Standards must be accepted by jurisdictions around the world to become truly global standards.

4. In this context, it is necessary to consider that the progress of initiatives to disclose sustainability-related financial information varies from jurisdiction to jurisdiction, and from entity to entity within the same jurisdiction. In order to enhance interoperability and compatibility of the sustainability disclosure standards between the ISSB and each jurisdiction, we believe that the ISSB should adopt a phased approach where the ISSB would initially set out the most core disclosure requirements that are useful to both users and preparers and are actually applicable in each jurisdiction, and enhance the core disclosure requirements once those core disclosure requirements are accepted in each jurisdiction. In doing so, we believe the following should be considered:

   (a) We agree with the objective in the ED that an entity discloses information about its significant sustainability-related risks and opportunities that is useful to the primary users of general purpose financial reporting when they assess enterprise value and decide whether to provide resources to the entity. While the disclosure requirements proposed in the ED are considered to be necessary to meet this objective, some of the disclosure requirements may be difficult for certain jurisdictions or entities, whose disclosures of sustainability-related financial information are not fully advanced, to meet the requirements set by the ISSB to achieve global consistency. For example, jurisdictions or entities may not be ready to establish corporate reporting systems and processes to provide sustainability-related financial disclosures about the entity's value chain, to gather information that serves as the basis to determine whether to provide disclosures about a specific theme in the absence of the specific thematic standards, and to establish systems and processes for quantitative disclosures regarding expected financial impacts of significant sustainability-related risks and opportunities over the short-, medium- and long-term.

(b) Regarding industry-based standards, we believe it is critically important to reach global consensus on the industry classification and industry-based disclosure requirements. However, at this moment, we do not think there is global consensus. Our understanding is that the SASB Standards have been developed to address a wide range of sustainability-related themes and should not be *'processed'* to become guidance limited to climate. Nevertheless, we believe that the ISSB should consider whether the industry classification in the proposed S2 Standard will serve as the appropriate industry classification even when developing industry-based standards that address sustainability-related themes other than climate.

5. The majority of jurisdictions around the world have not yet established organisations for setting sustainability disclosure standards, and it is likely that many jurisdictions do not have in place procedures to collect and discuss the views within the jurisdiction. Accordingly, we believe that the ISSB should have the perspective of inclusion and conduct highly transparent discussions, so that the discussions on the ED and deliverables to be published by the ISSB in the future include views not only from specific stakeholders who are advanced in sustainability efforts.

6. Specifically, as a global standard setter, the ISSB should ensure sufficient time for the comment period, considering the time needed for translation and discussion. Otherwise potentially diverse comments from jurisdictions where English is not the native language may be in substance restricted.

References to guidance published by organisations other than the ISSB

7. The ED refers to guidance published by organisations other than the ISSB. Appendix B *Industry-based disclosure requirements* of the proposed S2 Standard includes many proposals saying:

   The entity shall consider [the name of the guidance published by an organisation other than the ISSB] as a normative reference, thus any updates to the guidance made year-on-year shall be considered updates to this guidance.

8. We have reservations with proposals suggesting that guidance published by organisations other than the ISSB which the ISSB cannot control automatically forms

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part of IFRS Sustainability Disclosure Standards. If the ISSB were to prescribe requirements that refer to organisations other than the ISSB in IFRS Sustainability Disclosure Standards, we suggest that the ISSB's due process clearly state and thus the ISSB comply, in accordance with its due process, with a process that would require the ISSB to validate any guidance (including any updates or amendments thereto) published by organisations other than the ISSB. We think, for example, the following criteria should be included in the ISSB's due process when the ISSB considers the validity of the guidance:

(a) Whether the information provided by the guidance published by organisations other than the ISSB is relevant to the objectives of IFRS Sustainability Disclosure Standards;

(b) Whether the information provided by the guidance published by organisations other than the ISSB possesses the *'qualitative characteristics of useful sustainability-related financial information'* that are prescribed in Appendix C of the proposed S1 Standard; and

(c) Whether the due process to develop the guidance is appropriately in place and the organisation other than the ISSB is complying with such due process.

9. Considering the fact that sustainability disclosure standards have a relatively short history and are currently in the trial-and-error stage, the guidance mentioned above may be updated or amended frequently, and more appropriate guidance may be developed. Accordingly, we believe that IFRS Sustainability Disclosure Standards should maintain a certain level of flexibility so as to respond to such changes.

10. While we believe that all requirements prescribed by the ISSB should follow extensive due process, we suggest classifying guidance issued by the ISSB into two, namely, *'the main text'* and *'the addendum'*, based on the expected likelihood of the frequency of the amendments. In our view, this would enable the ISSB to pursue both stability and flexibility of its standards and also enhance the predictability of constituents in terms of which part of the ISSB Standards are likely to change relatively frequently and which are not. From a standard-setting perspective, we believe this would lead to higher acceptance by constituents when the ISSB decides to have longer or shorter comment periods for proposals to amend the ISSB Standards. We think guidance issued by the ISSB can be classified into '*the main text*' and *'the addendum*' in the following manner:

(a) *'The main text'* would prescribe only the most core disclosure requirements. The requirements prescribed in *'the main text'* would be subject to the post-implementation review, but they generally are not expected to be amended frequently, and thus the common understanding would be that *'the main text'* will continue to be used for a certain period of time, thereby it achieves the stability of the ISSB Standards. As such, new additions or amendments to *'the main text'* are likely to warrant a relatively long comment period. *'The main text'* generally would not refer to guidance published by specific organisations other than the ISSB, such as the GHG Protocol. Rather, *'the main text'* may use expressions such as '*measurement criteria for greenhouse gases that are used internationally and widely'*.

(b) *'The addendum'* would prescribe guidance that is expected to change relatively frequently. *'The addendum'* may specify metrics and references to organisations other than the ISSB regarding the measurement of such metrics to enhance comparability (for example, the GHG Protocol that is referred to in calculating GHG emissions in the proposed S2 Standard, and various guidance published by organisations other than the ISSB that are referred to in Appendix B of the proposed S2 Standard *Industry-based disclosure requirements*). If the ISSB develops measurement guidance on its own, it may include them in *'the addendum'*. There would be no difference between the guidance in *'the main text'* and *'the addendum'* in the sense that both types of guidance would be authoritative.

When guidance published by organisations other than the ISSB but are referred to in *'the addendum'* are amended or the measurement guidance developed by the ISSB on its own need to be amended, the ISSB should consider the validity of the change and further amend *'the addendum'* if necessary. We think a process similar to that used by the International Accounting Standards Board (the 'IASB') for *'narrow-scope amendments'* can be adopted. By doing so, the ISSB will maintain the flexibility in modifying its standards in a timely manner. We think it is important that the ISSB communicates to its constituents in advance that the comment period for changes to *'the addendum'* would generally be shorter than the comment period for changes to *'the main text'*.

11. In addition, given that practices related to the disclosures of sustainability-related financial information are under development and currently diversity in practice exists,

we are of the view that entities should be permitted to refer to guidance that are not referred to in *'the addendum'*. However, in this case, the entities should be required to disclose why they referred to guidance which is not referred to in *'the addendum'*.

Global baseline

12. We agree with the building block approach whereby the ISSB provides a *'comprehensive global baseline'* and each jurisdiction prescribes additional disclosure requirements on top of such baseline to meet the needs of users.

13. In this context, we think the proposals regarding sustainability-related financial information disclosures published by the U.S. Securities and Exchange Commission ('the SEC') and the European Financial Reporting Advisory Group ('EFRAG'), respectively, at a timing close to when the ISSB published the ED, can be used as test cases. Given that these proposals come from jurisdictions where practices related to disclosures of sustainability-related financial information are relatively advanced and, if we are to view these proposals as the result of adding jurisdiction-specific requirements to the *'comprehensive global baseline'*, we believe that the *'comprehensive global baseline'* that is to be developed by the ISSB should not include disclosure requirements that exceed these proposals (please note that the standard to be compared should mainly be the proposed S2 Standard, because the SEC's proposals relate to climate-related disclosures only).[1]

14. Because sustainability-related risks and opportunities differ significantly in terms of their magnitude and likelihood depending on the industry, in light of the objective of the ED to provide information that contributes to the assessment of enterprise value, there is a certain level of support in our jurisdiction for industry-based standards.

15. However, we specifically would like to note that the SEC's proposal does not include industry-based standards, and that EFRAG expects to address industry-based standards in the future. We believe that the industry-based standards should be developed based on global consensus but the proposed S2 Standard has been proposed without such global consensus. We believe global consensus is needed for several issues, such as the use of industry classification based on the SASB

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[1] The U.S. Securities and Exchange Commission (SEC) published a proposed rule on climate-related disclosures for investors on 21 March 2022. In addition, the European Financial Reporting Advisory Group (EFRAG) published its first exposure draft of the European Sustainability Reporting Standards (ESRS) on 29 April 2022.

