



4 August 2023

Mr. Emmanuel Faber, Chair  
International Sustainability Standards Board  
The IFRS Foundation  
Columbus Building, 7 Westferry Circus  
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United Kingdom

**Comments on the Request for Information 2023 (ISSB/RFI/2023/1)**  
**Consultation on Agenda Priorities**

**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 Request for Information 2023 (ISSB/RFI/2023/1) *Consultation on Agenda Priorities* ('the RFI'), 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.

**Supporting the implementation of IFRS S1 and IFRS S2**

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*<sup>1</sup>, IFRS Sustainability Disclosure Standards will not automatically

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<sup>1</sup> 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 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.'

become global standards. Rather, it is for each jurisdiction to decide whether to apply IFRS Sustainability Disclosure Standards, 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. While we appreciate the accomplishments of the ISSB in completing IFRS S1 and IFRS S2 in such a short period of time, we are concerned that the standards may not be well understood by constituents around the world given that the standards were developed in such a short time period. In addition, we note that new issues may be identified when entities consider their application, given that the two standards are the first standards to be developed by the ISSB.
5. Accordingly, for the next two years, we are of the view that the ISSB should prioritise the ‘*foundational work*’ in paragraph 16(a) of the RFI, in particular, supporting the implementation of IFRS S1 and IFRS S2. Specifically, as described in ‘*Table 1—The ISSB’s activities*’ of the RFI, the ISSB should establish and implement processes, including work to develop and strengthen guidance and materials, to support the implementation of the standards and address the issues identified.

#### **New research and standard-setting projects (potential projects)**

##### ***Priority of potential projects***

6. We agree that the four potential projects identified in paragraph 38 of the RFI, *biodiversity, ecosystems and ecosystem services* (BEES), *human capital*, *human rights* and *integration in reporting*, are all important topics of high priority. In particular, we suggest that human capital be given the highest priority, based on the expectations of primary users regarding decision-useful information.
7. As described in paragraph 37 of this letter, we believe that the information related to human capital should be disclosed in sustainability-related financial disclosures. This is because, although human capital is an essential capital of an entity and is likely to affect its enterprise value, there is currently little information about human capital in its financial report that meets the needs of investors.

##### ***Research over the next two years***

8. Sustainability-related financial disclosures are at an early stage of development. We believe it is important for the ISSB to keep abreast of developments of other

standard-setters and, where appropriate, to exchange ideas to ensure that the disclosures in each jurisdiction are aligned as far as possible to achieve comparability for primary users and interoperability for preparers.

9. We are concerned that, if the ISSB does not undertake any new research in areas where other standard-setters are developing or have developed standards, new inconsistencies between standards developed by the ISSB and by the other standard-setters will arise, and it is likely that the ISSB would need to resolve the inconsistencies in the future.
10. Accordingly, even if the ISSB does not undertake standard-setting activities, the ISSB should, over the next two years, conduct research on the work of other standard-setters to ensure comparability and interoperability between other sustainability disclosure standards.

#### **Developing industry-based disclosure requirements**

11. The ISSB is currently in the process of improving the international applicability of the Sustainability Accounting Standards Board (SASB) Standards. In addition, the ISSB has stated its intention to make climate-related industry-based guidance mandatory in the future, although they were issued as non-mandatory guidance in June 2023.
12. 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<sup>2</sup>:
  - (a) Disclosure objectives of metrics should be clearly stated.
  - (b) The international applicability of the industry classification should be enhanced.
13. If the ISSB were to undertake a project to develop a set of industry-based disclosure

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<sup>2</sup> For details, please refer to the SSBJ's comments on the ISSB's Exposure Draft (ISSB/ED/2023/1) '*Methodology for Enhancing the International Applicability of the SASB® Standards and SASB Standards Taxonomy Updates*'.

requirements, the ISSB would need to address the two issues described above, which would require significant time and resources. Accordingly, we suggest the ISSB determine the priority of this project and add this project to the ISSB's work plan and allocate sufficient resources. We note that this is likely to be a long-term project that will not be completed within the next two years.

