

August 31, 2023

The International Sustainability Standards Board (ISSB)

Comments on the Request for Information “Consultation on Agenda Priorities”

Dear Sir/Madam:

We, the Japan Securities Dealers Association (hereinafter, the “JSDA”)¹, would like to express our gratitude for this opportunity to submit our comments on the Request for Information “Consultation on Agenda Priorities” (hereinafter, the “Agenda Consultation”) published on May 4, 2023, by the International Sustainability Standards Board (hereinafter, the “ISSB”).

On June 26, 2023, the ISSB published 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”). We recognize that the decision on the priority of the ISSB’s activities for the next two years is important for the IFRS Sustainability Disclosure Standards (hereinafter, the “ISSB Standards”) to function as a global baseline going forward. The JSDA has so far submitted comments on each Exposure Draft of the IFRS S1 and IFRS S2², and today submits these comments on the Agenda Consultation based on our discussions thus far.

Given that securities companies function as intermediaries in the capital market and assume the role of gatekeepers of the market, the JSDA has discussed this proposed Agenda Consultation from the standpoints of both preparers and users of sustainability-related financial information.

. We hope that our comments will be taken into consideration when planning the ISSB’s future work plans.

Isao Hishikawa

Director, Chief Officer for International Affairs & Research

Japan Securities Dealers Association

¹ 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.

² The JSDA’s comments on the Exposure Drafts of IFRS S1 and IFRS S2 are available on the IFRS website, 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

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

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.

(a) From highest to lowest priority, we rank the activities in the following order:

- (ii) supporting the implementation of ISSB Standards IFRS S1 and IFRS S2
- (i) beginning new research and standard-setting projects
- (iv) enhancing the Sustainability Accounting Standards Board (SASB) Standards
- (iii) researching targeted enhancements to the ISSB Standards

(b) Below is the rationale of the rankings noted above in (a).

(ii) Supporting the implementation of ISSB Standards IFRS S1 and IFRS S2

We believe this activity has the highest priority for the following reasons. In order for the ISSB Standards to function as a global baseline going forward, it is necessary that they be widely adopted across jurisdictions and established as the common language between entities (preparers) and investors. Moreover, as some jurisdictions legislate their own disclosure requirements based on the ISSB Standards, compliance with the IFRS S1 and the IFRS S2 is likely to be a major point of concern for preparers, because noncompliance could lead to possible infringement of local regulations.

Specifically, we believe support for the following two areas are necessary for the implementation of the ISSB Standards.

1. Enhancing educational materials such as guidance and case studies is imperative to achieving high-quality disclosure. The ISSB can support by clarifying, for example:
 - (under the IFRS S1) The judgment of “materiality”, as well as “connected information” which is an important concept in the ISSB Standards; and
 - (under the IFRS S2) Disclosure requirements such as the “climate-resilience” of entities’ strategies, where the disclosure rate under the TCFD recommendations is low.
2. Ensuring interoperability of sustainability reporting standards among multiple jurisdictions is necessary so that entities operating across jurisdictions can efficiently adapt to similar disclosure standards in each jurisdiction. Specifically, we think it is a good idea for regulators to develop tools in response to overlapping disclosure requirements in multiple jurisdictions, as already observable with the ESRS regarding climate-related disclosure³; it would be desirable to

³ The European Commission, EFRAG and the ISSB confirmed a high degree of climate-related disclosure alignment between the ESRS and ISSB Standards on July 31, 2023:

<https://www.ifrs.org/news-and-events/news/2023/07/european-comission-efrag-issb-confirm-high-degree-of-climate-disclosure-alignment/>

expand this to accommodate other reporting standards which adopt the ISSB Standards. Moreover, if regulators establish a system that allows them to rely on each other's disclosure frameworks across multiple jurisdictions, the inefficiency borne by both preparers and users will be drastically reduced. Therefore, it is also advisable for the ISSB to support regulators to move forward with such initiatives.

(i) Beginning new research and standard-setting projects

In light of users' ever-increasing demand for sustainability-related reporting, the climate-related disclosure standards of the IFRS S2 alone do not suffice and further development of standards for other sustainability-related topics is an urgent task. The IFRS S1 stipulates that, in identifying disclosure requirements about a sustainability-related risk or opportunity, when there is no ISSB Standard specifically applicable, an entity may refer to, and consider the applicability of, the Climate Disclosure Standards Board (CDSB) Framework Application Guidance and the publications of other standard-setting bodies in addition to the SASB Standards (Item 58). However, we believe the ISSB needs to develop standards on a diverse range of topics in a comprehensive manner to achieve high-quality disclosure.

(iv) Enhancing the Sustainability Accounting Standards Board (SASB) Standards

The IFRS S1 stipulates that, in identifying sustainability-related risks and opportunities, an entity shall refer to, and consider the applicability of, the disclosure topics in the SASB Standards in addition to the ISSB Standards (Item 55), and that, in identifying disclosure requirements about a sustainability-related risk or opportunity, in the absence of an ISSB Standard that specifically applies to the sustainability-related risk or opportunity, an entity shall refer to, and consider the applicability of, the metrics associated with the relevant disclosure topics included in the SASB Standards (Item 58).