Standards, the granularity of requirements in the industry-based standards, clarifying the context in which the requirements are derived from the disclosure objectives and disclosures by entities that conduct business in more than one industry. We are of the view that there are many issues that the ISSB needs to resolve if it were to incorporate the SASB Standards into IFRS Sustainability Disclosure Standards. (Nevertheless, we think the disclosure topics are useful in identifying sustainability-related risks and opportunities.)

16. In addition, it is our understanding that the SASB Standards have been developed to address a wide range of sustainability-related themes and thus they should not be *'processed'* to become guidance limited to climate-related industry-based standards. Nevertheless, because the ED tries to isolate climate-specific industry-based standards within the SASB Standards, the ED includes disclosure topics or metrics that have little relevance to climate. As a result, we are concerned that these disclosures could be onerous to entities.

    For the reasons discussed above, we recommend that, as the policy of developing the *'comprehensive global baseline'*, the ISSB give higher priority to the development of the thematic requirements (including disclosure topics) and develop industry-based requirements once the above issues have been resolved.

<u>Developing standards based on the principles-based approach</u>

17. We are of the view that the ISSB should develop standards by adopting a principles-based approach, which involves clearly explaining how specific disclosure requirements were derived from the disclosure objectives. In addition, we think the ISSB should explicitly declare this policy.

18. However, there are some proposals in the ED, particularly in Appendix B of the proposed S2 Standard, where it is unclear how the disclosure requirements were derived from the disclosure objectives and the description as to why the disclosure requirements were needed is insufficient. Please refer to our comment letter to the proposed S2 Standard for more detailed comments on the proposals in the proposed S2 Standard.

<u>Need to clarify the structure of Standards</u>

19. The proposed S1 Standard consists of the *'core content'* section and the *'general features'* section. We are of the view that these should be separated into different

standards because these sections address different issues.

20. We believe that separating the proposed S1 Standard will clearly distinguish between the disclosures of the four elements of the *'core content'* to be described at the entity level and the theme-specific disclosures. We also believe that separating the proposed S1 Standard will clarify the relationship between thematic standards, which require detailed disclosures on the specific theme, and the general standards that apply in the absence of specific thematic standards. Furthermore, we also believe that separating the proposed S1 Standard will clarify that requirements regarding the general features apply to all IFRS Sustainability Disclosure Standards.

Materiality

Concept of Materiality: Interaction between 'Significance' and 'Materiality'

21. Our understanding is that the ISSB is proposing a two-step process to identify the information to be disclosed by requiring the reporting entity to '*disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed*' (paragraphs 1 and 2 of the proposed S1 Standard). We believe that the term *'significant'* has a critically important role in this ED. Therefore, we believe that the ISSB should explain and clarify the meaning of *'significant sustainability-related risks and opportunities'* and clarify what should be taken into account when assessing *'significance'* in the proposed S1 Standard.

22. In this context, paragraph BC40 of the Basis for Conclusions on the proposed S1 Standard provides an explanation about *'significant risks'*, and we believe that the ISSB could clarify the concept of *'significant sustainability-related risks and opportunities'* in the proposed S1 Standard based on this explanation. We also believe that the ISSB should clarify that the concept of *'significance'* is fundamentally different from the concept of *'materiality'*, which is the basis to judge whether an information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting (that is, the basis to judge whether an information could be omitted).

Definition and application of 'Material'

23. Paragraph BC71 of the Basis for Conclusions on the proposed S1 Standard states that '*materiality judgements about sustainability-related financial information will differ from those for general purpose financial statements*'. However, our understanding

is that the definition of *'material'* in paragraph 56 of the proposed S1 Standard is aligned with the definition of *'material'* used in the IASB's *Conceptual Framework for Financial Reporting* and IAS 1 *Presentation of Financial Statements*. Therefore, the ISSB should note that this might cause confusion for some readers who interpret that the materiality judgements (that is, judgements regarding whether an information could be omitted) for sustainability-related financial information would be the same for general purpose financial statements.

24. We believe that there would be differences in the outcome of materiality judgements between about the information reported in the financial statements and sustainability-related financial information. This is because the scope of sustainability-related financial information could be broader than the scope of information reported in general purpose financial statements in terms of time horizon and likelihood as stated in paragraph 6 of the proposed S1 Standard, not because of the differences in the judgements regarding whether a specific item is *'material'*.

25. Accordingly, we believe that the ISSB should sufficiently explain the differences in the materiality judgements between about the information reported in general purpose financial statements and sustainability-related financial information in the Basis for Conclusions on the proposed S1 Standard. Further, if there are points to consider when making materiality judgements regarding sustainability-related financial information, we recommend clarifying such considerations by reflecting them in *'the main text'* of the proposed S1 Standard.

Conceptual framework

26. We believe that the IASB's *Conceptual Framework for Financial Reporting* (CFW) and the ISSB's Conceptual Framework for Sustainability Disclosure Standards should be commonalised to the extent possible.

27. However, as stated in the *'Introduction'* of Appendix C *Qualitative characteristics of useful sustainability-related financial information* of the proposed S1 Standard, some concepts in the IASB's CFW can be applied to sustainability-related financial information, but others cannot, due to the differences between the nature of some of the information to meet the objective of the ED and the nature of the information provided in general purpose financial statements (for example, while the concept of *'neutral'* prescribed in paragraph 2.15 of the IASB's CFW may be applied to quantitative information, *'balance'* is likely to be more appropriate for qualitative

information, in the context of sustainability-related financial information). Where common concepts cannot be applied, we believe that the clarification of such circumstances is useful for the users of the standards.

28. We also note that some terms have different meanings depending on whether they are used in the context of Accounting Standards or in the context of Sustainability Disclosure Standards. We believe that the clarifications of such differences are also useful to the users of the standards.

29. Further, we believe that the IASB and the ISSB should work together to clarify the relationships between the above concepts and the concepts in the Exposure Draft of the IFRS Practice Statement on *Management Commentary* (ED/2021/6).

Reporting entity

30. We agree with the proposal in paragraph 37 of the proposed S1 Standard which proposes that *'an entity's sustainability-related financial disclosures shall be for the same reporting entity as the related general purpose financial statements'*.

31. However, we are of the view that the following issues need to be considered (please refer to paragraph 23 of the Appendix to this letter for detailed information):

    (a) Paragraph 8 of the proposed S1 Standard does not require entities to apply IFRS Accounting Standards when providing disclosures of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. If entities are permitted to prepare general purpose financial statements in accordance with the standards other than IFRS Accounting Standards, all entities, including those applying IFRS Accounting Standards, should be required to disclose which accounting standards they have used as the basis for preparing their general purpose financial statements.

    (b) Our understanding is that information about the value chain is useful for primary users in assessing the entity's enterprise value. However, describing the value chain disclosure requirements in paragraphs 40 and 41 of the proposed S1 Standard within the '*Reporting entity*' section is potentially misleading in the sense that it could be interpreted as entities in the value chain also comprise the reporting entity. For this reason, disclosures of information about the value chain should be included in a separate section of the proposed S1 Standard (for example, with a new section following the *'Reporting entity'* section). We also think that it should be clarified that information about the value chain is not necessarily limited to information directly measured or reported by entities other than the reporting entity, but that such information may be disclosed by the reporting entity using estimation.

Frequency of reporting

Reporting at 'the same time'

32. The ED proposes that an entity report its sustainability-related financial disclosures at the same time as its financial statements (paragraph 66 of the proposed S1 Standard). Given the ISSB's objective of assessing the impact of significant sustainability-related risks and opportunities on an entity's enterprise value and the ISSB's position that sustainability-related financial information supplements and complements the information contained in the entity's financial statements (paragraph BC6 of the proposed S1 Standard), we agree with this requirement in principle. However, in some jurisdictions, disclosures of sustainability-related financial information and financial statements have evolved from different laws and regulations, and changes in these systems or practices (or both) are likely to be costly and time-consuming. If an entity becomes subject to both disclosures of sustainability-related financial information and financial statements, the implications of the ED would be that information for both types of information would be due whichever is due earlier under the laws and regulation, which could be impossible or significantly increase the burden on the entity. In addition, if disclosures for both types of information were voluntary, the implications of the ED would be that sustainability-related financial information would not be disclosed until the financial statements are disclosed (or vice versa), and we are concerned that the timeliness would be impaired when compared to current practices.

33. We believe that a global baseline should accommodate the various corporate reporting system that exist around the world. Acknowledging that reporting at the same time is desirable, we believe that the ISSB should permit entities to report at different timings.