#### **Researching targeted enhancements to the ISSB Standards**

14. The RFI states that, in addition to the activities to support the implementation of the ISSB Standards, the ISSB will continue research and consultation to assess the ISSB Standards for areas of targeted enhancement for the ISSB's work over the next two years. Specifically, '*Table 1—The ISSB's activities*' of the RFI explains that *this work could enhance the application of IFRS S2 by providing guidance for the disclosure of climate-adjacent risks and opportunities related to nature and the 'just transition' to a lower-carbon economy.*
15. We are concerned that the ISSB has taken this project for granted. We believe that the scope and objective of this research activity is not clear and do not understand how this initiative is different from other potential projects. If the ISSB intends to add disclosure requirements to IFRS S2, we believe it would be appropriate to address them as a separate project, just like any other new research or standards development project. Without further explanation, we do not think this activity should be given higher priority than the four potential projects discussed in the RFI.

#### **Criteria for assessing potential projects**

16. Our understanding is that the criteria proposed in the RFI have been developed with reference to the criteria of the International Accounting Standards Board (IASB). While the IASB already has a comprehensive set of accounting standards, we think it is difficult to say that the ISSB has a comprehensive set of IFRS Sustainability Disclosure Standards, because, as of today, the ISSB has only IFRS S1 and IFRS S2.
17. Accordingly, we believe that even if the ISSB adopts the same criteria as the IASB, they may not work function well as criteria to determine the priority of new research and standard-setting projects. For example, if the ISSB applies the criterion '*whether there are any deficiencies in the way companies disclose information on the matter*', it is likely that there would be many deficiencies in the IFRS Sustainability Disclosure Standards, simply because the ISSB has not yet developed a comprehensive set of IFRS Sustainability Disclosure Standards.

18. We generally agree that the proposed criteria would be useful once the ISSB has developed a comprehensive set of IFRS Sustainability Disclosure Standards. Until then, we propose that the ISSB consider whether the information provided as a result of the potential project is likely to become a critical element within the comprehensive set of disclosures provided in accordance with IFRS Sustainability Disclosure Standards. If the IFRS Sustainability Disclosure Standards are to cover sustainability topics comprehensively, it would be appropriate to prioritise the projects considering the balance of the information related to enterprise value.

**Comments on the specific questions**

19. For our comments on the specific questions in the RFI, 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—Strategic direction and balance of the ISSB’s activities

Paragraphs 18–22 and Table 1 provide an overview of activities within the scope of the ISSB’s work.

- (a) From highest to lowest priority, how would you rank the following activities?
  - (i) beginning new research and standard-setting projects
  - (ii) supporting the implementation of ISSB Standards IFRS S1 and IFRS S2
  - (iii) researching targeted enhancements to the ISSB Standards
  - (iv) enhancing the Sustainability Accounting Standards Board (SASB) Standards
- (b) Please explain the reasons for your ranking order and specify the types of work the ISSB should prioritise within each activity.
- (c) Should any other activities be included within the scope of the ISSB’s work? If so, please describe these activities and explain why they are necessary.

### Supporting the implementation of IFRS S1 and IFRS S2

20. IFRS Sustainability Disclosure Standards will not automatically become global standards. Rather, it is for each jurisdiction to decide whether to apply IFRS Sustainability Disclosure Standards, 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.
21. While we appreciate the accomplishments of the ISSB in completing IFRS S1 and IFRS S2 in such a short period of time, we are concerned that the standards may not be well understood by constituents around the world given that the standards were developed in such a short time period. In addition, we note that new issues may be identified when entities consider their application, given that the two standards are the first standards to be developed by the ISSB.
22. Accordingly, for the next two years, we are of the view that the ISSB should prioritise the ‘*foundational work*’ in paragraph 16(a) of the RFI, in particular, supporting the implementation of IFRS S1 and IFRS S2. Specifically, as described in ‘*Table 1—*

*The ISSB's activities* of the RFI, the ISSB should establish and implement processes, including work to develop and strengthen of guidance and materials, to support the implementation of the standards and address the issues identified.

#### **New research and standard-setting projects (potential projects)**

23. We agree that the four potential projects identified in paragraph 38 of the RFI, *biodiversity, ecosystems and ecosystem services (BEES), human capital, human rights and integration in reporting*, are all important topics of high priority. In particular, we suggest that human capital be given the highest priority, based on the expectations of primary users regarding decision-useful information.
24. For more detailed comments on the potential projects, please refer to our comments on Questions 3 to 7 in this letter.

