

August 8, 2023

The International Sustainability Standards Board (ISSB)

**Comments on the Exposure Draft “Methodology for Enhancing the International Applicability of the SASB® Standards and SASB Standards Taxonomy Updates”**

Dear Sir/Madam:

We, the Japan Securities Dealers Association (hereinafter, the “JSDA”)<sup>1</sup>, would like to express our gratitude for this opportunity to express our comments on the Exposure Draft “Methodology for Enhancing the International Applicability of the SASB® Standards and SASB Standards Taxonomy Updates” published on May 11, 2023 by the International Sustainability Standards Board (hereinafter, the “ISSB”).

Thus far, the JSDA has, after discussions at our Sustainability Disclosure Working Group, submitted comments on the Exposure Draft IFRS S1, "General Requirements for Disclosure of Sustainability-related Financial Information" (hereinafter, the “IFRS S1”) and IFRS S2, "Climate-related Disclosures" (hereinafter, the “IFRS S2”) <sup>2</sup>. Today, the JSDA submits these comments based on our discussions so far, as the SASB Standards are important standards which are referred to in the IFRS S1.

Given that securities companies function as intermediaries in the capital market and assume the role of gatekeepers of the market, the JSDA has discussed the proposed Exposure Draft from the standpoints of both preparers and users of financial reports. We hope that our recommendations will be taken into consideration when developing standards.

HISHIKAWA Isao

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<sup>1</sup> The Japan Securities Dealers Association (JSDA) is an association functioning as a self-regulatory organization (SRO) and as an interlocutor for the securities industry to facilitate dialogue with stakeholders, including administrative authorities. Its legal status is a Financial Instruments Firms Association authorized by the Prime Minister, and its two functions above are operated independently. The JSDA is composed of approximately 490 members including securities companies and registered financial institutions, etc. conducting securities business in Japan.

<sup>2</sup> For the JSDA’s comments on the Exposure Drafts of IFRS S1 and IFRS S2, please refer to the links below.  
Comments on Exposure Draft IFRS S1: [https://ifrs-springapps-comment-letter-api-1.azuremicroservices.io/v2/download-file?path=610\\_65212\\_japan-securities-dealers-association-comments-on-the-exposure-draft-ifrs-s1-jsda-.pdf](https://ifrs-springapps-comment-letter-api-1.azuremicroservices.io/v2/download-file?path=610_65212_japan-securities-dealers-association-comments-on-the-exposure-draft-ifrs-s1-jsda-.pdf)  
Comments on Exposure Draft IFRS S2: [https://ifrs-springapps-comment-letter-api-1.azuremicroservices.io/v2/download-file?path=611\\_66025\\_japan-securities-dealers-association-comments-on-the-exposure-draft-ifrs-s2-jsda-.pdf](https://ifrs-springapps-comment-letter-api-1.azuremicroservices.io/v2/download-file?path=611_66025_japan-securities-dealers-association-comments-on-the-exposure-draft-ifrs-s2-jsda-.pdf)

### 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 included 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?

#### **(a) Yes**

IFRS S1 provides that, in identifying sustainability-related risks and opportunities, an entity shall refer to, and consider the applicability of, the disclosure topics stipulated in the SASB Standards in addition to the IFRS Sustainability Disclosure Standards (hereinafter, the “ISSB Standards”) (Item 55), and that, in identifying disclosure requirements about a sustainability-related risk or opportunity, when there is no ISSB Standard specifically applicable to the said risk or opportunity, an entity shall refer to, and consider the applicability of, the metrics associated with the disclosure topics included in the SASB Standards (Item 58). In this regard, the SASB Standards in practice constitute a part of the disclosure requirements of the ISSB Standards, and as such, in order for the ISSB Standards to function as the global baseline for high quality disclosure standards, it is necessary to revise the requirements in the SASB Standards associated with jurisdiction-specific references to more internationally applicable requirements. Although further revisions should be made if the ISSB will incorporate the SASB Standards as the industry-specific requirements in the ISSB Standards in the future, we agree with the objectives of the methodology as well as overall methodology for the narrow-scope revisions proposed in this Exposure Draft as we state in our response to Question 5.

This being said, as the SASB Standards in practice constitute a part of the disclosure requirements of the ISSB Standards, the revisions proposed in this Exposure Draft must be completed before the date of mandatory implementation of IFRS S1.

(b) • (c) N/A

### 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?

#### **(a) Yes**

We agree with the methodology proposed in the Exposure Draft. For details, please refer to our response to Question 1.

### Question 3—Revision approaches

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

#### **(a) Yes**

We agree with the five revision approaches proposed in this Exposure Draft. However, we believe three additional improvements below are required.

