



Japan Securities Dealers Association

JSDA

2-11-2, Nihombashi, Chuo-ku, TOKYO 103-0027, JAPAN
Phone: +81-3-6665-6764 Fax: +81-3-6665-6808

July 29, 2022

The International Sustainability Standards Board (ISSB)
The International Financial Reporting Standards Foundation (IFRS Foundation)
7 Westferry Circus, Canary Wharf,
London, E14 4HD, UK

Comments on the Exposure Draft IFRS S2, “Climate-related Disclosures”

Dear Sir/Madam:

We, the Japan Securities Dealers Association (hereinafter, the “JSDA”)¹, would like to express our gratitude for this opportunity to express our views on the exposure drafts 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”) published on March 31, 2022, by the International Sustainability Standards Board (hereinafter, the “ISSB”).

Amid the growing awareness of the economic and financial impacts of sustainability-related information, including the information on climate-related and other environmental, social, and governmental (ESG) risks, the JSDA has been committed to addressing relevant issues. In particular, the JSDA recognizes that disclosure of corporate sustainability-related risks and opportunities is useful for users of the general purpose financial reporting to assess the enterprise value and decide whether to provide resources to an entity. Accordingly, we would like to express our respect for the ISSB's efforts to develop standards for sustainability-related financial disclosure that will serve as the global baseline.

Since securities companies play a role as intermediaries in the capital market and gatekeepers to the market, the JSDA has discussed the proposed exposure drafts from the standpoints of both preparers and users of the general purpose financial reporting. We submit comments from our member securities companies to make the proposed exposure drafts more practical and contribute to the evaluation of enterprise value by users of the general purpose financial reporting. We hope that these recommendations will be taken into consideration when developing standards.

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 comprised of approximately 490 securities companies and registered financial institutions conducting securities business in Japan.



*(Summary * We put the same summary of our comments in our papers on the IFRS S1 and the IFRS S2.)*

1. Development of standards as the “global baseline”

We agree with the development of standards based on the concept of the "global baseline" presented by the IFRS Foundation. However, we believe the following five issues need to be addressed for IFRS Sustainability Disclosure Standards to be widely and globally accepted.

(1) Principle-based approach

If the IFRS Sustainability Disclosure Standards are intended to be globally applied like the IFRS Accounting Standards, the objective of a principle-based approach should be clearly stated at the beginning of the IFRS S1 and the IFRS S2. Also, following the principle-based approach, the standards should keep the disclosure requirements' wording at the necessary minimum so as to allow entities flexibility to apply their judgment to their disclosures. This follows the "building-block approach" where standards outline the minimum disclosure requirements of IOSCO member jurisdictions and are designed to be added to jurisdiction-specific disclosure requirements. We believe allowing flexibility and making the standards acceptable in many jurisdictions is appropriate.

While the standards should take the principle-based approach regarding the disclosures, we believe it is essential to provide further details for the guidance, similar to the TCFD recommendations, to facilitate acceptance by many jurisdictions and improve the quality of disclosure.

(2) Amendments to disclosure requirements

Under the "building-block approach," in order to be accepted by many jurisdictions as the minimum disclosure requirements of local standards in IOSCO member jurisdictions, it is necessary to modify the following disclosure requirements. (see the answers to each question of the IFRS S1 and the IFRS S2).

- The IFRS S1: Identification of sustainability-related risks and opportunities (Question 7), Simultaneous disclosure with financial statements and reporting for the same period (Question 9), Location of information (Question 10), and Statement of compliance (Question 12).
- The IFRS S2: Identification of climate-related risks and opportunities (Question 3), Cross-industry metric categories (Question 9), and industry-based disclosure requirements (Question 11)

(3) Grace period (or phased application)

We believe that it is appropriate to have a grace period concerning the new disclosure



requirements for the preparers, and to allow to provide disclosures in a phased manner (see the answers to each question of the IFRS S1 and the IFRS S2).

- The IFRS S1: Disclosure requirements on the value chain (Question 5); "strategy" and "metrics and targets" of the Core Content (Question 4; If the effective date is postponed in the IFRS S2, the same revision in the IFRS S1 will also be necessary accordingly.)
- The IFRS S2: Disclosure on value chains (Question 4); transition plans and carbon offsets (Question 5), short -, medium - and long-term financial impacts (Question 6); climate resilience assessment (Question 7); and scope 3 emissions (Question 9).

It should be noted that the finalization of the industry-specific requirements of the IFRS S2 will require extensive global discussions.

2. Defining "significant" and clarifying the difference between "significant" and "material"

- We believe defining "significant" and clarifying the difference between "significant" and "material" are necessary. Although the BC40 defines "significant risks", this term should be defined in the body of the standard to ensure a consistent interpretation. Also, the term "significant opportunities" should also be defined in the body of the standard.
- In this regard, Appendix A of the exposure draft of the "IFRS Practice Statement 1 Management Commentary" defines "key matters" as "matters that are fundamental to an entity's ability to create value and generate cash flows". This concept could be useful to clarify how to identify significant sustainability-related risks and opportunities.
- In addition, we believe that to clarify the definition of "significant", it should also take into account the concept of time. The IFRS S1 adopts industry-specific requirements for the identification and metrics of "significant sustainability-related risks and opportunities". Regarding them, the ISSB will need to take into account the potential for changes in the "significant risks and opportunities" over time.

3. Clarifying the process for identifying the sustainability-related risks and opportunities

- The BC68 states, "applying the SASB Standards and CDSB pronouncements would be considered good practice for an entity applying IFRS Sustainability Disclosure Standards, but applying those pronouncements would not be a formal requirement for an entity". Accordingly, these guidances should be clearly positioned as examples and stated in the body of the standard, and the IFRS S1 should respect entities' judgments by modifying "management shall consider" in paragraph 51 to "management may/can consider," based on the principle-based approach. We believe that such alteration will make it possible to reduce an excessive disclosure burden on the entities.
- Paragraph 51 states that an entity "shall refer" to IFRS Sustainability Disclosure Standards,



including identified disclosure topics (as defined in Appendix A, this would be subject to the provisions of the SASB Standard). This requirement on the identified disclosure topics should be modified from "shall refer" to "may/can refer" for the following two reasons.