Accordingly, as the SASB Standards in practice constitute a part of the ISSB Standards, enhancing the SASB Standards is an important project to implement the IFRS S1 and IFRS S2 as well as to develop the industry-based guidance for new standards for sustainability topics developed following the IFRS S2.

Nevertheless, as noted in our previous comments⁴, we believe that the SASB Standards needs further improvements, and as such we predict it would take time for the ISSB to discuss the approach to incorporating the SASB Standards into the ISSB Standards as industry-specific requirements.

In our view, therefore, (ii) Supporting the implementation of ISSB Standards IFRS S1 and IFRS S2 and (i) Beginning new research and standard-setting projects should have higher priority over this activity, given the short timeframe of two years.

(iii) Researching targeted enhancements to the ISSB Standards

We recognize investors' strong interest in the climate-related disclosure under the IFRS S2. In light of the urgent need for transition toward decarbonization, the concept of a "just transition" is attracting a great deal of interest as a key element affecting business activities and gaining importance in institutional investors' engagement. For instance, consideration of a "just transition" was added in the revision (June 2023) of the International Capital Market Association (ICMA)'s Principles and guidelines, which are globally spread and widely used by players of the sustainable finance market.

On the other hand, we understand that IFRS Accounting Standards are subject to refinements as deemed necessary, as a result of the post-implementation review, which is conducted after a certain period of time has passed after the initial development of the relevant standards. With this in mind, given the fact that the IFRS S2 final standards were published quite recently, if the intention of the guidance on "just transition" indicated on Page 14 of this Agenda Consultation is to enhance the application of the IFRS S2, we believe it advisable to conduct research after the post-implementation review has been completed. Accordingly, the priority given to this work item is the lowest among the four activities proposed in this Agenda

⁴ The JSDA has submitted comments on the Exposure Drafts "Methodology for Enhancing the International Applicability of the SASB® Standards and SASB Standards Taxonomy Updates" published on May 11, 2023, by the ISSB. For more details, please refer to our response to Question 5 (b) in the said comments.
https://ifrs-springapps-comment-letter-api-1.azuremicroservices.io/v2/download-file?path=625_67013_Japan-Securities-Dealers-Association-JSDA-0_Japan-Securities-Dealers-Association-JSDA-R-RBqbVNbOZ-yCK.pdf

Consultation.

In addition, “just transition” is a concept encompassing elements related to employment, a part of which can be examined under the topics “Human Capital” or “Human Rights” as suggested in the proposed activities for (i) Beginning new research and standard-setting projects.

(c) N/A

Question 2—Criteria for assessing sustainability reporting matters that could be added to the ISSB’s work plan

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.

(a) Do you think the ISSB has identified the appropriate criteria?

(b) Should the ISSB consider any other criteria? If so what criteria and why?

(a) Yes

As noted in the foreword of this Agenda Consultation (page 3), given that the ISSB is likely to explore integration in financial reporting beyond the requirements related to “connected information” described in the IFRS S1 and IFRS S2, the ISSB’s criteria to evaluate new research or standard-setting projects added to its work program should be aligned with the IASB’s criteria for the same purpose. While such evaluation may be difficult because disclosure standards for sustainability-related financial information is still in the nascent stage of development, even so, we believe there to be room for flexible responses.

(b) N/A

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.
- (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).

(a) We believe that the ISSB should take a **single project approach**.

(i)

The highest priority should be assigned to “Human Capital”

We respond to this question assuming that the ISSB will develop a new set of standards in the next two years based on the existing disclosure frameworks.

As already stated in our response to Question 1, in light of users’ ever-increasing needs for sustainability-related reporting, the climate-related disclosure standards of the IFRS S2 alone do not suffice, and further development of standards for other sustainability topics is an urgent task. While every topic proposed in Appendix A of this Agenda Consultation is important, we consider “Human Capital” to have the highest priority because it is 1) a source of entities’ competitive advantage, having a significant impact on their medium- and long-term cash flows, and 2) a theme common to all entities.

Therefore, in the ISSB’s standard-setting work going forward, we believe the ISSB should begin with developing standards related to “Human Capital” as a single project in a concentrated effort and complete this early.

Work on “integration in reporting” should proceed in parallel with the development of new standards

We recognize that the connectivity between financial statements and disclosure of sustainability-related financial information is an important concept for the ISSB Standards and that the integration in reporting project is of high importance. Nevertheless, as A51 in Appendix A of this Agenda Consultation notes, the indicative size of this project is large, and as such the project is likely to span a longer period of time, on a different time axis from the other projects proposed, i.e. “Biodiversity”, “Human Capital”, and “Human Rights”, which are expected to proceed with the development of standards under existing disclosure frameworks.