1. While Item 9(e) of this Exposure Draft (A7 “Revision Approach 5” in Appendix A) stipulates the revision approach of removing and replacing jurisdiction-specific metrics while aligning the replacement with the purpose of the original metrics based on research, we believe the methods of the research should be made clear. Moreover, when replacing the metrics, we believe it is necessary to improve transparency through public consultation, etc.
2. Item 9 of this Exposure Draft needs to clearly state that multiple revision approaches may be applied in combination. While Item 9 indicates that the revision approaches will be applied in descending order from Revision Approach 1, multiple revision approaches are applied in combination in A9 of Appendix A and in Appendix C. This point should be clarified in Item 9 which stipulates the methodology.
3. In the cases where metrics are revised according to the revision approach(es), the revision approach(es) applied as well as the revised metrics resulting from the revision approach(es) should be made public. As stated in our response to Question 1, the SASB Standards in practice constitute a part of the disclosure requirements of the ISSB Standards, and therefore the revisions must be completed before the date of mandatory implementation of IFRS S1.

(b) • (c) • (d) N/A

#### 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?

(a) N/A

#### 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 of 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?

(a) N/A

(b)

We believe four additional revisions below are necessary if the ISSB will incorporate the SASB Standards as the industry-specific requirements in the ISSB Standards in the future. The comments below were discussed based on our previous comments associated with the SASB Standards among those submitted to the ISSB on July 29, 2022 in response to the Exposure Drafts of IFRS S1 and IFRS S2.

1. As we observe a number of cases where disclosure topics and metrics are not applicable depending upon the situation of the jurisdictions, or corporate business practices, it is necessary to deliberate on the process and rules to choose the disclosure topics and metrics, after clarifying the objectives of disclosure using a principles-based approach. We consider that this approach will lead to efficiency through interoperability as proposed by the ISSB.

2. The metrics of the SASB Standards include highly confidential content. For example, the "Investment Banking and Brokerage" standards include the items listed below under "Professional Integrity". However, the total number of private civil litigations varies across different regions, and, moreover, the purely quantitative disclosure of the number of cases may potentially cause misunderstandings, as qualitative aspects such as the different levels of significance of each case are not under consideration. As the ISSB has expressed its intention to make the Industry-based Guidance of IFRS S2 mandatory in the future in footnote (e) of the Request for Information "Consultation on Agenda Priorities" published on May 4, 2023 (hereinafter, the "Consultation on Agenda Priorities"), if the ISSB intends to incorporate the SASB Standards as the industry-specific requirements in each standard of the ISSB Standards, and to make them mandatory requirements, we believe that the disclosure of such information needs to be optional or deleted.

##### Topic: Professional Integrity

1) IB-510b.1:(1) Number and (2) percentage of covered employees with a record of investment-related investigations, consumer-initiated complaints, private civil litigations, or other regulatory proceedings

2) IB-510b.2: Number of mediation and arbitration cases associated with professional integrity, including duty of care, by party

3) IB-510b.3: Total amount of monetary losses as a result of legal proceedings associated with professional integrity, including duty of care
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3. We recognize that the Sustainable Industry Classification System (SICS), the industry classification developed by the SASB, has been developed with the industries in the United States in mind, and as such is not a standardized industry classification system used for sector allocation by global institutional investors. The industry-specific requirements of the ISSB Standards that are expected to be developed in the future should be based on the Global Industry Classification Standard (GICS)'s industry classifications, which have been accepted by institutional investors internationally. In addition, the Industry-based Guidance of IFRS S2 should be converted in the future from those based on the SICS to the GICS industry classifications.

4. As it can be assumed that the relevance of disclosure topics and metrics may change over time, the method and approach to conducting periodic reviews of the SASB Standards need to be made clear. While the SASB Standards in practice constitute a part of the ISSB Standards under IFRS S1 as we mentioned in our comments to Question 1, it is not clear how the ISSB will maintain the SASB Standards after the revisions proposed on this Exposure Draft are made. It is necessary to paint a full picture regarding the development of industry-specific requirements going forward, based on the deliberations of the Consultation on Agenda Priorities published by the ISSB, and the method and approach to reviewing the SASB Standards should also be examined in this context.

As stated above, the SASB Standards still need to undergo further improvements, and, when developing industry-specific requirements, it is necessary to obtain a consensus via a global consultation. We recognize that the process and rules to choose disclosure topics and metrics have not been explained sufficiently in the publication of the final standards of IFRS S2. Therefore, we believe that thorough explanation based on global consultation will be necessary in the development of industry-specific requirements of the ISSB Standards going forward.

The JSDA also plans to submit comments associated with "Enhancing SASB Standards" in response to the Consultation on Agenda Priorities. We would like the ISSB to refer to those comments along with our comments stated here.

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