GOVERNMENT OF JAPAN

Comment on the Draft Delegated Regulation on revised European Sustainability Reporting Standards (ESRS)

In light of the reduced disclosure burden for EU companies, the Government of Japan is of the view that a level playing field need to be ensured between EU and non-EU companies which are subject to CSRD Article 40a. EU companies disclose sustainability information under the European Sustainability Reporting Standards (ESRS) and do not separately disclose sustainability information in line with the IFRS Sustainability Disclosure Standards published by the International Sustainability Standards Board (ISSB). By contrast, Japanese companies which are subject to CSRD Article 40a are required to prepare two sets of sustainability reports—an ISSB-aligned report for Japanese regulatory purposes and N-ESRS (ESRS for non-EU groups) report for European regulatory purpose—which results in an additional administrative burden.
In this context, we believe that the following two approaches should be incorporated.
(1) ISSB-based disclosures with EU-specific top-ups
(2) Allowing the mixed approach

(1) ISSB-based disclosures with EU-specific top-ups
When preparing sustainability disclosures in accordance with both the ISSB Standards and the N-ESRS, non-EU companies are required to disclose the same information twice due to overlapping disclosure requirements between the ISSB Standards and the N-ESRS. One possible approach is to allow the use of the sustainability report complying with IFRS Sustainability Disclosure Standards ("IFRS Sustainability Disclosure Report") and provide N-ESRS-specific disclosures on top, when necessary. Such an approach would significantly reduce burdens for non-EU companies subject to ISSB-aligned reporting requirements, while enabling European authorities to receive necessary sustainability information.

In particular, we understand that there is significant overlap between the ESRS and the ISSB Standards with respect to climate-related disclosure requirements. Therefore,

N-ESRS E1 should be developed in a way that allows companies that have already provided ISSB-aligned disclosures to meet the N-ESRS disclosure requirements by reference to the IFRS Sustainability Disclosure Report. In this case, the IFRS Sustainability Disclosure Report may be incorporated in the CSRD filing (so that all N-ESRS disclosures are effectively presented within a single disclosure package). We believe that this would be achieved through incorporation by reference[1] within the N-ESRS, instead of modifying the CSRD.

(2) Allowing the mixed approach[2]

In addition to the global consolidated approach, the option called "mixed approach" for topical standards other than climate-related standards should be allowed, so that non-EU companies may choose between the global consolidated approach and the mixed approach, depending on the circumstances of the non-EU companies. The mixed approach would enable non-EU companies to provide information that meets the objective of CSRD effectively and efficiently. We further note that, should a phased-in approach be considered for certain topical standards for EU companies, the same approach should also be applied to non-EU companies.

We believe that it is essential to ensure the level playing field between EU companies and non-EU companies subject to CSRD Article 40a, particularly because preparation time is very limited for non-EU companies subject to CSRD Article 40a. Although N-ESRS has not been developed yet, the application of CSRD Article 40a will begin in 2028. There are growing concerns about whether non-EU companies would be able to meet the CSRD Article 40a requirements without delaying the mandatory application of CSRD Article 40a. Accordingly, we believe that it is essential to consider the above-proposed

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[1] Incorporation by reference is described in the N-ESRS SRB pre-approved ED (N-ESRS 1 Section 9.1, paragraph 119A), which is available on the EFRAG website (https://www.efrag.org/system/files/sites/webpublishing/Meeting%20Documents/2411071010244152/06-02.1%20NESRS%20ED%20SRB%20250226.pdf). A possible approach would be to add a new paragraph 119B permitting companies that published the IFRS Sustainability Disclosure Report to meet the disclosure requirements in N-ESRS E1 by reference to the IFRS Sustainability Disclosure Report, provided that the company separately disclose additional information required by N-ESRS, when necessary.

[2] The mixed approach allows the undertaking to limit the scope of the N-ESRS specific disclosures to impacts related to operations and value chain activities connected to products and services intended for the EU market, as defined in the N-ESRS SRB pre-approved ED (N-ESRS 1 Section 1.3A, paragraph 18B). Under the ED, this approach was applicable only to disclosure requirements in topical standards other than N-ESRS E1, and proposed as an option in addition to the global consolidated approach.

approaches, which we believe as constructive and aligned with EU's simplification goal.

We would appreciate your willingness to consider our comments and remain at your disposal should you wish to discuss these issues further.