#### **Developing industry-based disclosure requirements**

25. The ISSB is currently in the process of improving the international applicability of the SASB Standards. In addition, the ISSB has stated its intention to make climate-related industry-based guidance mandatory in the future, although they were issued as non-mandatory guidance in June 2023.
26. 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***

27. 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***

28. 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.
29. Specifically, the following issues regarding the SASB's Sustainable Industry Classification System<sup>®</sup> (SICS<sup>®</sup>) need to be addressed:
- (a) Currently, there is no global consensus on the use of the SICS<sup>®</sup> as the industry classification for sustainability-related financial information. We observe diversity in the industry classification actually 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<sup>®</sup> 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<sup>®</sup>. Additional guidance on how entities should determine the industry it belongs to within the SICS<sup>®</sup> 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.
30. We believe that a global consensus needs to be reached on the use of SICS<sup>®</sup> 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.

***Addition to the ISSB's work plan***

31. 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 above, which would require significant time and resources. Accordingly, we suggest that the



ISSB determine the priority of this project and add this project to the ISSB’s work plan and allocate sufficient resources. We note that this is likely to be a long-term project that will not be completed within the next two years.

### **Researching targeted enhancements to the ISSB Standards**

32. The ISSB states in the RFI that, in addition to the activities to support the implementation of the ISSB Standards, the ISSB will continue research and consultation to assess the ISSB Standards for areas of targeted enhancement for the ISSB’s work over the next two years. Specifically, ‘*Table 1—The ISSB’s activities*’ of the RFI explains that *this work could enhance the application of IFRS S2 by providing guidance for the disclosure of climate-adjacent risks and opportunities related to nature and the ‘just transition’ to a lower-carbon economy.*
33. We are concerned that the ISSB has taken this project for granted. We believe that the scope and objective of this research activity is not clear and do not understand how this initiative is different from other potential projects. If the ISSB intends to add disclosure requirements to IFRS S2, we believe it would be appropriate to address them as a separate project, just like any other new research or standards development project. Without further explanation, we do not think this activity should be given higher priority than the four potential projects discussed in the RFI.

<p><b>Question 2—Criteria for assessing sustainability reporting matters that could be added to the ISSB’s work plan</b></p>
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<p>Paragraphs 23–26 discuss the criteria the ISSB proposes to use when prioritising sustainability-related reporting issues that could be added to its work plan.</p>
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| <p>(a) Do you think the ISSB has identified the appropriate criteria?</p> <p>(b) Should the ISSB consider any other criteria? If so what criteria and why?</p> |
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### **Criteria for assessing potential projects**

34. Our understanding is that the criteria proposed in the RFI have been developed with reference to the criteria of the IASB. While the IASB already has a comprehensive set of accounting standards, we think it is difficult to say that the ISSB has a comprehensive set of IFRS Sustainability Disclosure Standards, because, as of today,

the ISSB has only IFRS S1 and IFRS S2.

35. Accordingly, we believe that even if the ISSB adopts the same criteria as the IASB, they may not work function well as criteria to determine the priority of new research and standard-setting projects. For example, if the ISSB applies the criterion ‘*whether there are any deficiencies in the way companies disclose information on the matter*’, it is likely that there would be many deficiencies in the IFRS Sustainability Disclosure Standards, simply because the ISSB has not yet developed a comprehensive set of IFRS Sustainability Disclosure Standards.
36. We generally agree that the proposed criteria would be useful once the ISSB has developed a comprehensive set of IFRS Sustainability Disclosure Standards. Until then, we propose that the ISSB consider whether the information provided as a result of the potential project is likely to become a critical element within the comprehensive set of disclosures provided in accordance with IFRS Sustainability Disclosure Standards. If the IFRS Sustainability Disclosure Standards are to cover sustainability topics comprehensively, it would be appropriate to prioritise the projects considering the balance of disclosure information related to enterprise value.

**Question 3— New research and standard-setting projects that could be added to the ISSB’s work plan**

Paragraphs 27–38 provide an overview of the ISSB’s approach to identifying sustainability-related research and standard-setting projects. Appendix A describes each of the proposed projects that could be added to the ISSB’s work plan.

- (a) Taking into account the ISSB’s limited capacity for new projects in its new two-year work plan, should the ISSB prioritise a single project in a concentrated effort to make significant progress on that, or should the ISSB work on more than one project and make more incremental progress on each of them?
  - (i) If a single project, which one should be prioritised? You may select from the four proposed projects in Appendix A or suggest another project.

