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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 S1, "General Requirements for Disclosure of Sustainability-related Financial Information"

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.

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*(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

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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,

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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.

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- 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

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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 S1, please refer to the following comments.

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Question 1—Overall approach (a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer? (b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not? (c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?

(Comment)

(a) Broadly Disagree

Since "significant" is not clearly defined in the body of the standard, we believe that the standard does not clearly stipulate identifying and disclosing material information about all of the sustainability-related risks and opportunities even if such information is not addressed by a specific IFRS Sustainability Disclosure Standard.

(b) Broadly Disagree

The disclosure requirements in the IFRS S1 do not fully meet the disclosure objective set out in paragraph 1. We believe that the following two issues need to be addressed.

First, to achieve the objective of paragraph 1, the IFRS S1 should be a principle-based standard, as is the case with IFRS Accounting Standards, and thus provide only the minimum necessary wording, such as the specific disclosure objective, requirements based on such objective, and explanations of the backgrounds for such requirements. This enables preparers to appropriately judge for themselves what to disclose considering the disclosure objective, even if there are no detailed provisions in the standard or there are no relevant standards other than the IFRS S1.

Second, 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. 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.

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As for the definition and positioning of "significant" and "material", a discussion was held over the Discussion Paper on Business Combinations at the IASB Board Meeting in April 2022. The members pointed out that the scope of the disclosure should be limited to "significant" business combinations, which is narrower than "material" business combinations. The positioning of the two wordings is different from that in the ISSB Exposure Draft. Therefore, as with the definition of "material" referring to the IAS 1, we believe it is necessary for the IASB and ISSB to collaborate to clarify the definition of the two wordings and set a consistent standard.

(c) Broadly Agree

It is generally clear how the requirements of the IFRS S1 would be applied together with other IFRS Sustainability Disclosure Standards, including the IFRS S2. However, the following three issues need to be addressed.

First, concerning the requirement to disclose only material information, we believe it is appropriate to clearly state this requirement in each item of the other IFRS Sustainability Disclosure Standards. As proposed in paragraph 60 of the IFRS S1, an entity need not provide a specific disclosure when the information is not material. We assume this would also apply to other standards, but each disclosure requirement of other IFRS Sustainability Disclosure Standards contains descriptions that may lead to confusion in the interpretation and judgment.

Second, it would be easier to understand if the "General Features" of the IFRS S1 are specified first, followed by the four sections of "Core Content" because this order makes the common items clearer.

Third, some disclosure requirements of the IFRS S1 overlap the IFRS S2. To improve understandability, if there is an overlap between the IFRS S1 and other IFRS Sustainability Disclosure Standards, it is appropriate to take an approach in which the other IFRS Sustainability Disclosure Standards specify additional disclosure requirements while referring to the relevant provisions of the IFRS S1 or specifying the necessary replacement of some wording used in the IFRS S1 (i.e. replacing "sustainability" in paragraph ● of the IFRS S1 with "climate-related" in the IFRS S2). Specifically, concerning "Objective", it is difficult to understand the relationship between the terms as used in the IFRS S1 and the IFRS S2 and the intent of the difference in their wordings. Also, to the difference in meaning of "Core Content" in the IFRS S1 and S2 seems limited to the use of the words "sustainability" and "climate-related". These are necessary to be reviewed.

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Question 2—Objective
(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?
(b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

(Comment)

(a) Broadly Agree

The disclosure objective of disclosing sustainability-related financial information, which is to disclose information useful to assess an entity's enterprise value, is clear except for the following two points.

First, the draft should clarify that the sustainability-related financial information supplements and complements the information contained in the entity's financial statements (the BC6 and 14) and that a combination of both will achieve the objective of sustainability-related financial disclosures.

Second, as answered to Question 1, 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. 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.

As for the definition and positioning of "significant" and "material", a discussion was held over the Discussion Paper on Business Combinations at the IASB Board Meeting in April 2022. The members pointed out that the scope of the disclosure should be limited to "significant" business combinations, which is narrower than "material" business combinations. The positioning of the two wordings is different from that in the ISSB Exposure Draft. Therefore, as with the definition of "material" referring to the IAS 1, we believe it is necessary for the IASB and ISSB to collaborate to clarify the definition of the two wordings and set a consistent standard.