- As with the first point above, it aims to reduce entities' disclosure burden by respecting entity decisions on materiality based on principle-based approach.
- As for Appendix B of the IFRS S2, it is not rare that the industry classification and disclosure topics of the SASB Standards do not apply to the situation of the country/jurisdiction and the nature of an entity's business. Therefore, it will require extensive global discussions. In addition, persisting with "shall refer" may delay finalizing the disclosure requirements.
- As with the first point above, in the absence of the applicable IFRS Sustainability Disclosure Standards (Paragraph 53), the "shall consider" for the guidance and pronouncements stipulated in paragraph 54 should be modified to "may/can consider".

4. Review of disclosing reports simultaneously and over the same period (frequency of reporting)

While disclosing the reports at the same time and over the same reporting period is preferable, it may be unrealistic to do so due to local regulatory requirements and data availability. For this reason, we propose as follows.

- First, we propose to specify in the IFRS S1 that the timing of reporting should, in principle, be at the same time as its related financial statements but should be left to the requirement of the regulatory authority. As the major premise of ISSB is not to exert any influence on local laws and regulations (the BC16), it is appropriate for the regulatory authority to make a decision in light of local regulatory requirements and disclosure systems.
- Second, the reporting period should, in principle, be "the same period" as the financial statements. However, if it is unrealistic to do so in practice, then reporting for a different period should be allowed. For example, we believe a certain period of difference in sustainability-related financial information should be allowed, in the same way as the IFRS Accounting Standards allow a difference of up to three months for the accounting period between parent and subsidiary entities on a consolidated basis.

5. Review of the statement of compliance

We agree with the relief in cases where local laws or regulations prohibit the entity from disclosing that information. However, the following issues need to be addressed.

- In consistent with "local laws and regulations" in paragraph 62 of the IFRS S1, the body of the standard should clearly state that disclosure information relating to contents of confidentiality agreements should not be required.



- It should be clearly stated in the body of the standard that the standard should provide the reliefs concerning the permission to disclose information regarding a different period from that of the financial statements (see the answer to Question 9) and the BC68 of the IFRS S1 (the stipulation that an entity could still assert compliance with IFRS Sustainability Disclosure Standards even if it did not apply the requirements in the SASB Standards and the CDSB pronouncements). Also, it is necessary to clarify the BC85 of the IFRS S1 (the stipulation that an entity can assert its compliance by disclosing the fact of not managing).

In the discussions of the JSDA's Sustainability Standards Working Group (hereinafter, the "JSDA's Working Group"), in addition to the above improvements, the view was also expressed that so-called "a qualified statement of compliance", which means compliance with some, but not all, of requirements and was proposed in the exposure draft of IFRS Practice Statement 1 "Management Commentary", should be allowed in order to make the standard the "global baseline" in many jurisdictions.

6. Necessity of careful discussions on industry-based requirements

(1) General

- As climate-related risks tend to vary by industry, we agree with the establishment of industry-based requirements. We also agree with the use of the SASB Standards as a starting point. On the other hand, it will require extensive global discussions to finalize the industry-based requirements because the industry classification, disclosure topics and indicators of the SASB Standards do not apply to the situation of the country/jurisdiction and the nature of an entity's business.
- The IFRS S2 also includes disclosure requirements relating to non-climate-related environmental issues (such as water resources), which are particularly prevalent in industry-based requirements. While we understand that climate-related risks are associated with various non-climate-related risks, there is a risk of overlap as standards are developed in the future. The IFRS S2 should focus on the global penetration of high-quality climate-related disclosures and be limited to climate-related topics.
- In addition, we believe that it will be necessary to revisit how to review them in the future as guidance on industry selection for diversified entities is added, and the relevance of disclosure topics and metrics may change as time goes by.

(2) Investment Banking & Brokerage (Appendix B: Volume B18)

- "Incorporation of Environmental, Social, and Governance (ESG) factors in Investment Banking & Brokerage Activities" (FN-IB-410a.1, FN-IB-410a.2 and FN-IB-410a.3) would deviate from the objective and scope of the IFRS S2. The TCFD recommendations do not



require such disclosure.

- We disagree with the disclosure requirements of "Transition risk exposure (FN-IB-1 and FN-IB-2)" because the calculation criteria for "facilitated emissions" are under global discussion and because it is difficult to calculate greenhouse gas emissions (Scope 1, Scope 2, and Scope 3) for each business line.

7. Establishment of safe harbors and audit and assurance systems regarding false statements (legal liability)

Realizing reliable information disclosure will require the establishment of safe harbors relating to false statements of estimates, forward-looking information, and Scope 3 emissions, and other data (legal liability) as well as more discussions on the establishment of audit and assurance systems. The ISSB should consider the disclosure systems of each jurisdiction and develop the IFRS Sustainability Disclosure Standards in cooperation with regulatory authorities in order to ensure the entities can disclose information in accordance with the disclosure systems of each jurisdiction.

For more details on the answers to the questions on the IFRS S2, please refer to the following comments.

Table of contents

Question 1—Objective of the Exposure Draft.....	7
Question 2—Governance.....	8
Question 3—Identification of climate-related risks and opportunities.....	8
Question 4—Concentrations of climate-related risks and opportunities in an entity’s value chain	9
Question 5—Transition plans and carbon offsets.....	10
Question 6—Current and anticipated effects	12
Question 7—Climate resilience.....	14
Question 8—Risk management.....	16
Question 9—Cross-industry metric categories and greenhouse gas emissions	17
Question 10—Targets.....	20
Question 11—Industry-based requirements.....	22
Question 13—Verifiability and enforceability	27
Question 14—Effective date.....	28
Question 16—Global baseline	28

Question 1—Objective of the Exposure Draft

- (a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?
- (b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?
- (c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

(Comment)

(a) Broadly Agree

We agree with the objective of assessing the effects of climate-related risks and opportunities on the entity's enterprise value. Users of general purpose financial reporting need to understand the climate-related risks and opportunities that materially affect an entity's enterprise value along with financial information in order to conduct economic decision-making, such as investment decisions. However, the following two issues need to be addressed to achieve the disclosure objective.