Reporting on 'the same period'

34. Paragraph 66 of the proposed S1 Standard also proposes that the disclosures of sustainability-related financial information cover the same reporting period covered

in the financial statements. We agree with this requirement in principle, because having the same reporting period for both types of disclosures is likely to provide useful information and it enhances the connectivity of the information. However, we note that, in the preparation of consolidated financial statements, accounting standards permit the incorporation of financial statements of subsidiaries with different accounting periods if the difference is less than three months (paragraph B93 of IFRS 10 *Consolidated Financial Statements*). When a different accounting period is used for the preparation of consolidated financial statements, we think information of subsidiaries for the preparation of disclosures of sustainability-related financial information should also be based on this different accounting period, and that the S1 Standard should clarify this point.

35. Our understanding is that reporting entity may need to obtain a large amount of information and basic data from interested parties outside the consolidated group in preparing disclosures of sustainability-related financial information, and that current year information may not be available in preparing disclosures of sustainability-related financial information for the current year, particular given the time permitted for entities to file their financial statements under the applicable laws and regulations. For this reason, while the ISSB should require the same reporting period in principle for the disclosures of sustainability-related financial information and financial statements, the ISSB should permit different reporting periods, provided that the entity disclose that fact and its reasons, if an entity cannot report on the same reporting period .

Judgements by each jurisdiction

36. The issues of reporting at the same time and reporting on the same period not only relate to corporate reporting, but also to various systems in each jurisdiction, including taxation and non-financial regulations. As stated in paragraph 3 of the cover letter, we believe that IFRS Sustainability Disclosure Standards must be accepted by jurisdictions around the world to become truly global standards. Accordingly, while we agree with these requirements in principle, we think the ISSB should permit reporting at different timings and reporting for the different periods. The specific exceptions should be determined by each jurisdiction.

<u>Location of the information</u>

37. We believe it is necessary to determine the core medium to increase the

understandability of the disclosures of sustainability-related financial information and to enhance the availability of information. One idea may be to determine that the annual report that includes the related financial statements (paragraph 8 of the proposed S1 Standard) would be the core medium.

38. Once we define the core medium, we agree with the proposal to permit the use of cross-references (paragraph 75 of the proposed S1 Standard). However, if cross-references were to be permitted, it is necessary to clarify the extent to which the referenced information is considered to be within the scope of the disclosures of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards.

39. In addition, if the use of cross-references is permitted without any restriction, we are concerned that information may be scattered, and the clarity and understandability of the information may be reduced. Accordingly, we think the S1 Standard should explicitly prescribe the type of information that should be included in the core medium. Examples of such information would include the basic information related to the *'core content'* and the measurement criteria for metrics, which are pieces of information that are essential to the understanding of the overview of the entity's disclosures of sustainability-related financial information.

40. If a core medium is defined, sustainability-related financial information and related financial statements will be disclosed at the same time for the contents to be disclosed in the core medium. However, the core medium is likely to provide a summary, and specific metrics are likely to be provided outside this core medium via cross referencing, and it may be the case that the information is provided at a different timing. In such cases, entities should be required to explicitly state in the core medium: when information is (or will be) provided in the other medium; as of what date (or periods) the information provided in the other medium relates to; and how to access the other medium. Entities should also be required to explicitly state in the other medium: information about the specific metrics; and any updates to the information stated in the core medium.

When disclosure of information required by IFRS Sustainability Disclosure Standards is prohibited by local laws or regulations

41. We understand the intent of paragraphs 62 and 92 of the proposed S1 Standard to allow entities to assert compliance with IFRS Sustainability Disclosure Standards

when they do not provide the required disclosures because such disclosures are prohibited by local laws or regulations. However, we are concerned that this may impair comparability. Accordingly, we are of the view that the ISSB should impose certain restrictions on items that need not be disclosed because they are prohibited by local laws or regulations. One idea might be to allow this exception only when complying with IFRS Sustainability Disclosure Standards would significantly impact the environment or human rights in a negative manner.

42. Other than the exception discussed in the previous paragraph, we do not think exceptions should be permitted. If information that is generally considered unfavourable in a jurisdiction (say, Jurisdiction A) is prohibited to be disclosed in that jurisdiction, entities in Jurisdiction A would be able to assert compliance with IFRS Sustainability Disclosure Standards, even though those entities may not be showing their complete pictures. If the disclosures of entities from another jurisdiction (say, Jurisdiction B) with no such prohibition are compared with the disclosures of entities from Jurisdiction A, the enterprise value of the entities in jurisdiction B may be undervalued. We think that this is inappropriate and that this could undermine the benefits of entities applying IFRS Sustainability Disclosures Standards.

Updated estimates in the disclosures of comparative information

43. Paragraph 64 of the proposed S1 Standard requires disclosures of comparative information to reflect updated estimates of *'to help provide the best information possible about trends to users of general purpose financial reporting'* (paragraph BC82 of the proposed S1 Standard). This requirement differs from the treatment in accounting standards (paragraph 36 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) that recognises the effects of changes in accounting estimates prospectively.

44. Paragraph 64 of the proposed S1 Standard states that *'when providing sustainability-related financial disclosures an entity shall disclose comparative information that reflects updated estimates'*. This means that entities would be required, for all items, to review whether the comparative information requires updates.

45. Our understanding is that accounting standards recognise the effects of changes in accounting estimates prospectively because the changes in accounting estimates are driven by new information and revisions to prior period estimates in the current

period involve the use of *'hindsight'* and thus are less reliable. Updating estimates incurs additional costs on entities and, therefore, it is not necessarily appropriate to provide updated estimates for comparative information and the determination should be made by comparing the costs and benefits.

46. Accordingly, we think the first sentence in paragraph 64 of the proposed S1 Standard should be revised to read *'When providing sustainability-related financial disclosures an entity <u>may disclose</u> comparative information that reflects updated estimates'.* Nevertheless, when there is a change in an estimate that is material due to a change in the assumptions, the details of the change in the estimate may need to be disclosed.

47. The implications of our proposals in the previous paragraph can be summarised as follows:

    (a) There will be no disclosure if the change in the estimate is immaterial.

    (b) When comparative information reflecting updated estimates is not disclosed, disclosures will be provided for significant changes in estimates.

    (c) When comparative information reflecting updated estimates is disclosed, disclosures will be provided for significant changes in estimates, specifically, the difference between the amounts reported in the prior period and the comparative updated amounts, and the reason the amounts were updated.

<u>Comments on the specific questions</u>

48. For our comments on the specific questions in the proposed S1 Standard, please refer to the Appendix to this letter. We hope our comments are helpful for the ISSB's consideration. If you have any questions, please feel free to contact us.

Yours sincerely,

Y. Kawanishi

Yasunobu Kawanishi
Chair
Sustainability Standards Board of Japan

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

<u>Objectives-based approach</u>

1. Our understanding is that the overall disclosure objectives are set out in paragraph 1 of the proposed S1 Standard, the specific disclosure objectives of the four elements of the '*core content*' are set out from paragraphs 11 through 35, and disclosure requirements corresponding to the four elements are set out thereafter.

2. We are of the view that the ISSB should adopt a principles-based approach in standard-setting and that the ISSB should explicitly declare this policy. Specifically, we believe that the standards should build on objectives (please refer to paragraphs 13 through 18 of this Appendix *'Developing standards based on the principles-based approach'* for further details).

<u>Need to clarify the structure of standards</u>

3. The proposed S1 Standard consists of the *'core content'* section and the *'general features'* section (including Appendix C of the proposed S1 Standard *Qualitative characteristics of useful sustainability-related financial information*). We are of the view that these sections should be separated into different standards because these sections address different issues as follows:

   (a) The *'core content'* section addresses the four elements of *'governance'*, *'strategy'*, *'risk management',* and *'metrics and targets'* for significant sustainability-related risks and opportunities. We believe that this section could be positioned as a generalised standard of a thematic standard, such as the proposed S2 Standard.
   This section would comprise disclosure requirements for the four elements of the *'core content'* at the entity level as well as disclosure requirements for significant risks and opportunities associated with areas that are not specified in specific thematic standards.

   (b) The *'general features'* section sets out, a framework for sustainability-related financial disclosures. We believe that this section will help ensure that sustainability-related financial disclosures are prepared in accordance with a globally consistent framework.

4. As previously mentioned, we believe that separating the proposed S1 Standard will clearly distinguish between the disclosures of the four elements of the *'core content'* to be described at the entity level and the theme-specific disclosures. We also believe that separating the proposed S1 Standard will clarify the relationship between thematic standards, which require detailed disclosures on the specific theme, and the general standards that apply in the absence of specific thematic standards.