**Question 3— New research and standard-setting projects that could be added to the ISSB’s work plan**

- (ii) If more than one project, which projects should be prioritised and what is the relative level of priority from highest to lowest priority? You may select from the four proposed projects in Appendix A or suggest another project (or projects).

**Priority of potential projects**

37. We agree that the four potential projects identified in paragraph 38 of the RFI are all important topics of high priority. In particular, based on the expectations of primary users regarding decision-useful information, we suggest that human capital be given the highest priority. Our reasons include the following:

- (a) We believe that the information related to human capital should be disclosed in sustainability-related financial disclosures. This is because, although human capital is an essential capital of an entity and is likely to affect its enterprise value, there is currently little information about human capital in its financial report that meets the needs of investors.
- (b) It is important to disclose basic information related to human capital, such as headcount, regardless of whether the entity’s assessment of its risks and opportunities. Strictly following IFRS S1, such basic information may not be provided by an entity because an entity may conclude that such basic information does not represent risks or opportunities. Other information, for example, the entity’s efforts to increase its enterprise value (such as recruitment strategy) is likely to be covered by IFRS S1 but may be part of this project. We believe the ISSB should undertake research, focusing on whether it is possible to develop a standard requiring disclosure of such basic information, as well as the information regarding risks and opportunities.
- (c) The basic information referred to above has many disclosure elements that are common to all entities, regardless of jurisdiction or entity size. We think these elements are relatively easier to disclose compared to elements that would be disclosed as a result of other potential projects proposed by the ISSB.
- (d) Information related to human capital can be a common sustainability topic for

almost all entities. Without a new standard, entities will apply IFRS S1, but it is likely that there will be diversity in how information is provided and a new standard is warranted to ensure global comparability. Users in our jurisdiction have particularly stressed this point.

- (e) If the IFRS Sustainability Disclosure Standards are to cover sustainability topics comprehensively, it would be appropriate to prioritise the projects considering the balance of the information related to enterprise value.

### **Research over the next two years**

- 38. Sustainability-related financial disclosures are at an early stage of development. We believe it is important for the ISSB to keep abreast of developments of other standard-setters and, where appropriate, to exchange ideas to ensure that the disclosures in each jurisdiction are aligned as far as possible to achieve comparability for primary users and interoperability for preparers.
- 39. We are concerned that, if the ISSB does not undertake any new research in areas where other standard-setters are developing or have developed standards, new inconsistencies between standards developed by the ISSB and by the other standard-setters will arise, and it is likely that the ISSB would need to resolve the inconsistencies in the future.
- 40. Accordingly, even if the ISSB does not undertake standard-setting activities, the ISSB should, over the next two years, conduct research on the work of other standard-setters to ensure comparability and interoperability between other sustainability disclosure standards.

### **Disclosure objectives**

- 41. We are of the view that whichever project is chosen, the ISSB should clearly establish the disclosure objective of the standard and develop disclosure objectives of specific disclosure requirements in line with the disclosure objectives of the standard. In the light of the disclosure objectives of specific disclosure requirements, entities can determine the specific content of their disclosures.

**Question 4— New research and standard-setting projects that could be added to the ISSB’s work plan: Biodiversity, ecosystems and ecosystem services**

The research project on **biodiversity, ecosystems and ecosystem services** is described in paragraphs A3–A14 of Appendix A. Please respond to these questions:

- (a) Of the subtopics identified in paragraph A11, to which would you give the highest priority? Please select as many as applicable.
- Please explain your choices and the relative level of priority with particular reference to the information needs of investors.
- You may also suggest subtopics that have not been specified. To help the ISSB analyse the feedback, where possible, please provide:
- (i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and
  - (ii) your view on the importance of the subtopic with regard to an entity’s sustainability-related risks and opportunities and the usefulness of the related information to investors.
- (b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?
- Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.
- (c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB’s focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A13 should be utilised and prioritised by the ISSB in pursuing the project? Please select as many as applicable.