First, while the IFRS S2 and the IFRS S1 apply to climate-related disclosures, it is difficult to understand the relationship between the two standards and the intent of the differences in wording. To clarify the objective, it would be appropriate to specify the provision of (1) the disclosure of information that is useful in assessing enterprise value and in making decisions about providing resources to the entity (paragraph 1 of the IFRS S1) and (2) the disclosure of material information (paragraph 2 of the IFRS S1), which are prescribed in the IFRS S1, and to additionally prescribe the disclosure requirements specific to the IFRS S2.

Second, the title of the IFRS S2 should be modified from "climate-related disclosures" to "climate-related financial disclosures" to bring it in line with the IFRS S1 "sustainability-related financial disclosures". The disclosure objectives of the four core contents use the wording "climate-related financial disclosures", but the title and disclosure objectives do not match. If they cannot be aligned in such a way, the reason should be explained in the Basis for Conclusions.

(b) Broadly Agree

The objective of the IFRS S2 focuses on information that enables users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value.

(c) Broadly Disagree

The disclosure requirements of the IFRS S2 do not satisfy the disclosure objective in paragraph 1 because the standard is not designed consistently with the principle-based approach. In brief, while

the disclosure requirements are based on the principles-based TCFD recommendations, the industry-based requirements which adopt the rule-based approach are added on it.

If the IFRS Sustainability Disclosure Standards are intended to be globally applied like the IFRS Accounting Standards, the objective of a principle-based approach should be clearly stated at the beginning of the IFRS S2. Also, following the principle-based approach, the standards should keep the wording of the disclosure requirement at the necessary minimum so as to allow entities flexibility to apply their judgment to their disclosures. This follows the “building block approach” where standards outline the minimum disclosure requirements of IOSCO member jurisdictions and are designed to be added to jurisdiction-specific disclosure requirements. We believe allowing flexibility and making the standards acceptable in many jurisdictions is appropriate.

Question 2—Governance

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

(Comment)

Broadly Agree

We agree with the disclosure requirements. Enhanced governance processes are an important foundation for entities to identify climate-related risks and opportunities, measure their effects, and assess their resilience. In addition, the information required by the IFRS S2, if provided, would provide the necessary understanding of the governance processes, controls, and procedures of individual entities, while also enhancing comparability among entities.

Question 3—Identification of climate-related risks and opportunities

(a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?

(b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

(Comment)

(a) Broadly Agree

We believe the disclosure requirements to identify and disclose significant climate-related risks

and opportunities is clear. However, the wording “significant” in “significant climate-related risks and opportunities” is not defined. The definition of “significant” should be clearly stated and the difference from “material” should be clarified.

(b) Broadly Disagree

We do not agree with the disclosure requirement in paragraph 10 because the following improvements are needed. Although paragraph 10 stipulates that entities shall refer to the disclosure topics in Appendix B, there are many cases where the disclosure topics do not apply to the situation of the country/jurisdiction and the nature of an entity's business. Therefore, as we answered in Question 1, based on the principle-based approach, it is appropriate to make the disclosure topic “may/can refer” at the discretion of the entity, rather than making the disclosure topic “shall refer” and position the disclosure topic only as an “example.”

In addition to the above review, we believe that the process of “identifying significant climate-related risks and opportunities” should be clarified by clearly defining “significant” as we answered in Question 3(a).

Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain
(a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?
(b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

(Comment)

(a) Broadly Agree

We agree with the proposal except for the following two points.

First, the scope of the value chain should be limited to what the entity judges material. Although the BC66 intentionally defines the scope of the value chain broadly, it is often difficult to determine the scope of the value chain in practice, and the judgment of the entities may be inconsistent. The guidance should be applied in a coherent manner by adding explanations on determining materiality in the value chain and by providing examples for each industry in the guidance. The linkage to categories 1-15 of the GHG Protocol also needs to be explained in the guidance.

Second, information about the value chain may be problematic to disclose if it includes information about an entity's clients or confidential information about the entity. We believe the wording should be “may/can disclose” to allow for an entity's circumstances.

Additionally, disclosure requirements related to the value chain should be provided with a grace period (or phased application), taking into account the disclosure burden on preparers.

(b) Broadly Disagree

We do not believe that the disclosure requirements about an entity's concentration of climate-related risks and opportunities should necessarily be “qualitative.” We believe that disclosure could be required as to which parts of an entity's value chain in paragraph 12(b) have significant concentrations of climate-related risks and opportunities, if there is measurable quantitative information about such risks and opportunities.

Question 5—Transition plans and carbon offsets

- (a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?
- (b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.
- (c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?
- (d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

(Comment)

(a) Broadly Agree

We agree with the disclosure requirements regarding the transition plan except for the following three points.

First, transition plans involving R&D, investment, and divestment are likely to be information on the most sensitive and confidential matters of an entity in terms of competition, and may be problematic to disclose. Therefore, the wording should be changed to “may/can disclose” to allow for an entity's circumstances.

Second, the definition of “legacy asset” in Appendix A should be clarified. If the asset has already been impaired for accounting purposes, the impact of its retirement on the income statement is not expected to be considerable, and the usefulness of disclosing the plan is considered low. On the other

hand, if “legacy asset” refers to an asset that may lose value in the medium to long term as a result of the transition to a low-carbon economy, it would be more useful for users of general purpose financial reporting to disclose details such as timing and book value.

Third, in order to improve the quality of disclosure, the explicit connections of the metrics and targets described in the BC74 and scenario analysis should be clearly stated in these standards or guidance.