5. In the absence of specific thematic standards, we believe that it would be too onerous to require entities to provide disclosures with the granularity prescribed in the proposed S2 Standard, and that, in the absence of the specific thematic standards,

disclosures of relatively low granularity should be permitted. If the relationship between thematic standards and general standards is clarified as we propose, users of the Standards can understand the differences in the intended granularity of the disclosures.

6. Furthermore, we believe that separating the proposed S1 Standard into two standards will clarify that descriptions relevant to general features are applied to all IFRS Sustainability Disclosure Standards. For example, we note that there are some who think that the guidance in paragraph 60 of the proposed S1 Standard stating that an entity need not provide a specific disclosure if the information resulting from that disclosure is not material, would not apply to requirements in the S2 Standard. Developing a standard that focuses on prescribing the sustainability-related financial disclosure frameworks reduce the risk of such misunderstanding.

Question 2—Objective (paragraphs 1–7)
The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value. Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information. Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability-related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the

Question 2—Objective (paragraphs 1–7)
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?

Definition of terms regarding the disclosure objectives

7. The proposed S1 Standard requires an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. However, as we note in the response to Question 1, the term *'significant sustainability-related risks and opportunities'* is not defined nor explained. Accordingly, we believe that this term should be clearly explained as we note in paragraphs 38 and 39 of the Appendix to this letter.

8. In addition, with regard to the term '*sustainability*' when used in the context of the term '*sustainability-related financial information*,' we believe that the definition of this term should be clarified because it is not defined anywhere in the ED, although there is an explanation about its background in paragraph BC30 of the Basis for Conclusions on the proposed S1 Standard. In particular, we believe that it would be useful for the ISSB to clarify whether the term '*sustainability*' is used in the meaning of '*outside the financial statements*' because this would enable the users of the Standards to compare with the terms used in sustainability disclosure standards developed by other standard setters.

Concepts

9. Paragraph 3 of the proposed S1 Standard states that '*an entity's general purpose financial reporting shall include a complete, neutral and accurate depiction of its sustainability-related financial information*'. However, we believe that the ISSB should reword this sentence to include '*relevance*' and '*faithful representation*' rather than '*complete*', '*neutral*' and '*accurate*', considering the proposals made in Appendix C *Qualitative characteristics of useful sustainability-related financial information* of the proposed S1 Standard. We also believe that the use of the terms '*accuracy*' and *'free from error*' should be strictly distinguished because these terms seem to be used interchangeably.

10. Paragraph C2 of Appendix C of the proposed S1 Standard states that the nature of some of the sustainability-related financial information differs from the information provided in general purpose financial statements. We are concerned that the descriptions based on the IASB's CFW and the descriptions based on the Exposure Draft of IFRS Practice Statement on *Management Commentary* (ED/2021/6) seems to be used interchangeably in this paragraph. Accordingly, we believe that the ISSB should explain, for each qualitative characteristic, which guidance the ISSB intends to base its discussions and the relevant reasons in the Basis for Conclusions on the proposed S1 Standard.

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

Question 3—Scope (paragraphs 8–10)
jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

Accounting standards applied in the related financial statements

11. We agree with the proposal in paragraph 8 of the proposed S1 Standard that an entity may apply IFRS Sustainability Disclosure Standards even if the entity's related financial statements are prepared in accordance with generally accepted accounting principles (GAAP) other than IFRS Accounting Standards.

12. However, the ISSB should consider the following points:

    (a) The proposed S1 Standard should clarify that sustainability-related financial disclosures provide useful information by supplementing the relevant financial statements (that is, that sustainability-related financial disclosures prepared in accordance with IFRS Sustainability Disclosure Standards are not achieving comparability on a stand-alone basis).

    (b) The proposed S1 Standard should clarify that, when an entity provides connected information in accordance with paragraph 42 of the proposed S1 Standard, it should be noted that there are differences in the information to be provided due to differences in the accounting standards applied to in the related financial statements.

    (c) Because sustainability-related financial disclosures are to provide information that supplements and complements the entity's financial statements for the primary users to assess enterprise value, entities should disclose which accounting standards were applied to the related financial statements.

Question 4—Core content (paragraphs 11–35)

The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.

This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well-established work of the TCFD.

Governance

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

> to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

Strategy

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

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

Risk management

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

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

Metrics and targets

Question 4—Core content (paragraphs 11–35)
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?

<u>Developing standards based on the principles-based approach</u>

13. There are many detailed requirements in the ED, specially, in Appendix B of the proposed S2 Standard, and the ED seems to adopt a rules-based approach that requires detailed and fixed disclosures. Given the current pace of change in the reporting environment, standards developed based on the rules-based approach are likely to become obsolete immediately.

14. We believe that there are two possible alternatives to solve this issue. One is to establish a system that enables standard-setting in a timely manner. However, we believe this alternative would be difficult for the ISSB to take because it takes time to develop international sustainability disclosure standards with sufficient input from around the world.

15. The other alternative is to develop standards under the principles-based approach. This would enable the international sustainability disclosure standards to respond to rapid changes in the environment. In addition, principles-based standards are also likely to accommodate differences between jurisdictions that adopt IFRS Sustainability Disclosure Standards.

16. For these reasons, we are of the view that the ISSB should adopt a principles-based

approach in developing IFRS Sustainability Disclosure Standards as the *'global baseline'* and should explicitly declare this policy. Specifically, the following objectives-based approach may be adopted.

Objectives-based approach

(a) Establish overall disclosure objectives initially.

(b) Develop specific disclosure objectives (including why the users need the disclosures and how those users are likely to use the disclosures) to meet the overall disclosure objectives in (a).

(c) Develop specific disclosure requirements that would become the *'global baseline'* based on (b), taking into account the costs and benefits of the requirements.

(d) Describe, in the Basis for Conclusions, how the disclosure requirements were derived from the disclosure objectives (including the relationship between the overall disclosure objectives in (a) and the specific disclosure objectives in (b), and why the specific disclosure requirements in (c) are necessary to meet the disclosure objectives in (a) and (b)).

17. We believe that, for entities to provide entity-specific disclosures in accordance with principles-based standards that are derived from disclosure objectives, entities need to understand how the disclosure requirements were derived from the disclosure objectives, why such disclosures are necessary and how the users are likely to use the disclosures. By providing such information, we believe that the benefits of requiring disclosures will become clear, and such information will be helpful for entities in determining how they should provide disclosures when it is not necessarily clear from the requirements in the standards. In addition, we believe that such information is likely to be useful in conducting audits (or providing assurance) and for regulatory enforcement. Accordingly, we are of the view that the ISSB should provide such information in the Basis for Conclusions.

18. Such approach was also discussed in the *'Guidance for the Board to use when developing and drafting disclosure requirements in IFRS Standards'* included in the Exposure Draft (ED/2021/3) *Disclosure Requirements in IFRS Standards—A Pilot Approach* issued by the IASB on 25 March 2021. Although the Accounting Standards Board of Japan (ASBJ) provided comments on 12 January 2022 on the

proposals in the Exposure Draft, the SSBJ agree with the direction of the Exposure Draft, which seeks to derive disclosure requirements from disclosure objectives. Accordingly, we believe that the ISSB should align its standard-setting approach with the IASB.

Structuring the standard based on the TCFD recommendations

19. We note that the recommendations by the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (the 'TCFD') are widely accepted. Accordingly, we support the ISSB in developing the *'core content'* section of IFRS Sustainability Disclosure Standards based on the structure of the TCFD recommendations (that is, to require disclosures in the international sustainability disclosure standards in relation to the four elements of *'governance'*, *'strategy'*, *'risk management'* and *'metrics and targets'*).

***'Core content'* section of the proposed S1 Standard**

20. We are of the view that the *'core content'* section of the proposed S1 Standard should address two types of information: firstly, disclosures at the entity level, and secondly, disclosures in the absence of thematic standards. For example, regarding disclosures in general on *'governance'* and *'risk management'*, disclosures on the entity's business model within *'strategy',* and disclosures on executive management remuneration within *'metrics and targets*', we believe that the entity may not associate these items to a specific theme, but may provide the entity-level disclosures and provide additional disclosures relevant to a specific theme when they are material.

21. In addition, regarding metrics, we believe that disclosing the metrics together with their measurement criteria will enhance the understanding of users of general purpose financial reporting. Accordingly, disclosure requirements relevant to the measurement criteria for metrics may be set out in the *'core content'* section of the proposed S1 Standard.

Question 5—Reporting entity (paragraphs 37–41)

The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements.

The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as:

- its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain;
- the assets it controls (such as a production facility that relies on scarce water resources);
- investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and
- sources of finance.

The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate.

(a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

(b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

Reporting entity

22. We agree with the proposal of paragraph 37 of the proposed S1 Standard which proposes that *'an entity's sustainability-related financial disclosures shall be for the same reporting entity as the related general purpose financial statements'*.