(b) Broadly Disagree

The definition of "sustainability-related financial information" is not clear, and the following two issues need to be addressed.

First, defining a "complete", "neutral", and "accurate" depiction of sustainability-related financial information is necessary for paragraph 3. In addition, although Appendix C, "Qualitative characteristics of useful sustainability-related financial information", seems to adopt the concepts of the Conceptual Framework for Financing Reporting issued by the IASB, it is also necessary to clarify the relationship between paragraph 3 and Appendix C.

Second, the BC28 explains that the definition of sustainability-related financial information is deliberately set to be broad because what entities should include in their sustainability-related financial disclosures could change over time, which is understandable. However, while the "General Requirements for Disclosure of Sustainability-related Financial Information Prototype" (hereinafter, the "Prototype") made by the Technical Readiness Working Group provides examples of "sustainability-related financial information", those examples have been removed from the IFRS S1. We believe such clarification as providing examples in the guidance is necessary to improve its understandability.

Question 4—Core content (a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not? (b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

(Comment)

(a) Broadly Agree

The disclosure objectives are based on the TCFD recommendations, which are widely and globally accepted, and we believe that the objectives are clearly and appropriately defined. However, since it is uncertain whether the four core contents will apply to all other IFRS Sustainability Disclosure Standards that will be developed in the future, we propose to add a description of some sort of reservation.

(b) Broadly Disagree

The disclosure requirements of the core content cannot be said to satisfy the disclosure objectives, and the following five issues need to be addressed.

First, to achieve the disclosure objectives, the IFRS S1 should be a principle-based standard, as is the case with IFRS Accounting Standards, and thus provide only the minimum necessary wording, such as the specific disclosure objective, requirements based on such objective, and explanations of the backgrounds for such requirements. This enables preparers to appropriately

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judge for themselves what to disclose considering the disclosure objective, even if there are no detailed provisions in the standard or there are no relevant standards other than the IFRS S1.

Second, we believe defining "significant" and clarifying the difference between "significant" and "material" are necessary. Although the BC40 defines "significant risks" as those that an entity prioritizes for management responses, this term should be defined in the body of the standard to ensure a consistent interpretation. Also, since the term "significant opportunities" is not necessarily clearly defined in the BC40, the term should also be defined in the body of the standard.

Third, paragraph 28 states that metrics shall include "metrics identified from the other sources identified in paragraph 54", and paragraph 54 states that management "shall consider" guidance and other relevant publications, such as the disclosure topics included in the SASB Standards and the CDSB Framework application guidance. Considering a disclosure burden on entities, we believe that "shall consider" should be modified to "may/can consider", and these guidances should be positioned as examples based on the principle-based approach.

Fourth, whereas the "risk management" section proposes to include "opportunities" in the disclosure requirements, the TCFD recommendations for climate-related disclosure target only risks. We assume that, depending on each entity's situation, they are still in the stage of preparing to meet the requirements. Therefore, it would be appropriate to make assessing "opportunities" not mandatory but optional by stipulating that entities "may/can disclose" at their discretion.

Fifth, concerning the restatement of comparative figures in the case of redefining metrics and targets in paragraph 34 (c), the period to cover should be specified.

Question 5—Reporting entity

(a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

(b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

(Comment)

(a) Broadly Agree

We agree with providing sustainability-related financial information on the same reporting entity as the entity of the related financial statements.

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(b) Broadly Disagree

Disclosure requirements on an entity's value chain are not clearly and consistently applicable, and the following three issues need to be addressed.

First, since the value chain is a different measurement target from the reporting entity and the scope of its value chain is wider than that of the reporting entity, it is confusing to have provisions of a reporting entity and its value chain in the same section. In order to clarify the difference between the reporting entity and the value chain, we propose to add a new section of the value chain before paragraph 40.

Second, paragraph 40, Appendix A, and the BC51 provide explanations with examples of the value chain, which are more extensive than the Prototype. However, it is still difficult to determine how to judge the scope of its coverage. We believe that guidance per each industry is necessary as a global common standard to ensure that judgments in practice will not become inconsistent. Furthermore, the judgment of the value chain's "materiality" should be also explained in the guidance because this is particularly complex in terms of time horizons, probability of occurrence, and limitation of the reporting entity's control. This should be also explained in the guidance. Without sufficient explanation, comparability may not be ensured in practice.