In addition to the above improvements, the disclosure requirement regarding transition plans was just added in the TCFD recommendations in October 2021, and should be provided with a grace period (or phased application), taking into account the disclosure burden on preparers.

(b) No

(c) Broadly Agree

We agree with the proposed disclosure of carbon offsets for climate-related targets. However, to enhance the credibility and avoid the overestimation of carbon offsets, detailed explanations with guidance and examples are necessary. We believe the following supplemental information are possible examples.

- “the extent to which the targets rely on the use of carbon offsets” (Paragraph 13 (b)(iii)(1))
Include disclosure of assumptions about emissions reduction effects and how the scope of offsets is assumed.
- “third-party offset verification” (Paragraph 13(b)(iii)(2))
Include the background of the selection of the “third party” that requested the certification, because the market is still new, which increases the importance of ensuring the credibility of the “third party.”
- “significant factors regarding the credibility and integrity of offsets” (Paragraph 13(b)(iii)(4))
Include the risks associated with the feasibility of carbon offsets and its utilization.

The emission targets in paragraph 13(b) do not specify whether the targets are gross or net. On the other hand, in paragraph 21(a)(i) and the BC110, the disclosure of absolute gross GHG emissions, which are the emissions before accounting for any removal efforts (offsets and credits), are required.

In the discussions of the JSDA’s Working Group, there was a view that it should be clearly stated that disclosure of emission target as gross basis is required, as same as the absolute emissions described in paragraph 21(a)(i). There was also a view that if the IFRS S2 takes a stance that does not specify whether the disclosure requirements are gross or net, the IFRS S2 should require entities to attach an Appendix or a note whether the emission target is on a gross or net basis.

(d) Broadly Agree

The IFRS S2 is commendable for its in-depth disclosure requirements on carbon offsets. This is a new disclosure requirement not included in the TCFD recommendations, and the quality of disclosure should be enhanced through better guidance and examples.

In addition, we believe that disclosure requirements on carbon offsets should be provided with a grace period (or phased application), taking into account the disclosure burden on preparers.

Question 6—Current and anticipated effects

(a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?

(b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?

(c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

(Comment)

(a) Broadly Agree

We agree with the proposal that entities disclose quantitative information on the anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided.

A case in which there is no choice but to provide qualitative explanation would be, for example, when it is difficult to distinguish climate-related factors from various factors. In addition, under the Financial Instruments and Exchange Act, preparers are liable for false statements of securities reports, which are general-purpose financial reports in Japan, and it is assumed that there will be cases where qualitative explanations are provided so that the quantitative forward-looking information will not be considered as false statements due to not being achieved.

It is also appropriate that disclosure in a range is permitted because estimates of anticipated effects are not necessarily reliable. In addition, the IFRS S2 states that if an entity is unable to disclose quantitative information, an entity shall disclose an explanation of why that is the case, which is considered appropriate from the perspective of a statement of compliance.

(b) Broadly Agree



Japan Securities Dealers Association

JSDA

2-11-2, Nihombashi, Chuo-ku, TOKYO 103-0027, JAPAN
Phone: +81-3-6665-6764 Fax: +81-3-6665-6808

We agree with the proposal, but the variables that the financial effects are diverse, not limited to climate change, and it is difficult to determine that all effects are due to climate change.

(c) Broadly Agree

We agree with the requirements for disclosure of the effects of climate-related risks and opportunities on short, medium, and long term financial statements, as this information is useful in assessing an enterprise value, subject to (1) clarification of the following three points and (2) a grace period (or phased application). (Note that (2) was also added to the annex and the supplementary guidance to the TCFD recommendations in October 2021 and is listed as a condition in this issue because it was added shortly thereafter.)

First, if it contains confidential information, it should be clarified that disclosure of them should not be required, because it would be difficult to disclose such content.

Second, it should be clarified in paragraph 14(b) that if the anticipated effects are expected, it should not be limited to the next fiscal year.

Third, with respect to forward-looking information, it is essential to clearly state the measurement methods and assumptions, as well as to include notes that the forward-looking information does not guarantee its achievement, in order for users to understand the characteristics and limitations of the figures. In Japan, in public offerings or secondary distributions of the securities using the common reference method, the securities report is considered as the reference document in the offering disclosure document (including securities registration statement) and prospectus. Since the issuer is liable for false statements in the offering disclosure documents and the underwriter, the securities firm, is also responsible for false statements in the use of the prospectus, these notes should be thoroughly implemented at the stage of development of standards.

In the “Guidance on Metrics, Targets, and Transition Plan” (in October 2021) published by TCFD, the supplementary guidance to the TCFD recommendations, it is clearly stated that scenario analysis is to be used as a central tool for understanding potential financial effects, and it is also useful in providing a reasonable explanation of forward-looking information.

In addition to the above clarification of standards, realizing reliable information disclosure will require the establishment of safe harbors for false statements of estimates and forward-looking information (legal liability). The ISSB should consider the disclosure systems of each jurisdiction and develop the IFRS Sustainability Disclosure Standards in cooperation with regulatory authorities in order to ensure the entities can disclose information in accordance with the disclosure systems of each jurisdiction.

Question 7—Climate resilience

(a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?

(b) The Exposure Draft proposes that if an entity is unable to perform climate related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.

(i) Do you agree with this proposal? Why or why not?

(ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?

(iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

(c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

(d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

(e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

(Comment)

(a) Broadly Agree

(b) (i) Broadly Agree

We agree with the use of alternative methods or techniques when climate-related scenario analysis is not feasible. This is consistent with current practice in which many entities are incrementally increasing and refining the use of scenario analysis.

However, we believe that the information based on scenario analysis including estimates and forward-looking information will require the establishment of safe harbors for false statements (legal liability). The ISSB should consider the disclosure systems of each jurisdiction and develop the IFRS Sustainability Disclosure Standards in cooperation with regulatory authorities in order to ensure the entities can disclose information in accordance with the disclosure systems of each jurisdiction.

