



18 July 2023

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International Sustainability Standards Board
The IFRS Foundation
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Comments on the Exposure Draft (ISSB/ED/2023/1)

**Methodology for Enhancing the International Applicability of the SASB[®] Standards
and SASB Standards Taxonomy Updates**

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 (ISSB)'s Exposure Draft (ISSB/ED/2023/1) *Methodology for Enhancing the International Applicability of the SASB[®] Standards and SASB Standards Taxonomy Updates* ('the Methodology ED'), published in May 2023.
2. Our fundamental thinking in developing sustainability-related financial disclosures that meet the needs of primary users is that standard setters must prescribe specific disclosure requirements based on specific disclosure objectives that are derived from the overall disclosure objectives of the standard. Such specific disclosure objectives should clarify why users need and how users are likely to use the resulting disclosures. This thinking forms the basis of our comments.

Developing industry-based disclosure requirements

3. As we noted in our comment letters related to the Exposure Draft (ED/2022/S1) IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and the Exposure Draft (ED/2022/S2) IFRS S2 *Climate-related Disclosures*¹, we think there are many issues that the ISSB needs to address if the

¹ In this letter, the ISSB's Exposure Draft 'IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*' is referred to as 'Draft S1' and the finalised standard

ISSB were to incorporate the Sustainability Accounting Standards Board (SASB) Standards into the IFRS Sustainability Disclosure Standards. In this context, we welcome the publication of the Methodology ED and the request for comments to enhance the international applicability of the SASB Standards.

4. However, we believe that the ISSB's goal is to develop a set of industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards, and enhancing the international applicability of the SASB Standards is merely a stepping stone and not the ultimate goal. Accordingly, we believe that the ISSB should complete its work on enhancing the SASB Standards in this project as quickly as possible and undertake the development of industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards. In this context, we believe that the ISSB would need to consider at a minimum the following areas:
 - (a) Disclosure objectives of metrics should be clearly stated.
 - (b) The international applicability of the industry classification should be enhanced.

Disclosure objectives of metrics

5. Our understanding is that one of the reasons the industry-based guidance proposed in Draft S2 was not well accepted by respondents was that there was a long list of metrics without a clear explanation of why those metrics were required to be disclosed. For entities to provide information that is most useful to users, we believe it is critical that the disclosure metrics are derived from specific disclosure objectives that are accepted globally.

International applicability of the industry classification

6. Our understanding is that one of the other reasons the industry-based guidance proposed in Draft S2 was not well accepted by respondents was that there were concerns regarding the international applicability of the industry classification.
7. The Methodology ED does not include the ISSB's process for reviewing the SASB's Sustainable Industry Classification System[®] (SICS[®]). However, we are of the view that the following issues regarding the SICS[®] need to be addressed:

is referred to as 'IFRS S1.' Similarly, the ISSB's Exposure Draft 'IFRS S2 *Climate-related Disclosures*' is referred to as 'Draft S2,' and the finalised standard is referred to as 'IFRS S2.'

- (a) Currently, there is no global consensus on the use of the SICCS[®] as the industry classification for sustainability-related financial information. We observe diversity in the industry classification used by financial organisations. For example, paragraphs B62 and B63 of IFRS S2 require the use of the Global Industry Classification Standard (GICS).
 - (b) Because the SICCS[®] only covers industries that are highly affected by sustainability-related risks and opportunities, some entities may find it difficult to decide which industry they belong to within the SICCS[®]. Additional guidance on how entities should determine the industry it belongs to within the SICCS[®] should be provided.
 - (c) In Europe, EFRAG is in the process of developing a European industrial classification system. Interoperability of the industry classification also needs to be considered to reduce the burden on preparers.
8. We believe that a global consensus needs to be reached on the use of SICCS[®] as the industry classification for sustainability-related financial disclosures. In any future project to develop industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards, the ISSB should also consider the process and methodology for internationalising the industry classification and expose such process and methodology for public consultation.
9. If the ISSB were to undertake a project to develop a set of industry-based disclosure requirements, the ISSB would need to devote significant time and resources. Accordingly, we suggest the ISSB determine the priority of this project within the overall activities of the ISSB.
10. Our comments on this point will be submitted separately in the comment letter on the ISSB's Request for Information 2023 (ISSB/RFI/2023/1) *Consultation on Agenda Priorities*, and we expect that they will be read together with our comments in this letter.

