31 July 2024

Sustainability Standards Committee
Sustainability Standards Board of Japan

Submitted via email: 2024ed01@ssb-j.jp

Exposure Drafts of Sustainability Disclosure Standards including the Application of the Sustainability Disclosure Standards (the Application ED), Theme-based Sustainability Disclosure Standard Exposure Draft No. 1 General Disclosures (the General ED), and Theme-based Sustainability Disclosure Standard Exposure Draft No. 2 Climate-related Disclosures (the Climate ED).

MSCI[1] welcomes the opportunity to comment on the Sustainability Standards Board of Japan's (SSBJ) Exposure Drafts of the Sustainability Disclosure Standards ("SSBJ EDs"). As a leading provider of sustainability and climate data and analytics to the global financial industry, MSCI has collected climate and sustainability-related disclosures from thousands of companies globally for over two decades and developed tools to assist financial institutions in analyzing climate and sustainability risks within their investment and lending portfolios.

MSCI supports the publication by the Sustainability Standards Board of Japan – the Exposure Drafts of the Sustainability Disclosure Standards that aligns with the ISSB standards.

We have the following general comments set out for your kind consideration.

1. **Mandatory disclosure of Scope 1-3 emissions, including upstream and downstream emissions.** Scope 3 disclosures should be made mandatory even if the company believes that climate-related risk is not material for the company. Consistent Scope 3 disclosures are crucial for comparability and provide a comprehensive view of transition-related risks. As per MSCI research, of the 1068 Japanese companies in the MSCI Japan IMI, currently 66% of the constituents disclose Scope 1 and 2 emissions, and 55% disclose some categories of Scope 3. (Please refer Exhibit 1 in the Annex). While breaking down Scope 3 disclosures into upstream and downstream categories, we found that more than 42% of MSCI Japan IMI constituents report Scope 3 categories (1-7, and 12) whereas less than 32% of the constituents report Scope 3 categories (8-11,13,14 and 15). (Please refer Exhibit 2 in Annex). Standardized disclosures across all categories enable comparative analysis and provide decision-useful information for investors.

2. **Ensure that the disclosure of GHG emissions is aligned with the standards of the GHG Protocol[2] over time.** Considering the critical role of data comparability for investors, the SSBJ could align the disclosures of GHG emissions as closely as possible with the GHG Protocol and ISSB. Aligning the disclosures with the ISSB standards would result in comparable non-financial disclosures for better decision making by investors. The GHG

[1] MSCI ESG Ratings, research and data are produced by MSCI ESG Research LLC, a subsidiary of MSCI Inc.
[2] GHG Protocol

7 World Trade Center | 250 Greenwich Street | 49th Floor | New York, NY 10007 | United States
Office: T +1 212 804 3900 | F +1 212 804 2919
msci.com

Protocol's direct referencing[3] in IFRS S2 Climate-related disclosures (IFRS S2) regulations and in other global regulations on climate disclosures emphasizes its significance, offering standardized reporting methodologies for greenhouse gas emissions, including Scope 3 categories, thus promoting consistency and reliability in environmental disclosures.

3. **Financed emissions disclosures** in the financial sector are now on the rise and availability of data is no longer a major obstacle. The comparability of financed emissions reporting could be further enhanced with a detailed sector-level breakdown wherever possible, and reporting gross absolute emissions disaggregated by Scopes 1, 2, and 3. To facilitate comparisons between financial institutions of varying sizes, disclosure of the gross financed emissions intensity could also be recommended.

4. **Mandatory cross-industry and industry-specific metrics disclosure.** Mandatory disclosure of TCFD cross-industry metrics is crucial as many jurisdictions currently lack requirements, limiting quantity and quality of decision-useful information for investors. MSCI research highlights that such disclosures allow investors to assess climate risk exposure, anticipate impacts, and evaluate companies' transition plans. The TCFD's 2021 recommendation includes seven cross-industry metrics categories.[4] Incorporating industry-specific metrics and aligning with standards like GICS[5] (used for reporting under the IFRS S2 climate standards) and NACE[6] (which is used for reporting under the European Sustainability Reporting Standards) will enhance comparability of sector specific risks globally. To improve transparency, the SSBJ should provide a mapping table for the Japan Standard Industrial Classification (JSIC) sector codes[7] to NACE and GICS.