(b) (ii) Broadly Agree

We agree with the proposal that an entity that is unable to use climate-related scenario analysis be required to disclose the reason why, which would be useful in the statement of compliance.

(b) (iii)

We do not think it is necessary for all entities to undertake climate-related scenario analysis because, if the effects of climate-related risks and opportunities are not significant, then the effects of enterprise value will be limited and the cost not be justified.

(c) Broadly Agree

We agree with the disclosure requirement related to scenario analysis on the condition that a grace period (or phased application) is set because scenario analysis requires a considerable amount of resources and knowledge.

To improve the understandability of climate resilience, it is necessary to address relationship between climate resilience and transition plans in the criteria or guidance, the explicit connection should be addressed in standards or guidance, as the BC74 states that a transition plan should include an assessment of resilience to verify the feasibility of achieving the plan and objectives.

(d) Broadly Agree

We agree with the proposal that allows alternative methods or techniques for disclosure, on the condition of providing more guidance on examples of disclosure using each analytical method.

(e) Broadly Agree

Even after the publication of the TCFD recommendations, entities have not adequately disclosed information on resilience, and the number of items for disclosure on resilience is still small compared to other categories. Therefore, we propose the following two points.

First, a grace period (or phased application) for climate resilience assessments should be set. Many entities are gradually expanding and refining these assessments, and many jurisdictions are beginning to require them.

Second, the descriptions of good practices and guidance should be enriched to reduce the burden of disclosure on entities and deepen their understanding of climate resilience assessments for disclosure.



Japan Securities Dealers Association

JSDA

2-11-2, Nihombashi, Chuo-ku, TOKYO 103-0027, JAPAN

Phone: +81-3-6665-6764 Fax: +81-3-6665-6808

Question 8—Risk management

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

(Comment)

Broadly Agree

We agree with the focus on opportunities as well as climate-related risks in risk management, with the following exceptions. Unlike the current TCFD recommendations, which only address risks, this proposal includes “opportunities,” and we assume that some entities have not yet incorporated the “opportunity” aspect in practice. Therefore, it would be appropriate to not make the evaluation of “opportunities” an obligation and make it “may/can disclose” at the discretion of the entity.

We also believe that it is necessary to improve guidance on specific management methods and examples of the proposed disclosures..



Question 9—Cross-industry metric categories and greenhouse gas emissions

(a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?

(b) Are there any additional cross-industry metric categories related to climate related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.

(c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?

(d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO₂ equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH₄) separately from nitrous oxide (NO₂))?

(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for: (i) the consolidated entity; and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

(f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

(Comment)

(a) Broadly Agree

We agree with the disclosure requirements of the seven cross-industry metric categories based on the annex and supplementary guidance to the TCFD recommendation (published in October 2021), except for the following four points for improvement.

- Items for which disclosure requirements should be limited to those deemed material by the entity.
 - Scope 1 and Scope 2 emissions of and associates, joint ventures, unconsolidated subsidiaries or affiliates (paragraph 21 (a) (iii) (2))
 - Scope 3 emissions (paragraph 21 (a) (I) (3))
 - Transition risks (paragraph 21 (b))
 - Physical risks (paragraph 21 (c))
 - Opportunities (paragraph 21 (d))



- Capital deployment (paragraph 21 (e))
- Items that should be “may/can disclose” according to the circumstances of the entity
The reasons for this are that not all entities have introduced the system and it was found that the system was relatively less useful for the users at the Public Consultation on the TCFD recommendations (2021).
 - Internal carbon prices (paragraph 21 (f))
 - Remuneration (paragraph 21 (g))
- Items for which guidance on calculation methods needs to be established to improve comparability
 - Transition risks (paragraph 21 (b)) and physical risk (paragraph 21 (c)): Add explanation of “vulnerable” assessment and definition of “percentage”
 - Opportunities (paragraph 21 (d)): Add definition of “percentage”
- Allowance for difference in the reporting period of the consolidated accounting group (parent company and subsidiaries) to some extent
In some cases, due to the timing of data availability, it is legally difficult to disclose sustainability-related financial information for the same period at the same time with financial statements. In such cases, we believe reporting for a different period should be allowed to some extent, in the same way as the IFRS Accounting Standards allow the difference of up to three months for the accounting period between parent and subsidiary entities on a consolidated basis.

(b) No

(c) Broadly Agree

We agree with requiring the use of these standards because the development of the standards issued by the GHG Protocol Initiative involves major countries and jurisdictions and is widely and globally accepted.

However, in some cases, such as the Japanese Act on Promotion of Global Warming Countermeasures, different measurement methods are established based on the GHG Protocol. Therefore, we suggest that the wording “in accordance with the *Greenhouse Gas Protocol Corporate Standard*” in paragraph 21 (a) (i) be flexible by using the wording “each country/jurisdiction’s standards equivalent to the various standards published by the GHG Protocol Initiative”.

At the same time, we believe comparability issues concerning the calculations will remain, even if using the standards published by the GHG Protocol Initiative.

Therefore, for the standards to continue to be the de facto global standards, a due process of review must be adopted similar to the post-implementation review set by the IFRS Accounting Standards.

(d) Broadly Agree

We agree with the proposal, since the format in which all seven greenhouse gases are aggregated and disclosed in terms of CO₂ equivalent is widely used. However, specifying the assumptions and calculation methods for emission factors or other data will be needed to realize reliable information disclosure.

We believe that, when an entity judges it to be material, it would be useful for entities to be allowed to refer to the disclosure of each component of the seven greenhouse gases specified in the industry-based disclosure requirements in Appendix B.

(e) (i) Broadly Agree

We agree with the proposal. From the viewpoint of users, disclosure of major consolidated subsidiaries is also useful. Allowing disclosure (may/can disclose) when an entity judges it to be material would be a desirable supplement to guidance.

(e) (ii) Broadly Agree

Disclosure of Scope 1 and Scope 2 emissions of associates, joint ventures, unconsolidated subsidiaries or affiliated should only be disclosed in cases where the entity judges the disclosure to be material and cost effective.