Third, there may be cases in which disclosure of information on business partners is difficult to disclose due to confidentiality agreements or confidential information. Therefore, we believe it is necessary to stipulate that an entity "may/can disclose" the information depending on the entity's circumstances.

In addition to the above improvements, considering the disclosure burden on preparers, we believe that disclosure requirements on the value chain should be provided with a grace period (or phased application).

(c) Broadly Agree

We understand that paragraph 38 seeks to identify the financial statements of the reporting entity (parent entity and its subsidiaries) concerning the same reporting term as financial statements are to be complemented by sustainability-related financial statements.

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> Question 6—Connected information
> (a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?
> (b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

(Comment)

(a) Broadly Agree

We agree with the need for connectivity. The IFRS S1 and the BC provide explanations with examples, which are more extensive than the Prototype. However, we believe further improvement is necessary by providing more examples so that the judgments of the entities will not become inconsistent.

(b) Broadly Agree

We agree with the disclosure requirements for connected information. To achieve high-quality disclosure, we believe it is essential to improve guidance and include extensive examples of various environmental and social issues.

> Question 7—Fair presentation
> (a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?
> (b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

(Comment)

(a) Broadly Disagree

The proposal to present fairly the sustainability-related risks and opportunities is clear except for the following four points.

Process for identifying the sustainability-related risks and opportunities

First, concerning the guidance and other relevant publications such as the disclosure topics in the SASB Standards and the CDSB Framework application guidance in paragraph 51, the IFRS S1 should respect entities' judgments by modifying “management shall consider" to "management

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may/can consider", and positioning the guidance and other relevant publications as examples based on the principle-based approach. We believe that such alteration will make it possible to reduce an excessive disclosure burden on the entities.

Since 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", these guidances should be clearly positioned as examples and stated in the body of the standard.

Second, 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 Standards). This requirement on the identified disclosure topics should be modified from "shall refer" to "may/can refer" for the following 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 till Appendix B of the IFRS S2 is established.

Third, 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".

<u>Clarification of "significant"</u>

Fourth, concerning "significant sustainability-related risks and opportunities", "significant" is not defined and the difference between "significant" and "material" is not clarified, which may lead to inconsistency in the interpretation of disclosure requirements.

The definition of "significant risks", which is defined in the BC40, should be clarified in the body of the standard, and the process for identifying "significant sustainability-related risks and opportunities" should be specified. Likewise, since "significant opportunities" is not clearly defined in the BC40, this term should also be defined in the body of the standard.

<u>(b) Broadly Agree</u>

We agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures. However, a part of the description in paragraph 54 overlaps with that in paragraph 51, and this part needs to be improved.

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Question 8—Materiality (a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not? (b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not? (c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why? (d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

(Comment)

(a) Broadly Agree

The definition of "materiality", which is based on IAS 1, is clear, and the "Illustrative Guidance" has given additional explanations on implementing judgments. However, the following two issues need to be addressed so that the judgments of the entities will not become inconsistent.

First, although the BC72 explains points to consider when making materiality judgments, it should be systematically clarified in the body of the standard or "Illustrative Guidance" as it serves as a reference for entities to make the judgments.

Second, as explained in Question 5, more explanation should be provided for the judgment of the value chain's "materiality," which is a crucial concept in sustainability-related financial disclosures. The judgment of the value chain's "materiality" should also be explained in the guidance because this is particularly complex in terms of time horizon, probability of occurrence, and limitation of the reporting entity's control. Without guidance on the judgments, comparability may not be ensured in practice.

(b) Broadly Agree

We believe that the concept of "dynamic materiality" (the BC 76), which takes into account changes over time, is appropriate and that the definition and application of materiality captures the breadth of sustainability-related risks and opportunities associated with enterprise value, including over time. Under the IFRS S1, the materiality judgments will be reviewed at each reporting date to reflect changes of each reporting period.

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

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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.