**Question 4— New research and standard-setting projects that could be added to the ISSB’s work plan: Biodiversity, ecosystems and ecosystem services**

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified. You can suggest as many materials as you deem necessary. To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

**Scope of the project**

42. Paragraph A11 of the RFI suggests that the biodiversity, ecosystems and ecosystem services (BEES) project could potentially include broader subtopics on water, land-use and land-use change, pollution, resource exploitation and invasive non-native species.
43. Some disclosures related to these subtopics may not be relevant to investors but to a broader stakeholder group. Because the objective of IFRS S1 is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity, we think it is important to focus on information that enable primary users to understand the effects of sustainability-related risks and opportunities on the entity’s cash flows, its access to finance and cost of capital over the short, medium and long term.
44. To narrow the scope of the BEES project within a manageable scope, we think resources should be allocated appropriately to the subtopics from the following perspectives:
  - (a) The focus should be on disclosures for entities with business models that are highly dependent on or affected by BEES.
  - (b) Regarding prioritising subtopics, the ISSB should focus on subtopics that are relevant to a relatively large number of entities. This is because, without a new standard, entities will apply IFRS S1, but it is likely that there will be diversity in how information is provided and a new standard is warranted to ensure global comparability. For subtopics that are relevant to a relatively small number of

entities, we think it would be sufficient that entities disclose information in accordance with IFRS S1.

(c) Regarding disclosures that may be required in each subtopic, the disclosure objectives of specific disclosure requirements should be clearly identified.

45. Given the thinking in the previous paragraph, we are of the view that developing standards regarding disclosures such as invasive non-native species should not be considered in the ISSB's new project. For such items not addressed in the ISSB's new project, entities will be required to disclose information in accordance with IFRS S1.
46. Some have suggested that all the subtopics above are related to nature and that it would be appropriate to label the project as, for example, 'Nature' or 'Natural Capital', because the label 'biodiversity, ecosystems and ecosystem services' does not represent these subtopics and may be potentially misleading.

#### **Disclosures on governance and risk management**

47. We think it would be useful to disclose the impact on entities of the changes in the natural environment (that is, those other than climate). In particular, information regarding the long-term strategies of entities whose business models are highly dependent on the natural environment is likely to be useful to primary users.
48. However, our understanding is that the degree of dependence on the natural environment varies from industry to industry and from entity to entity. Accordingly, the risks and opportunities arising from the changes in the natural environment may vary significantly depending on the entity. In such cases, it would be useful to disclose information that enables primary users to understand whether entities properly manage and monitor such risks and opportunities in the natural environment.
49. Accordingly, regarding the BEES project, we believe that research should initially focus on the disclosure of information regarding governance and risk management for risks and opportunities in the natural environment.

#### **Circular economy**

50. Paragraph A11(d) of the RFI includes 'circular economy' as a subtopic of BEES. We agree that it would be useful to disclose information on the efficient use of limited resources in order to understand the resilience of the business model of an entity that

is highly dependent on resources. However, we believe that the subtopic of the circular economy may be broader in scope. Accordingly, the ISSB should consider addressing circular economy as a stand-alone project.

51. In addition, as with other BEES subtopics, the relevance of the circular economy will vary from industry to industry, and the risks and opportunities may vary significantly from entity to entity. Accordingly, research should initially focus on the disclosure of information regarding governance and risk management, to provide information that enables primary users to understand whether entities are properly assessing risks and opportunities.

**Question 5— New research and standard-setting projects that could be added to the ISSB’s work plan: Human capital**

The research project on **human capital** is described in paragraphs A15–A26 of Appendix A. Please respond to the following questions:

- (a) Of the subtopics identified in paragraph A22, to which would you give the highest priority? Please select as many as applicable.  
Please explain your choices and the relative level of priority with particular reference to the information needs of investors.  
You may also suggest subtopics that have not been specified. To help the ISSB analyse the feedback, where possible, please provide:
  - (i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and
  - (ii) your view on the importance of the subtopic with regard to an entity’s sustainability-related risks and opportunities and the usefulness of the related information to investors.
- (b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?



**Question 5— New research and standard-setting projects that could be added to the ISSB’s work plan: Human capital**

Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.

- (c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB’s focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A25 should be prioritised by the ISSB in pursuing its research? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified. You can suggest as many materials as you deem necessary. To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

52. As described in paragraph 37 of this letter, we suggest that human capital should be given the highest priority, based on the expectations of primary users regarding decision-useful information.

**Consideration of subtopics**

53. Paragraph A22 of the RFI states that the human capital project may include seven subtopics<sup>3</sup>. However, we believe that there are overlaps among the subtopics, and the boundaries of the subtopics are not necessarily clear.