In addition, since this is a change from the disclosure requirement of the Climate-related Disclosure Prototype (hereinafter, "Prototype"), the objective of the change should be clarified in the Basis for Conclusions of the IFRS S2.

(f) Broadly Agree

In light of investor requests (including initiatives) for disclosure of Scope 3 emissions and an increase in the number of entities that pledge to reduce greenhouse gas emissions including Scope 3 emissions, we agree with the establishment of Scope 3 emissions as a disclosure item under the conditions that (1) it is limited to when an entity judges it to be material and (2) a grace period is set (or phased application). Note that the SEC's proposed climate-related disclosure rules require the disclosure of Scope 3 emissions based on entity size and would not require disclosure for all entities.

Realizing reliable information disclosure will require the establishment of safe harbors for false statements of estimates and forward-looking information (legal liability). The ISSB should

consider the disclosure systems of each jurisdiction and develop the IFRS Sustainability Disclosure Standards in cooperation with regulatory authorities in order to ensure the entities can disclose information in accordance with the disclosure systems of each jurisdiction. Further, to improve the reliability and comparability of GHG emissions data, it will also be necessary to examine issues related to calculation and disclosure under the GHG Protocol and to unify global standards for measuring GHG emissions.

Question 10—Targets

- (a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?
- (b) Do you think the proposed definition of ‘latest international agreement on climate change’ is sufficiently clear? If not, what would you suggest and why?

(Comment)

(a) Broadly Agree

We agree with the disclosure on climate-related targets, except for the following two points.

First, we believe further consideration is necessary for the disclosure requirement of paragraph 23 below.

- Paragraph 24 states that “an entity shall refer to and consider the applicability of industry-based metrics”. The wording “shall refer to and consider” should be modified to “may/can refer to and consider” taking into account the disclosure burden on preparers.
- We believe it should be appropriate to delete the wording “whether it has been validated by a third party” in paragraph 23 (e), since we understand that general consensus on third-party validation has not yet been reached.
- Since the base year is often set generally with respect to “the base period from which progress is measured” described in paragraph 23 (h), we believe the wording “or base year (point in time)” should be inserted between “period” and “from.”

Second, with regard to the targets stipulated in paragraphs 23 (b) and (c) and other sections, we believe that it is necessary to specify the characteristics and give examples of climate-related targets, similar to the “Guidance on Metrics, Targets, and Transition Plans” published by the TCFD in October 2021.

In paragraph 21(a)(i) and the BC110, the disclosure of absolute gross GHG emissions, which are the emissions before accounting for any removal efforts (offsets and credits), are required. On the other hand, climate-related targets in paragraph 23 are not clearly specified whether they are gross or net basis. In the discussions of the JSDA’s Working Group there was a view that it should be clearly stated that disclosure of emission targets as gross basis is required, as same as the absolute emissions described in paragraph 21(a)(i). There was also a view that if the IFRS S2 takes a stance



Japan Securities Dealers Association

JSDA

2-11-2, Nihombashi, Chuo-ku, TOKYO 103-0027, JAPAN

Phone: +81-3-6665-6764 Fax: +81-3-6665-6808

that does not specify whether the disclosure requirements are gross or net, the IFRS S2 should require entities to attach an Appendix or a note whether the emission target is on a gross or net basis.

(b) Broadly Agree

For further clarification, we would propose modifying the “latest international agreement on climate change” to “latest international agreement on climate change as defined by the United Nations Framework Convention on Climate Change, or other international agreement”. This would then cover cases where there is a separate international agreement, such as the International Maritime Organization (IMO) in the shipping industry.

In addition, it is desirable that “the latest international agreement on climate change as defined by the United Nations Framework Convention on Climate Change, or other international agreement” be clearly indicated in guidelines.



Question 11—Industry-based requirements

(a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

(b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

(c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

(d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?

(f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?

(g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?

(h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?

(j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

(k) Are there any additional industry-based requirements that address climaterelated risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

(l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why

(Comment)

(a) Broadly Disagree

We disagree with the approach to revising the SASB Standards to improve its international applicability. Adopting Revision Approach 1 or Revision Approach 2 as the general rule could place



a heavy burden on the preparers if they were required to prepare two sets of calculations for disclosure, one for the revision approach and one for their local jurisdictions. Accordingly, we believe it would be appropriate to select metrics related to disclosure topics, and allow the definition of metrics to be set according to the situation of each jurisdiction or entity, under the condition of a principle-based approach to clarifying the disclosure objective.

(b) Investment Banking & Brokerage (Appendix B: Volume B18)

- Incorporation of Environmental, Social, and Governance (ESG) factors in Investment Banking & Brokerage Activities (FN-IB-410a.1, FN-IB-410a.2, and FN-IB-410a.3)

- Requiring disclosure of information incorporating ESG factors would deviate from the objective and scope of the IFRS S2. The TCFD recommendations do not require such disclosure.
- “Incorporating of ESG factors” is not only broad and lacking comparability, it also raises the risk of greenwashing. If the definition cannot be clarified, we would propose deleting the description.

- FN-IB-410a. 1

- Revenues from (1) underwriting, (2) advisory and (3) securitization transactions incorporating the integration of ESG factors (Original P175)

The Industry-based disclosure requirements in Appendix B of the IFRS S2 should require disclosure of exposure to the significant climate-related risks and opportunities, which is the objective of the IFRS S2. However, requiring disclosure of information related to “incorporation of ESG factors” would require disclosure beyond the scope of climate change and covering overall sustainability. We believe this does not achieve the objective of disclosure.

Also, the Industry-based requirements in Appendix B of the IFRS S2 request disclosure on revenue, which we do not think is appropriate as a metric to estimate exposure to climate-related risks and opportunities. This is because the amount of revenue makes it impossible to judge the exposure and actual state of corporate activities to significant climate-related risks and opportunities, which may lead to misunderstandings. Instances might occur of transactions with low greenhouse gas emissions and large revenue, or conversely, high greenhouse gas emissions and small revenue.