Opportunity to comment on the amended SASB Standards

11. The ISSB will amend the non-climate-related SASB Standards metrics in accordance with the methodology established in this project to enhance the international applicability of the SASB Standards.

12. Under IFRS S1, entities are required to refer to and consider the applicability of the amended SASB Standards. Naturally, stakeholders are more interested in the actual wording of the SASB Standards as amended by applying the established methodology rather than the methodology itself.
13. Accordingly, we urge the ISSB to expose the amended SASB Standards in their entirety, and to allow stakeholders to comment on them before they are finalised.

Reflecting amendments in the climate-related industry-based guidance and the climate-related SASB Standards metrics

14. Upon issuance of IFRS S2, the ISSB amended its climate-related metrics included in the industry-based guidance and the climate-related SASB Standards metrics. However, we note that, depending on the comments received on the Methodology ED and subsequent redeliberations by the ISSB, the ISSB may need to revisit the industry-based guidance in IFRS S2 and the climate-related SASB Standards metrics and may need to amend the guidance again.

Comments on the specific questions

15. For our comments on the specific questions in the Methodology ED, 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,

A handwritten signature in black ink that reads "Y. Kawanishi". The signature is written in a cursive, flowing style.

Yasunobu Kawanishi
Chair
Sustainability Standards Board of Japan

Question 1—Methodology objective

This Exposure Draft describes the proposed methodology to amend non-climate-related SASB Standards metrics to enhance their international applicability when they contain a jurisdiction-specific reference.

- (a) Are the scope of the intended enhancements and the objective of the proposed methodology stated clearly in paragraph 8? If not, why not?
- (b) Are the constraints of the objective as listed in paragraph 8 (preserving structure and intent, decision-usefulness and cost-effectiveness) appropriate? Why or why not?
- (c) Should any other objective(s) or constraint(s) be considered in the proposed methodology? If so, what alternative or additional objective(s) or constraint(s) would you suggest? How would these add value to the proposed methodology?

Reflecting amendments in the climate-related industry-based guidance and the climate-related SASB Standards metrics

- 16. The methodology proposed in this Methodology ED is intended to enhance the international applicability of non-climate-related SASB Standards metrics.
- 17. Upon issuance of IFRS S2, the ISSB amended its climate-related metrics included in the industry-based non-mandatory guidance and the climate-related SASB Standards metrics. However, we note that, depending on the comments received on the Methodology ED and subsequent redeliberations by the ISSB, the ISSB may need to revisit the industry-based non-mandatory guidance in IFRS S2 and the climate-related SASB Standards metrics and may need to amend the non-mandatory guidance again.

Methodology for the revision of current guidance

- 18. As the Methodology ED correctly points out, the Revision Approaches are approaches to revise current guidance so that jurisdiction-specific guidance is transformed into internationally applicable guidance and, therefore, we believe that the proposed methodology should be applied for this purpose only. While the thinking underlying the Revision Approaches (including the ordering of the Revision Approaches) may be useful in developing future industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards, we believe the

methodology for developing future disclosure requirements should be developed separately and that the ISSB should make this point clear.

19. For example, in developing future requirements, the ISSB should not remove disclosure metrics as in Revision Approach 4 or seek alternative as in Revision Approach 5. As we comment in paragraphs 31 to 33 of this letter, Revised Approaches 1-3 should also be applied as appropriate to the specific circumstances and should not be applied in descending order of preference.
20. We note that the Methodology ED starts with current guidance and, therefore, does not discuss which metrics may be missing in current guidance in the international context. We believe that the ISSB should consider adding metrics when it develops future industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards and should prioritise the development of such requirements over making improvements to the SASB Standards.