(c) Broadly Agree

The Illustrative Guidance specifies the judgment process of materiality and provides useful information. However, the following two issues need to be addressed.

First, although the Illustrative Guidance IG6 states "by its nature, some information required by IFRS Sustainability Disclosure Standards is likely to be material because of the presence of a qualitative factor", "its nature" is not clearly defined. What "its nature" refers to should be clearly explained in order to clarify for the entities how to apply the process.

Second, we believe it is necessary to enrich the content further, such as providing additional examples of the process of implementing judgments so that the judgments of the entities will not become inconsistent.

(d) Broadly Agree

We agree with the relief in paragraph 62 for the instance of local laws or regulations prohibiting the entity from disclosing the information. However, the following two issues need to be addressed.

First, in addition "local laws and regulations," we believe that the provision should include the case of confidentiality agreements entered into by entities because a breach of an agreement could lead to a counterparty claiming damages, which could damage the enterprise value.

Second, the provision states that if an entity omits material information, it shall identify the information and explain the source of the restriction. However, it is necessary to clearly explain to what extent an entity needs to describe the "source" (for example, whether simply stating the name of the law is sufficient) by guidance or other types of publications. We also believe an entity should not be required to disclose a "source" if it entails revealing confidential information. So, adding a provision for exempting entities from disclosing the source in such a case should be considered. In Japan, there are cases where industry-specific laws and regulations impose confidentiality obligations.

In addition to the above improvements, the JSDA's Working group discussed whether to disclose material information that is an entity's most important confidential information in terms of competition, such as R&D and capital investment. Not a few members pointed out that it was inappropriate to require disclosure of such information because such disclosure could damage the

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enterprise value. At the same time, some participants in the JSDA's Working Group's discussions cautioned that the provision should not unlimitedly extend the scope of the relief on confidential information. We believe that the ISSB needs to deliberate on this issue as well.

Question 9—Frequency of reporting
Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

(Comment)

Broadly Disagree

Disclosure Requirements Issues

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 example, in Japan, financial statements are disclosed as securities reports under the Financial Instruments and Exchange Act (statutory disclosure). However, integrated reports and sustainability reports (voluntary disclosure) are often made several months after the submission date of the securities report.

Requiring disclosure of sustainability-related information at the same time as financial statements (securities reports) would considerably increase the practical burden on the entities, while some data may also not be available at that time. In addition, requiring a revision of the Financial Instruments and Exchange Act to align the reporting period of financial statements (securities reports) with that of integrated reports, etc., would also be unrealistic, as it would impair the timeliness of the information. We also must note that this requirement is inconsistent with ISSB's assumption that it is not to exert any influence on local laws and regulations (the BC16).

There are views that the sustainability reporting on which an entity spends considerable time to make and focuses on corporate structural changes and medium - to long-term strategies is likely of great use for users. Given the current practice, simultaneous reporting may lead to a deterioration in the quality of sustainability-related financial information.

Proposals for amendments to disclosure requirements

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.

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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.

Question 10—Location of information
(a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?
(b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?
(c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross referenced? Why or why not?
(d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

(Comment)

(a) Broadly Agree

We agree with providing sustainability-related financial disclosures as part of the general purpose financial reporting. However, as the location of sustainability-related financial disclosures will depend on the requirement of the regulatory authorities of each jurisdiction, we believe that, rather than providing details in the IFRS S1, it is sufficient to allow that to be left to the regulations of each jurisdiction. We suggest that this point be clearly stated in the standard.

(b) Yes

Reference documents could include integrated reports and sustainability reports. Yet, as we answered in Question 9, it is not practically feasible to issue these disclosure documents covering the same period at the same time as or before the annual statutory disclosure documents (securities reports). To align the reporting period of financial statements with the reporting period of sustainability-related financial information, it would be necessary to amend the Financial Instruments and Exchange Act, which is inconsistent with the ISSB's assumption that it is not to

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exert any influence on local laws and regulations (the BC16).

(c) Broadly Disagree

While we agree with the concept of cross-referencing, we disagree with this proposal because the following three issues need to be addressed.