In addition, investment banks and brokerage are required to disclose revenue, while commercial banks and insurance companies are not. Also, asset management and custody activities are required to disclose the total amount of assets under management (AUM). This inconsistency in disclosure in the financial sector would undermine comparability.

Based on the above, we do not believe that requiring this disclosure metric will lead to the



achievement of the objectives of the IFRS S2, and it is therefore appropriate to remove it from the IFRS S2.

➤ par.1.1

It is not clear what kind of criteria will be used for “screening (exclusionary, inclusionary, or benchmarked)” at the end of the sentence. It also does not seem to guarantee comparability from the users’ point of view.

➤ par.2.3

Regarding data of securitization transactions, from the viewpoint of difficulty in obtaining information (burden of disclosure), it should be clarified that the primary origination is targeted and secondary transactions (such as repackaging) are excluded. We also believe that the IFRS S2 adopts a policy that significant data are selected, aggregated and disclosed in light of the objective of disclosure.

In relation to securitized products, either listed or unlisted securities with a securities code or ISIN code that are to become underlying assets are required to have a common flag indicating if they are ESG-related securities, which is common in the industry and not determined by individual entities (for example, green bonds, etc.).

➤ par.4

We would request to clarify whether the exposure amounts required to be disclosed in par. 4 refer to year-end balances of receivables arising from transactions including the “integration of ESG factors” as of the reporting date. We would also request to clarify why this disclosure requirement uses exposure amounts related to stock even though revenue is required here.

● FN-IB-410a.2

➤ (1) Number and (2) total value of investments and loans incorporating the integration of environmental, social and governance (ESG) factors, by industry (P175)

We do not believe this disclosure metric will lead to the achievement of the objective of the IFRS S2 and, as with the comment on disclosure metric of FN-IB-410a.1 above, we believe it is appropriate to remove it from the IFRS S2.

● FN-IB-410a. 3

➤ Description of the approach to incorporation of environmental, social, and governance (ESG) factors in investment banking and brokerage activities (P175)

Considering the disclosure objective of the IFRS S2, we believe it would be desirable to modify to “Description of approach to incorporation of climate-related risks and opportunities in investment banking and brokerage activities.”



Japan Securities Dealers Association

2-11-2, Nihombashi, Chuo-ku, TOKYO 103-0027, JAPAN
Phone: +81-3-6665-6764 Fax: +81-3-6665-6808

➤ par1.1 and par1.2

While this requirement refers to initiatives related to asset management business by GSIA and PRI, we believe it should also reference taxonomies, other initiatives demonstrated by ICMA and PRB, and similar items.

➤ par. 4.2 and par. 6

Although described in the BC36, since the IFRS S2 is a climate change standard, disclosure requirements about human capital, water resources, and cybersecurity risks are not necessary.

➤ par.5

Since there is no explanation of the disclosure objective, it is difficult to determine ESG trends that are considered to have far-reaching impacts on multiple sectors or industries, as well as trends specific to individual sectors or industries.

In other words, Appendix B does not explain the reason or the objective of the disclosure requirement. As it is, all described content would automatically be taken as mandatory disclosure requirements, and seemingly leave no room for judgment on whether disclosure is appropriate other than materiality. Rather than merely citing the standard, as a set of principle-based standards, we believe the disclosure requirements should provide a clear reason and objective for requiring the disclosure items. Specifically, instead of the wording “shall disclose,” it is desirable to clearly state the disclosure objective for the preparer’s reference.

While we understand that the IFRS S1 requires only material items to be disclosed, we would ask to clarify whether there is any designation for the coverage such as that given in paragraph 5.2 of FN-IB-410a.2 (at least the 10 largest industries by monetary amount or industries representing at least 2% of the overall portfolio exposure).

● Transition risk exposure (FN-IB-1 and FN-IB-2)

As stated in the answer to Question 11(d), we disagree with the disclosure requirements because the calculation criteria for “facilitated emissions” are under the global discussion, and because it is difficult to calculate greenhouse gas emissions (Scope 1, Scope 2, and Scope 3) for each business line.

● FN-IB-000. C (page 175 of the original document)

Regarding “market making transactions” in Activity Metrics, we believe there are practical limitations to the aggregation of contracted transactions. Further, this item cannot be regarded as sustainability data, and it is unlikely to contribute to the enhancement of disclosure from an ESG perspective.

(c) Broadly Agree

(d) Investment Banking & Brokerage (Appendix B: Volume B18)

While we recognize that investor demand (including public initiatives) for disclosure on Scope 3 emissions by financial institutions is increasing, we do not agree with the proposed disclosure because the calculation criteria for “facilitated emissions” are still under discussion in the Global GHG Accounting & Reporting Standards for the Financial Industry (PCAF Standards) published by the Partnership for Carbon Accounting Financials (PCAF). It is therefore problematic to calculate greenhouse gas emissions for each business line (scope 1, scope 2, and scope 3).

A sufficient preparation period should be set, taking it into due consideration that the calculation method for “financing emissions” is not necessarily clear.

(f) Broadly Agree

(g) Broadly Agree

(h) Broadly Disagree

We could agree with this requirement only in the case that, for consistent and comparable disclosures, the calculation is based on the calculation methods set by the PCAF Standards published by the Partnership for Carbon Accounting Financials (PCAF). Otherwise, we disagree the requirement because it should be clearly stated that disclosure should be based on PCAF Standards by incorporating or referring to them.

(j) Broadly Agree

As climate-related risks tend to vary by industry, we agree with the establishment of the industry-based disclosure requirements. We also agree with the use of the SASB Standards as a starting point. On the other hand, it will require extensive global discussions to finalize the industry-based disclosure requirements because the industry classification, disclosure topics and indicators of the SASB Standards do not apply to the situation of the country/jurisdiction and the nature of an entity’s business.