***Reorganising the subtopics***

54. We suggest that the subtopics of human capital projects (and human rights projects) should be reorganised, for example, from the following perspectives (See paragraphs 55 to 61 of this letter for further details):

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<sup>3</sup> (a) worker wellbeing (including mental health and benefits), (b) DEI, (c) employee engagement, (d) workforce investment, (e) the alternative workforce, (f) labour conditions in the value chain, (g) workforce composition and costs

- (a) whether the information relates to:
  - (i) the reporting entity's own workforce; or
  - (ii) the value chain outside the reporting entity
- (b) whether the information relates to:
  - (i) workers; or
  - (ii) executives
- (c) whether the information is:
  - (i) basic information, which should be required regardless of the entity's assessment of its risks and opportunities; or
  - (ii) information related to risks and opportunities identified by the entity
- (d) whether the information relates to:
  - (i) human rights; or
  - (ii) human capital

***Reporting entity vs value chain outside the reporting entity***

55. We believe that human capital information can be further categorised into (a) information related to the reporting entity's own workforce and (b) information related to the value chain outside the reporting entity. In the standards of other standard-setters, requirements related to information about workers in the entity's value chain is often prescribed separately from those related to the reporting entity's own workforce.
56. We think this is a sensible approach because entities manage risks related to human capital within and outside of the reporting entity differently. For example, if the risk is in the reporting entity's value chain outside the reporting entity, the entity may replace its risky counterparties to reduce the risk. On the other hand, human capital risks within the reporting entity may be addressed over time because some jurisdictions have legal and regulatory restrictions on the reporting entity's own workforce to protect employee rights.
57. In this context, we suggest that the ISSB consider separately whether workers in the

entity's value chain are inside or outside the reporting entity when considering human capital projects.

***Executives as part of human capital***

58. While the term 'workforce' generally refers to employees, we believe that executives, who play an important role in creating enterprise value, are also an important element of the entity's human capital. In addition, some jurisdictions have different definitions of 'senior management', such as senior executives, board members and employees. We are concerned that restricting the definition to 'workforce' may reduce the usefulness of the information. Accordingly, we believe that executives should also be included when discussing human capital.
59. We acknowledge that, regarding information related to executives, some information may already be provided in the governance disclosures. However, we are of the view that not all the necessary information would be provided in the governance disclosures and that the information to be provided should be considered in the context of human capital management.

***Primary users' information needs on human capital and human rights beyond laws and regulations***

60. Some human capital and human rights standards issued by other standard-setters require disclosure of whether or not entities have violated laws and regulations. However, because most entities would be in compliance with the laws and regulations, compliance disclosures may be boilerplate. In this context, we do not think such disclosures would be useful to primary users.
61. We believe that primary users expect an entity to disclose the entity's efforts that go beyond what is required by the laws and regulations, which may affect the enterprise value.

**Disclosure requirements on human capital**

62. As described in paragraph 37 of this letter, we believe that it is important to disclose basic information related to human capital, such as headcount, regardless of the entity's assessment of its risks and opportunities. On the other hand, we believe that it may be difficult to identify all metrics that should be disclosed, because the metrics that are relevant to the entity may differ.

63. Accordingly, we are of the view that human capital disclosure requirements should focus primarily on strategy and, where metrics are required, they should be relevant to the metrics that the entity uses and monitors on an ongoing basis. This may address some of the challenges identified in paragraph A19 of the RFI<sup>4</sup>. Whenever the ISSB requires the disclosure of metrics, the disclosure objective of such metrics should be clearly articulated.
64. Based on the discussions above, regarding human capital, we suggest that the ISSB conduct research to consider whether to require disclosures such as:
- (a) Basic information
    - (i) Description of current human capital (for example, headcounts, workforce composition, remuneration system)
  - (b) Information related to risks and opportunities identified by the entity
    - (i) Governance processes, controls and procedures used to monitor and manage risks and opportunities related to human capital
    - (ii) Description of short-, medium- and long-term human capital strategies (for example, recruitment strategy, reskilling strategy), including the relationship with the entity's overall management strategy
    - (iii) The process of identifying, assessing, prioritising and monitoring risks and opportunities related to human capital

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<sup>4</sup> (a) the multifaceted nature of human capital management and differences in how risks and opportunities manifest in various business models, economic activities and jurisdictions, (b) legal prohibitions on collecting workforce data in some jurisdictions, (c) competitive sensitivities, (d) aspects of human capital, such as workplace culture, that can be inherently difficult to measure, (e) other aspects, such as the use of alternative workforces, automation and artificial intelligence, (f) ambiguity in the role of individual entities in managing related social impacts