Accordingly, over the coming two years, we think it advisable for the ISSB to launch and proceed with this project in parallel with the development of new standards on “Human Capital”. As this project is likely to be longer term, the ISSB should present the project’s work plans for the next two years together with its whole picture.

This being said, we expect the ISSB to develop standards on the remaining topics in the future as well, recognizing users’ strong demand for those projects. Below are the comments on the other projects, which were noted in the discussion in the JSDA’s Sustainability Standards Working Group.

● **Biodiversity**

We recognize the issues surrounding biodiversity, ecosystem and ecosystem services (BEES) as important topics that are approaching a tipping point similar to that of climate change. In developing the relevant standards, some points listed below may be taken into consideration.

- For this topic, the ways of approach for the methodology, data quality, and entities’ capacity to deal with the issues are all in the early developmental stage. Therefore, it may be advisable to start this project with research after the

publication of the final TNFD Recommendations, taking into consideration the state of disclosure on the topic by entities.

- As the number of sectors whose cash flows would be greatly impacted by the issues falling under this topic is limited, it may be necessary to identify the pertinent sectors beforehand.
- The materiality of this topic varies depending on sector or region; even within the same sector, the issues faced by each entity vary. Therefore, it may be prudent to start by identifying major sub-topics common within each sector, and moreover, allow for flexible disclosure that respects the judgments of entities.

- **Human Rights**

“Human Rights” is an important topic—with many laws, regulations, as well as guidelines already in place surrounding the topic, the breach of which may also adversely impact share prices. In developing standards for this topic, some points listed below may be taken into consideration.

- It may be advisable to start the project with research because clarifications are necessary in areas such as the ways of approach in the methodology, definitions of the Human Rights Due Diligence, and scope of suppliers.
- We recommend discussing “labor conditions in the value chain” included in the “Human Capital” topic (A22(f) in Appendix A of this Agenda Consultation) as a sub-topic under “Human Rights”.
- While this Agenda Consultation treats the topics “Human Capital” and “Human Rights” as separate projects, it may be possible, for example, to divide the scope of business entities’ labor forces into those of the entity itself and of its supply chain and develop standards under a single umbrella.

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:

- (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?

(a) The integration in reporting project is a higher priority

As in our response to Question 3 (a) above, we recognize that the connectivity between financial statements and disclosure of sustainability-related financial information is an important concept in the ISSB Standards and that the integration in reporting project is of high importance. However, as A51 in the Appendix A of this Agenda Consultation notes, the indicative size of this project is large, and as such the project is likely to span a longer period of time, on a different time axis from the other projects proposed, i.e. “Biodiversity”, “Human Capital”, and “Human Rights”, which are expected to proceed with the development of standards under existing disclosure frameworks.

Accordingly, over the coming two years, we think it advisable for the ISSB to launch and proceed with this project in parallel with the development of new standards. As this project is likely to be longer term, the ISSB should present the project’s work plans for the next two years together with its whole picture.

(b) N/A

(c)

(i) IASB’s Exposure Draft “Management Commentary”: Yes

Based on the Conceptual Framework for Financial Reporting of the IFRS Accounting Standards, the IASB’s Exposure Draft “Management Commentary” focuses its attention on the factors that could affect entities’ ability to create value and generate cash flows, clearly stating the connectivity between those factors and financial statements. With this in mind, in relation to the connectivity between financial statements and sustainability-related financial information, we consider it is possible to leverage the IASB’s expertise related to financial statements to develop high-level standards that can be used even for accounting standards other than the IFRS Standards.

Long-term future cash flows and value creation, both of which are sought by investors, are important concepts for the ISSB. Accordingly, if the ISSB aims to achieve the connectivity between financial statements and sustainability-related financial information, it is desirable that the descriptions and stipulations of the concepts “future cash flows” (Item 3.10) and “value creation” (Items 3.11 and 3.12) described in the IASB’s Exposure Draft “Management Commentary” will be standardized in both the IFRS Accounting Standards and the ISSB Standards.

(ii) Integrated Reporting Framework: Yes

While the concept “value creation” under the Integrated Reporting Framework has already been reflected in the IFRS S1 through the basic concept of sustainability-related risks and opportunities, we believe further effort to redefine the seven “Guiding Principles” and eight “Content Elements” under the Integrated Reporting Framework as ISSB Standards is possible, as these principles are being utilized by a number of entities when preparing their integrated reports.

Moreover, given the fact that the Integrated Reporting Framework emphasizes the importance of the connectivity of information and requires explanation on how and what kind of value an entity creates by interconnecting the six capitals through an entity’s business activities, we think there is also room for repositioning the six capitals as ISSB Standards.

(iii) Other sources

N/A

(d) In this integration in reporting project, in addition to our response to Question 7 (c) above, we believe that “connected information” should be considered further in the process of developing standards on the respective topics of “Biodiversity”, “Human Capital” and “Human Rights”.