First, reference documents could include integrated reports and sustainability reports. Yet, it is not practically feasible to issue these disclosure documents covering the same period at the same time as or before the annual statutory disclosure documents. Thus, we propose to specify in the IFRS S1 that "at the same time" (paragraph 75) is expected in principle, but whether to disclose at the same time should be left to the requirement of the regulatory authority.

Second, although "on the same terms" (paragraph 75) needs to be clarified, we believe that the details of the terms should be left to the requirement of the regulatory authority.

Third, while material information should be disclosed in general-purpose financial reports, to prevent excessive cross-references it is necessary to specify (1) the characteristics that cross-references should have and (2) the expected requirements for reference documents. BC 81 states that cross-references should be permitted as long as they do not reduce the clarity of the reporting, and this should be specified in the body of the standard to help preparers and users to understand better.

In addition to the above improvements, it is necessary to have a grace period (or phased application) because this is a new disclosure requirement in practice.

(d) Broadly Agree

We agree with encouraging entities to prepare integrated disclosures. As other IFRS Sustainability Disclosure Standards are expected to be developed in the future, it is necessary not only to avoid unnecessary duplication but also to enhance guidance to promote integrated disclosure.

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors
(b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

(Comment)

(b) Broadly Disagree

Whereas the BC 82 states that all changes in estimate and corrections of errors in previously reported metrics and targets would be corrected by restating any comparative information presented, the BC 83 indicates that changes in estimates in financial statements would not be corrected by restating, and such changes are recognized prospectively—that is, in the period of the

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change. From the perspective of consistency between financial information and sustainability-related financial information, they should be treated in the same way as accounting standards.

In addition, forward-looking information is expected to improve year by year in terms of measurement scope and accuracy. It would impose a heavy disclosure burden on entities to require the restatement of comparative information of metrics every time a change in estimate occurs. Thus, we believe it is appropriate to require the same treatment as that for financial statements from the practical perspective of preparers.

Question 12—Statement of compliance

The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements. The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

(Comment)

Broadly Agree

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

First, consistent with "local laws and regulations" in paragraph 62, the body of the standard should clearly state that disclosure information relating to contents of confidentiality agreements is not required (see the answer to Question 8 (d)).

Second, for the sake of clarity, it should be clearly stated in the body of the standard that the standard also allows the following reliefs.

- Permission to disclose information regarding a different period from that of the financial statements (see the answer to Question 9)
- The BC 68
  The BC 68 stipulates 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.
- The BC 85

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The BC 85 states, “an entity might not be managing some of its significant risks and opportunities or established metrics and targets for them. The entity could still assert compliance with IFRS Sustainability Disclosure Standards as long as its disclosures explain that fact” and “the entity would need to meet the specific disclosure requirements such as Scope 1 greenhouse gas emissions proposed in the IFRS S2”. Although we assume that “some of the significant risks and opportunities or the indicators and targets set for them” refers to fields for which the ISSB has not yet developed relevant standards, what is allowed by this provision is not clear. If an entity can assert its compliance by disclosing the fact of not managing, it is necessary to describe the details about the statement of compliance by clarifying such targeted disclosure requirements and making entities to disclose in this manner.
Also, it is necessary to clarify the description of not be managing “established metrics and targets” refers to the case where targets are not established or the case where progress toward established targets is not managed.

In the discussions of 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 IFRS Sustainability Disclosure Standard the "global baseline" in many jurisdictions.

Question 13—Effective date (b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

(Comment)

(b) Broadly Agree

We believe the options would be to delay the effective date by one year in order to require comparative information or move up the effective date without requiring the disclosure of comparatives information. From the perspective of users, we believe that the advantage of being able to compare entities earlier outweighs the disadvantage of not being able to make historical comparisons in the first year of application.

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Question 14—Global baseline 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) 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 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) 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 disclosure requirements as stated in our responses to the questions of "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).

(3) Grace period (or phased application)

We believe that it is appropriate to have a grace period concerning the disclosure requirements (Question 5) related to the value chain, which is a new disclosure requirement for the preparers, and to allow the provision of disclosures in a phased manner. In addition, if the effective date of

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the "strategy" and "metrics and targets" of the Core Content is postponed in the IFRS S2, accordingly the same revision in the IFRS S1 will also be necessary.

(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 ISSB to become 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 and forward-looking information (legal liability) and 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,

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