23. However, we are of the view that the following issues need to be considered:

    (a) Paragraph 8 of the proposed S1 Standard does not require entities to apply IFRS Accounting Standards when providing disclosures of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. If entities are permitted to prepare general purpose financial statements in accordance with the standards other than IFRS Accounting Standards, all entities, including those applying IFRS Accounting Standards, should be required to disclose which accounting standards they have used as the basis for preparing their general purpose financial statements.

    (b) Our understanding is that information about the value chain is useful for primary users in assessing the entity's enterprise value. However, describing the value chain disclosure requirements in paragraphs 40 and 41 of the proposed S1 Standard within the *'Reporting entity'* section is potentially misleading in the sense that it could be interpreted as entities in the value chain also comprise the reporting entity. For this reason, disclosures of information about the value chain should be included in a separate section of the proposed S1 Standard (for example, with a new section following the *'Reporting Entity'* section).

    (c) If the ED requires the provision of information about the value chain, we are concerned that entities may misunderstand that information of those in their value chain must be obtained with the same precision as subsidiaries. For this reason, when providing quantitative information about the value chain, the standard should explicitly state that information is not necessarily limited to information directly measured or reported by entities other than the reporting entity, but that such information may be disclosed by the reporting entity using estimation.

    In this case, both data quality (in general, data quality is considered to be higher for directly measured or reported information and lower for estimates. A similar concept is adopted in the standards of the Partnership for Carbon Accounting Financials (PCAF)) and timely provision of information are to be pursued, but there can be trade-offs between the two. Accordingly, guidance should be provided by the ISSB on how entities should pursue both and how the trade-offs between them should be considered, taking into account existing practices.

(d) The definition of *'value chain'* in Appendix A of the proposed S1 Standard states that the value chain includes the reporting entity's business model, implying that the reporting entity itself is part of the value chain. The ISSB should explain this in the Basis for Conclusions on the proposed S1 Standard, because in some contexts, the term *'value chain'* is referred to entities located upstream and downstream of the reporting entity and may not include the reporting entity itself.[2]

<u>Reporting by entities engaged in multiple businesses</u>

24. In our jurisdiction, many entities, typically conglomerates, engage in multiple businesses and often set up subsidiaries for each business. As a result, some of these entities, for example, entities called *'general trading companies'*, have hundreds of subsidiaries and associates. Such entities operate in a number of jurisdictions and often hold minority stakes due to the laws and regulations that apply in the jurisdiction in which they operate. For these reasons, such entities consider entities that are classified as associates to be part of the same group and manage them as such. Subsidiaries and associates may have investors other than the reporting entity, and contracts may stipulate that the consent of such other investors must be obtained before information about the subsidiaries or the associates can be obtained and disclosed. The form of such agreements varies from subsidiary to subsidiary and from associate to associate, and are subject to laws and regulations that apply in each jurisdiction, which can be very different. Accordingly, it may require considerable time and effort to gather information from each of these entities, even when they

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[2] For example, the proposed rule on Climate Related Disclosures for Investors released by the U.S. SEC on March 21, 2022 defines the value chain as follows (underline added):

> *Value chain means the upstream and downstream activities related to a registrant's operations. Upstream activities in connection with a value chain may include activities by a party <u>other than</u> the registrant that relate to the initial stages of a registrant's production of a good or service (e.g., materials sourcing, materials processing, and supplier activities). Downstream activities in connection with a value chain may include activities by a party <u>other than the registrant</u> that relate to processing materials into a finished product and delivering it or providing a service to the end user (e.g., transportation and distribution, processing of sold products, use of sold products, end of life treatment of sold products, and investments).*

relate to material information.

25. For those entities referred to in the preceding paragraph, with regard to information on value chains, we are concerned that some suppliers have relationships with multiple entities within the same group, and there is the risk of disclosing information that could potentially be misleading due to the so-called *'double counting'* of information on such suppliers.

Furthermore, regarding disclosures by industry, these entities may be involved in a number of industries based on the SICS®, making it difficult for these entities to select more than one industry by exercising materiality judgements. Moreover, even if the industries can be identified, for the reasons discussed above, there may be restrictions on the availability of information, which may make it difficult for these entities to disclose certain metrics.

26. Based on the discussions above, we believe that the ISSB should address the issues of selecting the industry (or industries) and collecting information when the entity has a number of subsidiaries and associates that engage in many industries and thus the disclosures of sustainability-related financial information could be onerous. We propose the following measures:

    (a) The ISSB should re-emphasise that an entity is not required to provide disclosures for all of the industry-based disclosure requirements which relate to the entity's relevant industry (or industries); rather the entity is required to identify significant sustainability-related risks and opportunities from the perspective of a reporting entity as a whole and disclose material information about all of the significant sustainability-related risks and opportunities. The ISSB could also clarify that the scope of subsidiaries whose information would be collected may differ depending on the item to be disclosed based on materiality judgements. In paragraph 48 of the Appendix to this letter, we suggest that the ISSB develop guidance on materiality, and we think this point should be clarified in this guidance.

    (b) The ISSB should permit an entity not to disclose information about subsidiaries and associates for which it is impracticable to collect disclose information due to the contractual terms with the investors other than the reporting entity, provided that the entity discloses that fact and the reasons for the impracticability.

Identification of related financial statements

27. Paragraph 38 of the proposed S1 Standard requires all entities disclose the financial statements to which the sustainability-related financial disclosures relate, but it is possible that the related financial statements will not necessarily be provided within the same medium as the sustainability-related financial disclosures. Accordingly, the proposed S1 Standard should require entities to disclose how the related financial statements can be accessed.

28. In addition, entities may prepare multiple sets of financial statements in accordance with multiple sets of accounting standards (for the same reporting period of the same reporting entity). For example, financial statements for domestic securities filing purposes may be prepared applying local GAAP, while another set of financial statements may be prepared for the benefit of foreign investors on a voluntary basis applying IFRS Accounting Standards. In such cases, entities may refer to the financial figures in the two sets of financial statements in their sustainability-related financial disclosures and explain the differences. For this reason, the ISSB should clarify whether multiple sets of financial statements prepared in accordance with multiple sets of accounting standards can be identified as *'sustainability-related financial disclosures'*.

Question 6—Connected information (paragraphs 42–44)
The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements. (a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not? (b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and

Question 6—Connected information (paragraphs 42–44)
information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

<u>**Need for guidance on *'Connectivity'***</u>

29. The proposed S1 Standard states that sustainability-related financial disclosures are provided *'to enable 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 are linked to information in the general purpose financial statements'* (paragraph 42 of the proposed S1 Standard).

30. Our understanding is that the term *'connections'* may be understood differently among the preparers, users, and other stakeholders and, therefore, may be difficult to apply. For this reason, we believe that the ISSB should provide additional guidance.

    (a) For example, if a sustainability-related risk is identified but that risk is unlikely to materialise in the short-term, information related to that risk is unlikely to be disclosed in the financial statements. In this situation, it is unclear what disclosures should be made in the sustainability-related financial disclosures to ensure information is connected.

    (b) There could be cases where two pieces of information may appear to be disconnected when they are based on different assumptions (such as different time horizons). Accordingly, it should be clarified that the concept of *'connectivity'* means that users can understand the relationship between the information in the sustainability-related financial disclosures and the information in the financial statements.

Question 7—Fair presentation (paragraphs 45–55)
The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and

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

Question 7—Fair presentation (paragraphs 45–55)
alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

<u>Identification of sustainability-related risks and opportunities and related disclosures</u>

31. Paragraphs 51 through 54 of the proposed S1 Standard proposes guidance related to the identification significant sustainability-related risks and opportunities and related disclosures, but we think the draft standard is difficult to understand.

32. Specifically, when identifying sustainability-related risks and opportunities, and when considering the disclosures to be made about those risks or opportunities, it is difficult to understand in what order the thematic IFRS Sustainability Disclosure Standards, industry-based standards and other standards described in paragraph 54 of the proposed S1 Standard, should be applied.

33. Accordingly, we think that paragraphs 51 through 54 of the proposed S1 Standard should be absolutely clear as to whether the requirements are to be *'applied'*, *'referred to'* or *'considered'* and whether the entity *'shall'* apply or *'may'* apply those requirements.

34. Paragraph 12 of IAS No. 8 *Accounting Policies, Changes in Accounting Estimates, and Errors*, allows that management may also consider the most recent pronouncements of other standard-setting bodies in the absence of an IFRS Standard that is specifically applicable, while paragraphs 51 and 54 of the proposed S1 Standard state that entities *'<u>shall consider</u>'* such guidance. Accordingly, we are concerned that the scope that an entity must consider could be unlimited, and such requirement would impose excessive burdens on entities. We are also concerned that this may lead to diversity in disclosures, which would impair comparability. For this reason, the wording *'<u>shall consider</u>'* in paragraphs 51 and 54 of the proposed S1 Standard should be replaced with *'<u>may consider</u>'*.