Question 2—Overall methodology

This Exposure Draft explains the proposed methodology to amend the SASB Standards metrics to enhance their international applicability when they contain jurisdiction-specific references.

- (a) Do you agree that the proposed methodology would enhance the international applicability of the SASB Standards metrics? If not, what alternative approach do you suggest and why?

21. We believe that the ISSB’s goal is to develop a set of the industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards, and enhancing the international applicability of the SASB Standards is merely a stepping stone and not the ultimate goal. Please refer to our response to Question 5.

Question 3— Revision approaches

The Exposure Draft explains five revision approaches to enhance the international applicability of non-climate-related SASB Standards metrics. Every disclosure topic,

Question 3— Revision approaches

metric and technical protocol amended using the methodology will apply these five revision approaches, either individually or in combination. The methodology begins with Revision Approach 1, which uses internationally recognised frameworks and guidance to define relevant terms of reference.

- (a) Do you agree that replacing jurisdiction-specific references with internationally recognised frameworks and guidance—if identified—should be the first course of action? If not, why not?
- (b) If Revision Approach 1 is not feasible, do you agree that using the remaining four revision approaches would enhance the international applicability of the SASB Standards? Why or why not?
- (c) Could the revised metrics resulting from any specific revision approaches or combination of approaches pose problems for the preparers applying them? Why or why not?
- (d) Do you agree with the criteria for determining which of the proposed revision approaches applies in different circumstances? Why or why not? What changes to the criteria would you recommend and why?

The proposed revision approaches

22. Paragraph 9 of the Methodology ED proposes five Revision Approaches to enhance the international applicability of metrics in non-climate-related SASB Standards. In this section, we comment on the Revision Approaches.

Revision Approach 4

The criteria for deleting metrics

- 23. Revision Approach 4 would remove disclosure metrics when they are ill-adapted for international application or have no identified international equivalents outside specific jurisdictions without leaving the disclosure topic incomplete. (Paragraphs 9(d) and A6 of the Methodology ED)
- 24. We are of the view that metrics should be developed to meet the disclosure objectives, and that whether or not a specific metric should be removed should be based on the

usefulness of that metric. That is, if metrics are not necessary to preserve the integrity of the disclosure topics, or if metrics can be replaced by other metrics, such metrics should not be required. Accordingly, we believe that such metrics should be removed, and it should be considered before considering Revision Approach 1.

Metrics required only in specific jurisdictions

25. Revision Approach 4 would remove disclosure metrics when disclosure metrics have no identified international equivalents outside specific jurisdictions. (Paragraph 9(d) of the Methodology ED)
26. We believe that a metric can be useful even if it is used in a specific jurisdiction if such metric provides information about the activities of an entity in that jurisdiction.
27. One difference between Revision Approach 3 and Revision Approach 4 is that the former refers to multiple jurisdictions, whereas the latter refers to a single jurisdiction. The usefulness of metrics should be assessed in terms of whether they provide useful information to understand the entity. Accordingly, whether the metric is used in one or more jurisdictions should not be used as the criterion to decide whether a metric should be removed.

Revision Approach 5

28. Revision Approach 5 would remove and replace jurisdiction-specific metrics when a relevant replacement can be identified to preserve the disclosure topic's integrity. (paragraph 9(e) of the Methodology ED) Our understanding is that this may result in adding new metrics to the SASB Standards.
29. However, our understanding is that the SASB Standards will be replaced in the future by industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards. Accordingly, we are of the view that new metrics should not be introduced in haste as part of this project but should be discussed in future projects to develop industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards.
30. We think Revision Approach 5 has a different timeframe from the other Revision Approaches proposed in the Methodology ED and, therefore, should not be included in the Revision Approaches considered in this project.