5. **Climate scenario analysis and guidelines involve applying climate scenarios across short-, medium-, and long-term horizons.** Climate scenario analysis is an important tool for examining how future changes in the climate could impact companies' business models, value chains and resilience. We are supportive of scenario analysis guidance from the TCFD[8,9] as these documents highlight a step-by-step guide on how disclosing entities could get started in applying scenario analysis, acknowledging the importance of key principles such as transparency, comparability of results, consistency of methodology and adequate documentation. Exploring physical climate-related risks across various scenarios and time horizons is essential for recognizing the potential differences in outcomes under different scenarios and time frames, especially for long-term impacts beyond 2050. In addition to considering the 2030- and 2050-time horizons for disclosure purposes, it is also helpful to understand: i) the near-term and long-term impacts on an entity's operations, supply chain, and infrastructure; ii) the appropriateness of climate mitigation and adaptation strategies, iii) and the financial projections of these risks, including cost estimates for adaptation and impact on future revenues and expenses.

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[3] Overview of GHG Protocol Integration in Regulatory Climate Disclosure Rules (GHG Protocol, March 2024)
[4] TCFD Guidance on Metrics, Targets and Transition Plans (TCFD, October 2021)
[5] Global Industry Classification System
[6] Statistical classification of economic activities in the European Community
[7] Japanese Industrial Standards Committee
[8] Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities (TCFD, June 2017)
[9] Guidance on Scenario Analysis for Non-Financial Companies ((TCFD, October 2020))

6. **The use of high-temperature scenarios to be encouraged.** According to the ISSB standards, disclosing entities must report whether their analysis includes a diverse range of climate-related scenarios, including one that aligns with the latest international agreement on climate change. MSCI provides a wide range of scenarios in line with the Network for Greening the Financial System (NGFS).[10] Additionally, to better understand the evolving nature of climate-related financial risks, we recommend that disclosing entities include a high-temperature scenario in their analysis, such as the NGFS's 3°C scenario or an equivalent. This approach will help evaluate the most severe impacts of physical climate-related risks, including chronic and acute hazards from wildfires, floods, and extreme heat (non-exhaustive).

7. **Differentiating between acute and chronic risks.** More specific guidelines on disclosing acute and chronic risks would provide better information for investors and other users of disclosures. We recommend that physical risk disclosures clearly distinguish between chronic and acute hazards. Acute hazards are sudden events that cause immediate impacts, such as infrastructure damage and supply chain disruptions. In contrast, chronic hazards develop more gradually, yet they can pose financial risks of a similar magnitude to those of acute hazards.

8. **Disclosure of carbon credits.** IFRS S1 and S2 require companies to disclose their planned use of carbon credits, which could enhance the transparency of their commitments and strengthen accountability. Such disclosures also inform investors about the role that carbon credits will play in a company's transition plan. Alignment with the ISSB will provide investors and other stakeholders with the information needed to assess the credibility and ambition of the company's commitment, such as: i) the type of credit used, ii) what standard it was verified against, and iii) other information needed to assess the integrity of the credit. Disclosure of the use of carbon credits against ISSB-aligned standards can improve Japanese companies' attractiveness to investors by demonstrating how they plan to offset unabated emissions in a credible manner. It is important to disclose current carbon credit usage to provide insight into near-term actions and how they complement internal emission reductions, enabling investors to assess associated risks and opportunities effectively.

9. **A standardized approach to the disclosure of transition plans.** The disclosure of climate-related risks can have a greater positive impact on achieving climate targets where the contribution to adaptation or mitigation strategies to tackle those risks is explicitly laid out by the disclosing entity. As the ISSB recently announced[11] that it would take over responsibility for the disclosure requirements of the Transition Plan Taskforce (TPT) framework[12], to ensure future alignment with the ISSB's standards, the SSBJ may consider incorporating the TPT's disclosure framework into standardized disclosures.

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[10] NGFS Scenarios Portal
[11] ISSB delivers further harmonization of the sustainability disclosure landscape as it embarks on new work plan (IFRS, June 2024)
[12] Transition Plan Taskforce | Setting a gold standard