35. We agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures described in paragraphs 51 and 54 of the proposed S1 Standard. When entities refer to standards other than IFRS

Sustainability Disclosure Standards, entities should disclose the guidance that they have referred to, so as to achieve a certain level of discipline.

36. On the other hand, in the absence of specific thematic IFRS Sustainability Disclosure Standards, we believe that it would be too onerous to require entities to provide disclosures with the granularity prescribed in the proposed S2 Standard. Accordingly, we think that the proposed S1 Standard should clarify that, in the absence of specific thematic IFRS Sustainability Disclosure Standards, disclosures of relatively low granularity should be permitted.

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

Question 8—Materiality (paragraphs 56–62)
The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction. (a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not? (b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not? (c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why? (d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

Concept of Materiality: Interaction between *'Significance'* and *'Materiality'*

37. Our understanding is that the ISSB proposes two-step process to identify information to be disclosed by requiring a reporting entity to *'disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed'* (paragraphs 1 and 2 of the proposed S1 Standard) in order to achieve objective for the entity to disclose information about sustainability-related risks and opportunities that are useful for the primary users' decisions.

38. We believe that the term *'significant'* has a critically important role in this ED. However, the term *'significant sustainability-related risks and opportunities'* is not defined nor explained in the proposed S1 Standard and their implications are unclear. For this reason, we are concerned that this might result in variation in practice upon its application in each jurisdiction. We are also concerned that since the term *'significant'* is also used in IFRS Accounting Standards without any definition, the

definition of this term could not be provided only in IFRS Sustainability Disclosures Standards. Therefore, in order to address these concerns and require entities to apply two-step process to identify information to be disclosed, we believe that the ISSB should explain *'significant sustainability-related risks and opportunities'* and clarify the process to assess *'significance'* in the proposed S1 Standard.

39. Paragraph BC40 of the Basis for Conclusions on the proposed S1 Standard states that *'Significant risks are those that an entity prioritises for management responses'* and *'They include risks and events that in the short-, medium- or long-term could disrupt the entity's business model or its strategy for sustaining and developing the business model that could affect the resources or relationships on which the entity depends or that threaten the viability of, or creates opportunities for, the entity'* as an explanation about *'significant risk'*. We believe that the ISSB could clarify *'significant sustainability-related risks and opportunities'* in the proposed S1 Standard based on this paragraph. We also believe that the ISSB should clarify that the concept of *'significance'* is fundamentally different from the concept of *'materiality'*, which is the basis to judge whether an information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting (that is, the basis to judge whether an information could be omitted).

40. In addition, we believe that ISSB should illustrate the process of applying materiality judgements against identified all of the *'significant sustainability-related risks and opportunities'* in order to clarify the process. We note that paragraph 51 of the proposed S1 Standard and *Illustrative Guidance on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* include explanation and illustration with regard to materiality judgements and the process of identifying significant sustainability-related risks and opportunities. However, we are concerned that the overall flow is still unclear. Therefore, we suggest that the ISSB consider clarifying the process, such as by using illustrations or diagrams, within the guidance regarding making materiality judgements about sustainability-related risks and opportunities as we proposed in paragraph 48 of the Appendix to this letter.

41. The IASB's Exposure Draft of IFRS Practice Statement on *Management Commentary* (ED/2021/6) requires disclosure of key matters for each of the areas of content and adopts an approach that allows omitting immaterial information by

applying the definition of material. We believe that, from the perspective of connectivity between the ISSB and the IASB, the consistency with this approach should be clarified. We also believe that the ISSB could use key matters and considerations to be taken into account described in the Exposure Draft of IFRS Practice Statement on *Management Commentary* as references regarding how to assess *'significance'* as we noted in paragraph 48 of the Appendix to this letter.

<u>Definition and application of *'material'*</u>

42. The definition of *'material'* in paragraph 56 of the proposed S1 Standard can be interrupted as a criteria to judge whether an information could be omitted since that definition is aligned with the definition of *'material'* used in the IASB's CFW and IAS 1 *Presentation of Financial Statements*. However, paragraph BC71 of the Basis for Conclusions on the proposed S1 Standard states *'materiality judgements about sustainability-related financial information will differ from those for general purpose financial statements'*, which can be interrupted that the ISSB intends to require different considerations to entities from those in materiality judgements made in the context of accounting standards.

43. In this regard, as the definition of *'material'* in paragraph 56 of the proposed S1 Standard is aligned with the definition of *'material'* used in the IASB's CFW and IAS 1 *Presentation of Financial Statements*, we recommend the ISSB to take into account that this might cause confusion for some readers to interrupt that those materiality judgements (that is, judgements regarding whether an information could be omitted) for sustainability-related financial information would be the same for general purpose financial statements.

44. We believe that there would be differences in the outcome of materiality judgements between about the information reported in the financial statements and sustainability-related financial information. This is because the scope of sustainability-related financial information could be broader than the scope of information reported in general purpose financial statements in terms of time horizon and likelihood as stated in paragraph 6 of the proposed S1 Standard, not because of the differences in the judgements regarding whether a specific item is *'material'*.

    For example, financial implications of interactions throughout the value chain, as noted in paragraph BC71 of the Basis for Conclusions on the proposed S1 Standard, might impact a reporting entity over longer time horizon and could be judged as material sustainability-related financial information even if they have low likelihood.

This is because those information might give insight into sustainability-related risks and opportunities that affect entity's activities and provide a sufficient basis for users of general purpose financial reporting to assess resources and relationships on which an entity's business model and strategy for sustaining and developing that model depend.

45. Accordingly, we believe that the ISSB should sufficiently explain the differences in the materiality judgements between about the information reported in the general purpose financial statements and sustainability-related financial information in the Basis for Conclusions on the proposed S1 Standard. Further, if there are points to consider when making materiality judgements regarding sustainability-related financial information, we recommend clarifying such considerations by reflecting them in *'the main text'* of the proposed S1 Standard.

46. Further, paragraph BC72 on the proposed S1 Standard includes matters which are required considerations to be taken into account when making materiality judgements by entities. We also recommend if entities are required for the matters, they should also be included in *'the main text'* of the proposed S1 Standard.

47. We also note that the differences between *'significant'* and *'material'* should be clarified as we stated in paragraph 22 of the cover letter and paragraph 39 of the Appendix to this letter.

<u>Guidance on applying materiality judgements</u>

48. We note that the ISSB could develop additional guidance about the process of identifying sustainability-related financial information and the way of making materiality judgements through that process (for example, utilising diagrams and charts to illustrate the process) in IFRS Sustainability Disclosure Standards. We believe this would correspond to the IASB's IFRS Practice Statement 2 *Making Materiality Judgements*. We also believe that this could be achieved by enhancing the *Illustrative Guidance* on the proposed S1 Standard and include, for example, the following:

    (a) Our understanding is that it would be difficult to make material judgements qualitatively since (i) sustainability-related financial information would require materiality judgements qualitatively in many situations, such as considering the medium or long time horizon and identifying risks and opportunities throughout the value chain, and (ii) the way of making such materiality judgements qualitatively has not been established yet. Therefore, we believe that it would be helpful for the ISSB to develop guidance about making materiality judgements qualitatively.

(b) We recognise that in many cases it is inappropriate to judge the materiality of sustainability-related financial information on the basis of financial figures such as revenue and profits of individual companies, and that metrics as benchmark are likely to differ from country to country and region to region, so it is not possible to judge materiality on the basis of relevant metrics. For this reason, we believe that it would be helpful for the ISSB to develop guidance about making materiality judgements in this context.

When disclosure of information required by IFRS Sustainability Disclosure Standards is prohibited by local laws or regulations

49. The ED proposes that case in which local laws or regulations prohibit the entity from disclosing the information required by an IFRS Sustainability Disclosure Standard, asserting compliance with IFRS Sustainability Disclosure Standards can be made by identifying the type of information not disclosed and explain the source of the restriction (paragraphs 62 and 92 of the proposed S1 Standard). The intent of such provisions are understandable, however we are concerned that the application of such items may impair comparability. Accordingly, we are of the view that the ISSB should impose certain restrictions on items that need not be disclosed because they are prohibited by local laws or regulations. One idea might be to allow this exception only when complying with IFRS Sustainability Disclosure Standards would significantly impact the environment or human rights in a negative manner.