Relationship among Revision Approaches 1, 2 and 3

31. We are of the view that the Revision Approaches 1, 2 and 3 have the following advantages and disadvantages with trade-offs:

APR	Advantages	Disadvantages
1	<ul style="list-style-type: none"> • International comparability will be enhanced because the metrics will be calculated using the same standards, definitions or calculation methods across jurisdictions. • Internationally applicable references can be relatively easy to use in many jurisdictions. • Entities operating in multiple jurisdictions can portray the whole entity, rather than a portion of the entity that is related to a specific jurisdiction, because the metric can be provided for the whole entity. 	<ul style="list-style-type: none"> • The usefulness of the information may be reduced when applied to metrics that are relevant to specific jurisdictions².
2	<ul style="list-style-type: none"> • International comparability will be enhanced, although there may be limitations compared to Revision Approach 1. • Entities operating in multiple jurisdictions can portray the whole entity, rather than a portion of the entity that is related to a specific jurisdiction, because the metric can be provided for the whole entity. 	<ul style="list-style-type: none"> • The same term may have different definitions in different jurisdictions³, which may cause confusion. • The usefulness of the information may be reduced when applied to metrics that are relevant to specific jurisdictions (see footnote 2 for details).

² For example, applying Revision Approach 1 or Revision Approach 2 to metrics associated with a particular regime in a particular jurisdiction may not provide sufficient information about compliance with that regime. In such cases, it may be more appropriate to apply Revision Approach 3.

³ For example, stakeholders in our jurisdictions note that when entities in the industry ‘Electric Utilities & Power Generators’ report their system average interruption duration (IF-EU-550a.2),

APR	Advantages	Disadvantages
3	<ul style="list-style-type: none"> • Metrics that are relevant to specific jurisdictions will be disclosed (see footnote 2 for details). • There is no risk of confusion because entities operating in multiple jurisdictions are expected to calculate and disclose the metrics for each jurisdiction by reference to the applicable standards, definitions or calculation methods in each jurisdiction. • Comparability can be achieved for metrics within each jurisdiction. 	<ul style="list-style-type: none"> • International comparability is unlikely to be achieved. • Entities operating in multiple jurisdictions cannot portray the whole entity because each metric applies to a portion of the entity that is related to specific jurisdiction.

32. The Methodology ED proposes to apply these Revision Approaches in descending order of preference. However, we think the ordering may differ depending on the specific circumstances and that it may be necessary to adopt a combination of the Revision Approaches. For example, the ISSB may provide generalised references by applying Revision Approach 2, and additionally provide generalised jurisdictional references by applying Revision Approach 3, in order to illustrate examples of specific relevant references in specific jurisdictions. Accordingly, we believe that it is appropriate for the ISSB to allow flexibility in applying these Revision Approaches.

33. We suggest that the ISSB enhance the international applicability of the SASB Standards in terms of whether they provide useful information to users by considering the relationship among Revision Approaches 1, 2 and 3, as we describe in paragraph 31 of this letter and using Approaches 1-3 separately or in combination as appropriate to the specific circumstances.

international comparability may be impaired due to the fact that the definition of ‘interruption duration’ is different in each jurisdiction.

Question 4— SASB Standards Taxonomy Update objective

This Exposure Draft describes the proposed approach to updating the SASB Standards Taxonomy to reflect amendments to the SASB Standards.

- (a) Do you agree with the proposed methodology to update the SASB Standards Taxonomy to reflect changes to the SASB Standards? Why or why not? If you do not agree, what alternative approach would you recommend and why?

The SASB Standards Taxonomy

34. We have no specific comments on this issue.

Question 5—Future SASB Standards refinements

This Exposure Draft focuses specifically on the first phase of narrow-scope work to amend the SASB Standards metrics in accordance with the proposed methodology to enhance their international applicability when they contain jurisdiction-specific references. In subsequent phases, the ISSB will consider further enhancements to the SASB Standards to improve their decision-usefulness, balance their cost-effectiveness for preparers and ensure their international relevance.