The IFRS S2 also includes disclosure requirements relating to non-climate-related environmental issues (such as water resources), which are particularly prevalent in industry-based disclosure requirements. While we understand that climate-related risks are associated with various non-climate-related risks, there is a risk of overlap as standards are developed in the



Japan Securities Dealers Association

JSDA

2-11-2, Nihombashi, Chuo-ku, TOKYO 103-0027, JAPAN
Phone: +81-3-6665-6764 Fax: +81-3-6665-6808

future. The IFRS S2 should focus on global penetration of high-quality climate-related disclosures and be limited to climate-related topics.

In addition, we believe that it will be necessary to revisit how to review them in the future as guidance on industry selection for diversified entities is added, and the relevance of disclosure topics and metrics may change as time goes by.

(k) No

(l) Yes

We believe that the Sustainable Industry Classification System (SICS) developed by the SASB was developed based on the U.S. industry and not based on a global consensus. Therefore, we believe it is necessary to reexamine the system based on the SASB Standards and globally available industry classifications, and to develop clear guidance for each country or jurisdiction so as not to lose track of industry classification decisions.

Question 13—Verifiability and enforceability

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

(Comment)

The IFRS S2 requires many disclosures on estimates, forward-looking information, Scope 3 emissions, and other data which are difficult to audit and guarantee. In order to realize reliable disclosure, we believe that discussions of the establishment of safe harbors for false statements of estimates and forward-looking information (legal liability) are necessary. The ISSB should consider the disclosure systems of each jurisdiction and develop the IFRS Sustainability Disclosure Standards in cooperation with regulatory authorities in order to ensure the entities can disclose information in accordance with the disclosure systems of each jurisdiction.



Question 14—Effective date

(a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information? Why?

(c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

(Comment)

(a) The same as

Application of the IFRS S2 will be based on the objective and “general characteristics” (e.g., materiality, reporting entity, reporting frequency) specified in the IFRS S1. Since the IFRS S1 and the IFRS S2 are interrelated, simultaneous implementation is essential.

(c) Broadly Agree

Since “governance” and “risk management” are disclosure requirements that are relatively advanced due to the penetration of the TCFD recommendations, we believe that they can be applied ahead of time.

Question 16—Global baseline

IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

(Comment)

We agree with the development of standards based on the concept of the "global baseline" presented by the IFRS Foundation. However, we believe the following five issues need to be addressed for IFRS Sustainability Disclosure Standards to be widely and globally accepted.

(1) Principles-based standards

If the IFRS Sustainability Disclosure Standards are intended to be globally applied like the IFRS Accounting Standards, the objective of a principle-based approach should be clearly stated at the beginning of the IFRS S1 and the IFRS S2. Also, following the principle-based approach, the standards should keep the wording of disclosure requirement at the necessary minimum so as to allow entities flexibility to apply their judgment to their disclosures. This follows the "building-block approach" where standards outline the minimum disclosure requirements of IOSCO member jurisdictions and are designed to be added to jurisdiction-specific disclosure requirements. We believe allowing flexibility and making the standards acceptable in many jurisdictions is appropriate. While the standards should take the principle-based approach, we believe it is essential to provide further details for the guidance, similar to the TCFD recommendations, to facilitate acceptance by many jurisdictions and improve the quality of disclosure.

(2) Amendment to Disclosure Requirements

Under the "building-block approach," in order to be accepted by many jurisdictions as the minimum disclosure requirements of local standards in IOSCO member jurisdictions, it is necessary to modify the disclosure requirements as stated in our responses to the questions of "identification of climate-related risks and opportunities" (Question 3), "cross-industry metric categories and greenhouse gas emissions" (Question 9), and "industry-based requirements" (Question 11), there are some items that require modifications to disclosure requirements in order to be accepted by many jurisdictions as minimum disclosure requirements of local standards in each IOSCO member countries.

(3) Grace period (or phased application)

We believe that it is appropriate to have a grace period concerning new disclosure requirements for the preparers, and to allow the provision of disclosures in a phased manner. Please refer to our responses to the following questions: "concentrations of climate-related risks and opportunities in an entity's value chain (Question 4); "transition plans and carbon offsets" (Question 5); "current and anticipated effects" (Question 6); "climate resilience" (Question 7); and "cross-industry metric categories and greenhouse gas emissions" (Question 9).

It should be noted that the finalization of the industry-based requirements of the IFRS S2 will require extensive global discussions.

(4) Clarification of entities subject to application

The IASB was aware of the issues of the standards for small and medium-sized entities (hereinafter, "SMEs") when it was established in 2000. For the standards developed by the ISSB to



Japan Securities Dealers Association

JSDA

2-11-2, Nihombashi, Chuo-ku, TOKYO 103-0027, JAPAN
Phone: +81-3-6665-6764 Fax: +81-3-6665-6808

become widely and globally accepted as the "global baseline", we believe that it is necessary to clarify the scope of entities subject to the standards (such as developing standards that are separate from those for SMEs). Specifically, as the IFRS for SMEs Accounting Standard define SMEs as "entities that publish general purpose financial statements for external users and do not have public accountability", it should clarify that non-SMEs are subject to the IFRS S1 and the IFRS S2 by expressly stating that SMEs are not subject to the IFRS S1 and the IFRS S2.

(5) Establishment of safe harbors and audit and assurance systems regarding false statements (legal liability)

Realizing reliable information disclosure will require the establishment of safe harbors relating to false statements of estimates, forward-looking information, and Scope 3 emissions, and other data (legal liability) as well as more discussions on the establishment of audit and assurance systems. The ISSB should consider the disclosure systems of each jurisdiction and develop the IFRS Sustainability Disclosure Standards in cooperation with regulatory authorities in order to ensure the entities can disclose information in accordance with the disclosure systems of each jurisdiction.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'H. Hishikawa', written in a cursive style.

HISHIKAWA Isao

Director, Chief Officer for International Affairs & Research
Japan Securities Dealers Association