50. Other than the exception discussed in the previous paragraph, we do not think exceptions should be permitted. If information that is generally considered unfavourable in a jurisdiction (say, Jurisdiction A) is prohibited to be disclosed in that jurisdiction, entities in Jurisdiction A would be able to assert compliance with IFRS Sustainability Disclosure Standards, even though those entities may not be showing their complete pictures. If the disclosures of entities from another jurisdiction (say, Jurisdiction B) with no such prohibition are compared with the disclosures of entities from Jurisdiction A, the enterprise value of the entities in jurisdiction B may be undervalued. We think that this is inappropriate and that this could undermine the benefits of entities applying IFRS Sustainability Disclosures Standards.

51. Since the relief proposed in paragraph 62 of the proposed S1 Standard are not considered to be proposals on materiality, if included, they should be transferred to the section on the statement of compliance with the proposed S1 Standard.

Question 9—Frequency of reporting (paragraphs 66–71)
The Exposure Draft proposes that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements. Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

Reporting at '*the same time*'

52. The ED proposes that an entity shall report its sustainability-related financial disclosures at the same time as its financial statements (paragraph 66 of the proposed S1 Standard). Given the ISSB's objective of assessing the impact of significant sustainability-related risks and opportunities on an entity's enterprise value and the position that sustainability-related financial information supplements and complements the information contained in the entity's financial statements (paragraph BC6 of the proposed S1 Standard), we agree with this requirement in principle. However, in some jurisdictions, disclosures of sustainability-related financial disclosures and financial statements have evolved from different laws and regulations, and changes in these systems or practices (or both) are likely to be costly and time-consuming.

53. For example, in our jurisdiction, there are entities that are legally required to report their greenhouse gas emissions. While a March year-end entity is required to report to the authorities by the end of July, entities are required to file their financial statements to their securities regulators by the end of June. As a result, the information required to prepare sustainability-related financial information may not be available by the date the financial statements are due, even when the information is available, it may be difficult for entities to prepare sustainability-related financial

disclosures when the related financial statements are due to be filed with the securities regulator.

54. If an entity becomes subject to both disclosures of sustainability-related financial information and financial statements, the implications of the ED would be that information for both types of information would be due whichever is due earlier under the laws and regulation, which could be impossible or significantly increase the burden on the entity. In addition, if disclosures for both types of information were voluntary, the implications of the ED would be that sustainability-related financial information would not be disclosed until the financial statements are disclosed (or vice versa), and we are concerned that the timeliness would be impaired when compared to current practice.

55. We believe that the global baseline should accommodate the various corporate reporting systems that exist around the world. Accordingly, acknowledging that reporting at the same time is desirable, we believe that the ISSB should permit entities to report at different timings.

Reporting on *'the same period'*

56. Paragraph 66 of the proposed S1 Standard also proposes that the disclosures of sustainability-related financial information cover the same reporting period covered in the financial statements. We agree with this requirement in principle, because having the same reporting period for both types of disclosures is likely to provide useful information because it enhances the connectivity of the information. However, we note that, in the preparation of consolidated financial statements, accounting standards permit the incorporation of financial statements of subsidiaries with different accounting periods if the difference is less than three months (paragraph B93 of IFRS 10 *Consolidated Financial Statements*). When a different accounting period is used for the preparation of consolidated financial statements, we think information of subsidiaries for the preparation of disclosures of sustainability-related financial information should also be based on this different accounting period, and that the S1 Standard should clarify this point.

57. Our understanding is that the reporting entity may need to obtain a large amount of information and basic data from interested parties outside the consolidated group in preparing disclosures of sustainability-related financial information, such as emission factors in Scope 3 greenhouse gas emissions and emission information of

investee or counterparty for financed emissions. Given the time permitted for entities to file their financial statements under the applicable laws and regulations, in preparing sustainability-related financial disclosures for the current fiscal year, information and other information may not be available for the current fiscal year. (In particular, we note that covering the same reporting period as that covered in the financial statements is especially difficult for the disclosure of financed emissions, because the calculation of such financed emissions would be based on the information provided by the investee or counterparty. For this reason, the PCAF Standards and others allow entities to calculate based on information in previous years.)

There are also greenhouse gas emissions that are required to be reported for reporting periods that are different from the fiscal year and for which the periods covered by the calculation are determined for each greenhouse gas. For this reason, while sustainability-related financial disclosures and financial statements while it is desirable for, different reporting period should be permitted by requiring an entity to disclose that fact and its reason, if an entity is note able to do so.

Judgements by each jurisdiction

58. The issues of reporting at the same time and reporting on the same period not only relate to corporate reporting, but also to various systems in each jurisdiction, including taxation and non-financial regulations. As stated in paragraph 3 of the cover letter, we believe that IFRS Sustainability Disclosure Standards must be accepted by jurisdictions around the world to become truly global standards. Accordingly, while we agree that reporting at the same time and reporting on the same period is desirable, we think the ISSB should permit reporting at different timings and reporting for the different periods. The specific exceptions should be determined by each jurisdiction.

Question 10—Location of information (paragraphs 72–78)
The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital.

Question 10—Location of information (paragraphs 72–78)
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

Question 10—Location of information (paragraphs 72–78)
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?

<u>Use of cross-references</u>

59. We believe a core medium is needed to enhance the understandability of sustainability-related financial disclosures and to improve user availability. For example, an annual report that includes the related financial statements (paragraph 8 of the proposed S1 Standard) could be the core medium.

60. We agree with the proposal to permit cross-references (paragraph 75 of the proposed S1 Standard) provided that this core medium is defined. However, if cross-references are permitted, we think the following points need to be considered:

    (a) When an entity includes information by cross-reference, the scope of the of sustainability-related financial disclosures in accordance with IFRS Sustainability Disclosure Standards to be included by cross-reference should be clearly identified and disclosed; and

    (b) The concept *'on the same terms and at the same time'* in the ED need to be clarified.

61. In addition, if the use of cross-references is permitted without any restriction, we are concerned that information may be scattered, and the clarity and understandability of the information may be reduced. Accordingly, we think the S1 Standard should explicitly prescribe the type of information that should be included in the core medium. Examples of such information would include the basic information related to the *'core content'* and the measurement criteria for metrics, which are pieces of information that are essential to the understanding of the overview of the entity's disclosures of sustainability-related financial information.

62. If a core medium is defined, sustainability-related financial information and related financial statements will be disclosed at the same time for the contents to be disclosed in the core medium. However, the core medium is likely to provide a summary,

and specific metrics are likely to be provided outside this core medium via cross referencing, and it may be the case that the information is provided at a different timing. In such cases, entities should be required to explicitly state in the core medium: when information is (or will be) provided in the other medium; as of what date (or periods) the information provided in the other medium relates to; and how to access the other medium. Entities should also be required to explicitly state in the other medium: information about the specific metrics; and any updates to the information stated in the core medium.

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

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

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

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

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

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

Updated estimates in the disclosures of comparative information

63. Paragraph 64 of the proposed S1 Standard requires disclosures of comparative information to reflect updated estimates of '*to help provide the best information possible about trends to users of general purpose financial reporting*' (paragraph BC82 of the proposed S1 Standard). This requirement differs from the treatment in IFRS Accounting Standards (paragraph 36 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) that recognises the effects of changes in accounting estimates prospectively.

64. Paragraph 64 of the proposed S1 Standard states that '*when providing sustainability-related financial disclosures an entity shall disclose comparative information that reflects updated estimates*'. This means that entities would be required, for all items, to review whether the comparative information requires updates.

65. Our understanding is that accounting standards recognise the effects of changes in accounting estimates prospectively because the changes in accounting estimates are driven by new information and revisions to prior period estimates in the current period involve the use of *'hindsight'* and thus are less reliable. Updating estimates incurs additional costs on entities and, therefore, it is not necessarily appropriate to provide updated estimates for comparative information and the determination should be made by comparing the costs and benefits.

66. Accordingly, we think the first sentence in paragraph 64 of the proposed S1 Standard should be revised to read *'When providing sustainability-related financial disclosures an entity may disclose comparative information that reflects updated estimates'*. Nevertheless, when there is a change in an estimate that is material due to a change in the assumptions, the details of the change in the estimate may need to be disclosed.

67. The implications of our proposals in the previous paragraph can be summarised as follows:

    (a) There will be no disclosure if the change in the estimate is immaterial.

    (b) When comparative information reflecting updated estimates is not disclosed, disclosures will be provided for significant changes in estimates.

    (c) When comparative information reflecting updated estimates is disclosed, disclosures will be provided for significant changes in estimates, specifically, the difference between the amounts reported in the prior period and the comparative updated amounts, and the reason the amounts were updated.

Consistency of financial data and assumptions

68. We agree with the proposal in paragraph 80 of the proposed S1 Standard that financial data and assumptions shall be consistent with the corresponding financial data and assumptions in the entity's financial statements, to the extent possible.