**Question 6— New research and standard-setting projects that could be added to the ISSB’s work plan: Human rights**

The research project on **human rights** is described in paragraphs A27–A37 of Appendix A. Please respond to these questions:

- (a) Within the topic of human rights, are there particular subtopics or issues that you feel should be prioritised in the ISSB’s research? You can suggest as many subtopics or issues as you deem necessary. To help the ISSB analyse the feedback, where possible, please provide:
  - (i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and
  - (ii) your view on the importance of the subtopic with regard to an entity’s sustainability-related risks and opportunities and the usefulness of the related information to investors.
- (b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.
- (c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB’s focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A36 should be prioritised by the ISSB in pursuing its research? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified. You can suggest as many materials as you deem necessary.

**Question 6— New research and standard-setting projects that could be added to the ISSB’s work plan: Human rights**

To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

**Human rights**

65. Regarding human rights, we agree that information related to human rights due diligence within the reporting entity and within the value chain outside the reporting entity is important. In addition, we note that some have suggested that human rights of people constituting the community and indigenous rights be included in the topics to be considered for the human rights project. While we acknowledge the importance and usefulness of such information, we believe that it is important that the ISSB should focus on information that enable primary users to understand the effects of sustainability-related risks and opportunities on the entity’s cash flows, its access to finance and cost of capital over the short, medium and long term.
66. On the other hand, we think that it is normal for entities to comply with laws and regulations related to human rights and, as such, disclosures related to the entity’s compliance may become boilerplate and thus we do not think such disclosures would be useful to primary users. We believe that primary users expect entities to disclose the entity’s efforts that go beyond what is required by the laws and regulations, which may affect the enterprise value.
67. However, the scope of the human rights project may overlap with the scope of the human capital project. Accordingly, if the ISSB were to undertake human capital and human rights as two separate projects, the boundaries of the two projects should be clearly stated, and overlap should be avoided to the extent possible.

**Question 7— New research and standard-setting projects that could be added to the ISSB’s work plan: Integration in reporting**

The research project on **integration in reporting** is described in paragraphs A38–A51 of Appendix A. Please respond to the following questions:

**Question 7— New research and standard-setting projects that could be added to the ISSB’s work plan: Integration in reporting**

- (a) The integration in reporting project could be intensive on the ISSB’s resources. While this means it could hinder the pace at which the topical development standards are developed, it could also help realise the full value of the IFRS Foundation’s suite of materials. How would you prioritise advancing the integration in reporting project in relation to the three sustainability-related topics (proposed projects on biodiversity, ecosystems and ecosystem services; human capital; and human rights) as part of the ISSB’s new two-year work plan?
- (b) In light of the coordination efforts required, if you think the integration in reporting project should be considered a priority, do you think that it should be advanced as a formal joint project with the IASB, or pursued as an ISSB project (which could still draw on input from the IASB as needed without being a formal joint project)?
  - (i) If you prefer a formal joint project, please explain how you think this should be conducted and why.
  - (ii) If you prefer an ISSB project, please explain how you think this should be conducted and why.
- (c) In pursuing the project on integration in reporting, do you think the ISSB should build on and incorporate concepts from:
  - (i) the IASB’s Exposure Draft Management Commentary? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.
  - (ii) the Integrated Reporting Framework? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.
  - (iii) other sources? If you agree, please describe the source(s) and any particular concepts that you think the ISSB should incorporate in its work.
- (d) Do you have any other suggestions for the ISSB if it pursues the project?

**Integration in reporting**

68. Given the two-year timeframe, the research project on integration in reporting should focus on consolidating the IASB's Exposure Draft of the IFRS Practice Statement on Management Commentary (ED/2021/6) and the Integrated Reporting Framework. Although the Management Commentary is an IASB project, given the respective expertise of the members of the IASB and the ISSB, we believe that the ISSB should work on the integration of the Management Commentary and the Integrated Reporting Framework. Some have noted that the ISSB should align the terminology in IFRS S1 and IFRS S2 and the documents that will be considered in this project.

<b>Question 8—Other comments</b>
Do you have any other comments on the ISSB's activities and work plan?

69. We do not have any other comments.

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