- (a) What other methods, considerations or specific amendments would be useful to guide the ISSB's future work of refining the SASB Standards to support the application IFRS S1? Why would they be useful?
- (b) Do you have any specific comments or suggestions for the ISSB to consider in planning future enhancements to the SASB Standards?

Developing industry-based disclosure requirements

35. We believe the ISSB's goal is to develop a set of industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards, and enhancing the international applicability of the SASB Standards is merely a stepping stone and not the ultimate goal. Accordingly, we believe that the ISSB should complete its work on enhancing the SASB Standards in this project as quickly as possible and undertake

the development of industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards. In this context, we believe that the ISSB would need to consider at a minimum the following areas:

- (a) Disclosure objectives of metrics should be clearly stated.
- (b) The international applicability of the industry classification should be enhanced.

Disclosure objectives of metrics

36. Our understanding is that one of the reasons the industry-based guidance proposed in Draft S2 was not well accepted by respondents was that there was a long list of metrics without a clear explanation of why those metrics were required to be disclosed. For entities to provide information that is most useful to users, we believe it is critical that the disclosure metrics are derived from specific disclosure objectives that are accepted globally.

International applicability of the industry classification

37. Our understanding is that one of the other reasons the industry-based guidance proposed in Draft S2 was not well accepted by respondents was that there were concerns regarding the international applicability of the industry classification.

38. The Methodology ED does not include the ISSB's process for reviewing the SASB's Sustainable Industry Classification System[®] (SICS[®]). However, we are of the view that the following issues regarding the SICS[®] need to be addressed:

- (a) Some entities have noted that they use the SICS[®] when disclosing metrics based on the SASB Standards because it is the only industry classification that is currently available to disclose metrics of sustainability-related financial information. Currently, there is no global consensus on the use of the SICS[®] as the industry classification for sustainability-related financial information. We observe diversity in the industry classification used by financial organisations. For example, paragraphs B62 and B63 of IFRS S2 require the use of the Global Industry Classification Standard (GICS).
- (b) Because the SICS[®] only covers industries that are highly affected by sustainability-related risks and opportunities, some entities may find it difficult to decide which industry they belong to within the SICS[®]. For example, there are many service industries other than those prescribed within the SICS[®]

(Advertising & Marketing, Casinos & Gaming, Education, Hotels & Lodging, Leisure Facilities, Media & Entertainment, and Professional & Commercial Services). However, it is not clear whether this means that other service industries do not have any industry-based sustainability-related risks and opportunities to be identified under the SASB Standard or that they do not need to be considered. Additional guidance on how entities should determine the industry it belongs to within the SICs[®] should be provided.

(c) In Europe, EFRAG is in the process of developing a European industrial classification system (NACE) to require sector-based disclosures, and EFRAG is considering the possibility of providing mapping guidance between NACE and the SICs[®]. Given that the major sustainability disclosure standards requiring industry-based disclosures, at least for the time being, are likely to be the IFRS Sustainability Disclosure Standards and the ESRS, we are concerned that it would be onerous to entities applying these standards if the industry classifications between these standards are different. Interoperability of the industry classification also needs to be considered to reduce the burden on preparers.

39. We believe that a global consensus needs to be reached on the use of SICs[®] as the industry classification for sustainability-related financial disclosures. In any future project to develop industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards, the ISSB should also consider the process and methodology for internationalising the industry classification and expose such process and methodology for public consultation.

40. If the ISSB were to undertake a project to develop a set of industry-based disclosure requirements, the ISSB would need to address the two issues described in paragraphs 35 through 39 of this letter, which would require significant time and resources. Accordingly, we suggest the ISSB determine the priority of this project within the overall activities of the ISSB.

41. Our comments on this point will be submitted separately in the comment letter on the ISSB's Request for Information 2023 (ISSB/RFI/2023/1) *Consultation on Agenda Priorities*, and we expect that they will be read together with our comments in this letter.

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