69. However, sustainability-related financial information inherently may provide estimates for longer periods than financial statements. In such cases, we are of the view that disclosures should be provided to explain the differences between sustainability-related financial information and information in the financial statements, in accordance with the disclosure requirements related to connected information (paragraph 42 of the proposed S1 Standard).

Estimation and outcome uncertainty

70. The proposed S1 Standard does not define nor explain the terms *'measurement uncertainty'*, *'estimation uncertainty'* and *'outcome uncertainty'*. We think these terms need to be defined or explained in the proposed S1 Standard.

71. Regarding the outcome uncertainty, we think that it may be difficult to accurately predict, to a sufficient extent, the results that may be considered at the time of preparing sustainability-related financial disclosures, comprehensively and without bias for positive or negative outcomes for the entity. Accordingly, the ISSB should acknowledge that there are cases where it may difficult to achieve *'faithful representation'*, which is a fundamental qualitative characteristic that is useful information in assessing enterprise value, described in paragraphs C9 through C15 of Appendix C of the proposed S1 Standard.

Question 12—Statement of compliance (paragraphs 91-92)
The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to

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

Statement of compliance

72. We are concerned that the application of the relief in paragraph 62 of the proposed S1 Standard may impair comparability, as stated in paragraphs 41 and 42 of the cover letter and paragraphs 49 and 50 of the Appendix to this letter. Accordingly, we are of the view that the ISSB should impose certain restrictions on items that need not be disclosed because they are prohibited by local laws or regulations. One idea might be to allow this exception only when complying with IFRS Sustainability Disclosure Standards would significantly impact the environment or human rights in a negative manner.

Question 13—Effective date (Appendix B)
The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard. (a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities

Question 13—Effective date (Appendix B)	
	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?

Effective Date

73. Sustainability-related financial disclosures is an issue to be addressed globally, and we believe that the ISSB can develop internationally consistent standards. However, sustainability-related financial disclosures have a relatively short history compared to financial statements, and the number of jurisdictions and entities that provide such disclosures is smaller than the number of those that disclose financial statements. In addition, sustainability-related financial disclosures are yet to be fully established within the corporate reporting system, and we observe that we are currently in the trial-and-error stage.

74. Although we recognise that sustainability-related financial disclosures are issues to be addressed urgently, we believe that the ISSB should ensure sufficient time before the effective date, given the situation of readiness by each jurisdiction and entity described in the previous paragraph (for example, to apply the IFRS Sustainability Disclosure Standard, entities must have a material sustainability related risks and opportunities need to be comprehensively identified or processes for collecting and calculating the data required for disclosure and related internal controls need to be established. In particular, where confidentiality clauses exist in agreements entered into with companies in the value chain, it may be necessary to amend the agreements in order to disclose sustainability-related financial information on the value chain.)

75. Regarding the industry-based standards, as described in paragraph 15 of the cover letter, we are of the view that there are many issues that the ISSB needs to resolve if it were to incorporate the SASB Standards into IFRS Sustainability Disclosure Standards. (Nevertheless, we think the disclosure topics are useful in identifying sustainability-related risks and opportunities.) It is also recognised that the SASB Standards have been developed to address a wide range of sustainability-related themes and should not be *'processed'* to become guidance limited to climate-only

industry-based standards. Nevertheless, because the ED tries to isolate climate-specific industry-based standards within the SASB Standards, the ED includes disclosure topics or metrics that have little relevance to climate. As a result, we are concerned that these disclosures could be onerous to entities.

For the reasons discussed above, we recommend that, as the policy of developing the *'comprehensive global baseline'*, the ISSB give higher priority to the development of the thematic requirements (including disclosure topics) and develop industry-based requirements once the above issues have been resolved.

76. As described in paragraph 4 of the cover letter, we believe that the ISSB should adopt a phased approach in which the ISSB should initially set out the most core disclosure requirements that are useful to both users and preparers, and are actually applicable in each jurisdiction, and once those core disclosure requirements are accepted in each jurisdiction, in which disclosures should be enhanced in line with the development of practice. We recognise that while disclosures on climate are desired as soon as possible, we are still at the stage where we are beginning to build up disclosure practices on themes other than climate. For this reason, a relief could be added in relation to the effective date of the proposed S1 Standard to allow for a delay in the application of disclosure requirements for the *'core content'* of themes other than climate.

Transition

77. One characteristic of sustainability-related financial information is that it is relatively difficult to compare it with other entities when compared with financial information, and it is important that users can understand the trends in the same entity. Accordingly, one idea is to require the disclosure of comparative information in the first period of application of IFRS Sustainability Disclosure Standards.

78. However, in light of the growing information needs of users for sustainability-related financial disclosures and the urgent need for climate-related disclosures in particular, we agree to the proposal in paragraph B2 of Appendix B of the proposed S1 Standard, as it is expected that the application of IFRS Sustainability Disclosure Standards will be promoted by not requiring disclosure of comparative information in the first year of application.

79. We also agree to the proposal in paragraph B1 of Appendix B of the proposed S1 Standard to allow earlier application for the aforementioned reason.

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?

Global baseline

80. We agree with the building block approach whereby the ISSB provides *'comprehensive global baseline'* and each jurisdiction prescribes additional disclosure requirements on top of such baseline to meet the needs of users.

81. In this context, we think the proposals regarding sustainability-related financial information disclosures published by the U.S. Securities and Exchange Commission ('the SEC') and the European Financial Reporting Advisory Group ('EFRAG'), respectively, at a timing close to when the ISSB published the ED, can be used as test cases. Given that these proposals come from jurisdictions where practices related to disclosures of sustainability-related financial information are relatively advanced and, if we are to view these proposals as the result of adding jurisdiction-specific requirements to the *'comprehensive global baseline'*, we believe that the *'comprehensive global baseline'* that is to be developed by the ISSB should not include disclosure requirements that exceed these proposals (please note that the standard to be compared should mainly be the proposed S2 Standard, because the SEC's proposals relate to climate-related disclosures only).

82. Because sustainability-related risks and opportunities differ significantly in terms of their magnitude and likelihood depending on the industry, in light of the objective of the ED to provide information that contributes to the assessment of enterprise value, there is a certain level of support in our jurisdiction for industry-based standards.

83. However, we specifically would like to note that the SEC's proposal does not include industry-based standards, and that EFRAG expects to address industry-based standards in the future. We believe that the industry-based standards should be developed based on global consensus but the proposed S2 Standard has been proposed without such global consensus. We believe global consensus is needed for several issues, such as the use of industry classification based on the SASB Standards, the granularity of requirements in the industry-based standards, clarifying the context in which the requirements are derived from the disclosure objectives and disclosures by entities that conduct business in more than one industry. We are of the view that there are many issues that the ISSB needs to resolve if it were to incorporate the SASB Standards into IFRS Sustainability Disclosure Standards. (Nevertheless, we think the disclosure topics are useful in identifying sustainability-related risks and opportunities.)

84. In addition, it is our understanding that the SASB Standards have been developed to address a wide range of sustainability-related themes and thus they should not be *'processed'* to become guidance limited to climate-related industry-based standards. Nevertheless, because the ED tries to isolate climate-specific industry-based standards within the SASB Standards, the ED includes disclosure topics or metrics that have little relevance to climate. As a result, we are concerned that these disclosures could be onerous to entities.

For the reasons discussed above, we recommend that, as the policy of developing the *'comprehensive global baseline'*, the ISSB give higher priority to the development of the thematic requirements (including disclosure topics) and develop industry-based requirements once the above issues have been resolved.

Question 15—Digital reporting
The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure

Question 15—Digital reporting
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)?

Digital Reporting

85. There are no specific comments on digital reporting.

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?

Cost vs benefit

86. Cost versus benefit is mentioned individually in the comments to each question.

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

Terms used in standards

87. Apparently, the terminology used throughout the ED is inconsistent. For example, paragraph 5 of the proposed S1 Standard contains the phrase *'the amount, timing and certainty of future cash flows'*. This term *'amount'* may be *'value'* or the term *'certainty'* may be *'uncertainty'*. Those who carefully read the standards are likely to question whether a difference in the terminology implies a different meaning and, therefore, we urge the ISSB to be careful in terminology used in the standards.

Examples of sustainability-related financial disclosures

88. Stakeholders in our jurisdictions note that there are psychological hurdles to apply the proposals in the ED because it is difficult to imagine how the whole picture of the disclosures resulting from the ED would look like.

89. Although consideration should be given to ensure that practice would not be constrained by presenting illustrative examples, we suggest that the ISSB consider whether it should provide illustrative examples of disclosures of sustainability-related financial disclosures in order to facilitate the application of IFRS Sustainability Disclosure Standards.

90. For example, we think it would be useful to clarify in the illustrative examples whether disclosing industry metrics in explaining the entity's strategies would meet the industry-based disclosure requirements.