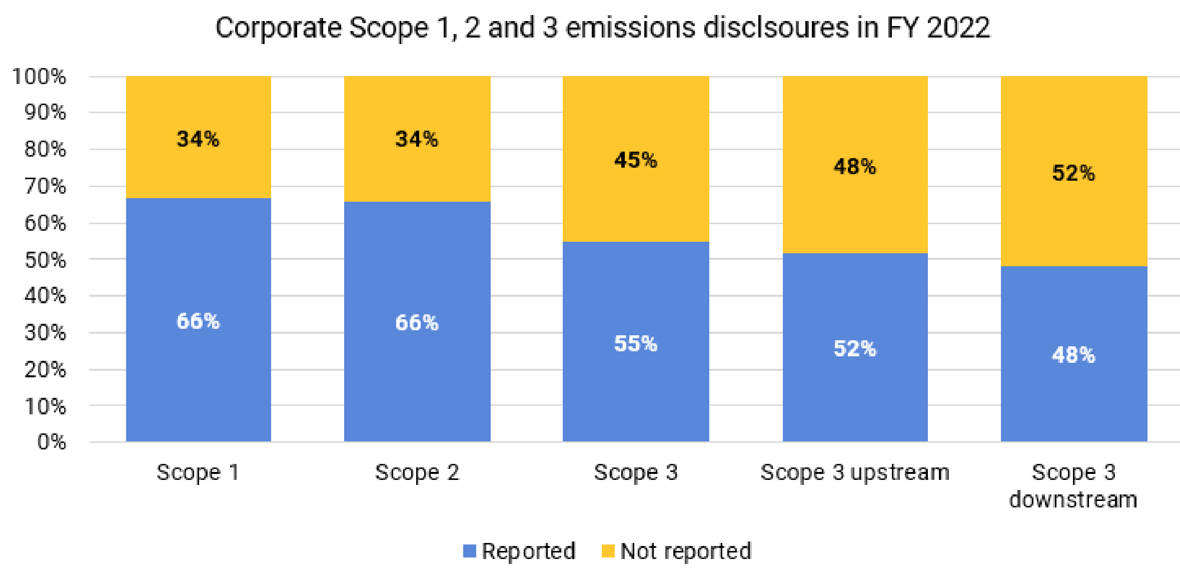
A robust transition plan could include: i) an appropriate level of ambition, ii) clear actions (through an implementation and engagement strategy within both the value chain and business operations), iii) accountability (metrics, targets, the planned use of carbon credits, and effective governance). The relevance of the intended use of carbon credits or offsets to achieve emissions reductions as part of transition plan disclosures could also be considered. Important information to disclose could include: i) credit type (such as whether credits would be emission reductions, or technology based or nature-based removals), ii) the carbon credit standard used for verification, and iii) the extent to which the strategy relies on credits.

Please do not hesitate to contact us to discuss our submission.

Yours sincerely,

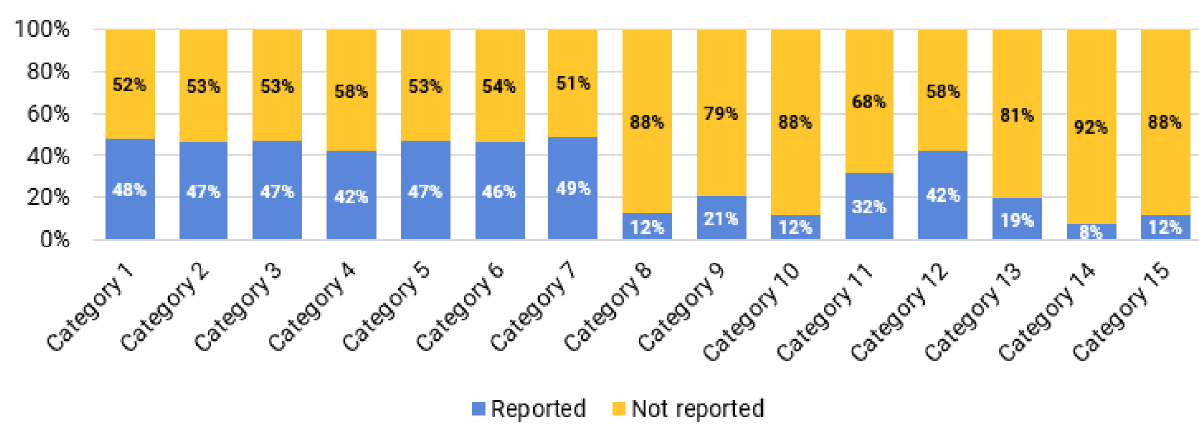
/s
Meggin Thwing Eastman
Managing Director, ESG Research
MSCI ESG Research LLC

Exhibit 1: Emissions disclosure rates in the MSCI Japan IMI



Source: CDP. Company Disclosures. MSCI ESG Research as of July 01, 2024. Notes: When companies did not define the categories of Scope 3 emissions they disclosed, we assumed companies have reported all categories of Scope 3 emissions. We are currently in the process of collecting FY 2023 corporate emissions data. There are in all 1,068 Japanese companies in the MSCI Japan IMI.

Exhibit 2: Emissions disclosure rates per scope and category in the MSCI Japan IMI



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