

## **Comments on the ISSB’s Request for Information Consultation on Agenda Priorities**

This document represents the response of the Financial Services Agency of Japan (‘the FSA’ or ‘We’) to the ISSB’s Request for Information Consultation on Agenda Priorities (‘the RFI’).

We congratulate the ISSB on the finalisation of the IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* in June 2023. As these standards are finalized, we think that the ISSB’s work plan for the next two years will be particularly important to maintain the momentum for developing and implementing standards for globally consistent, comparable, and reliable sustainability disclosure.

We think that various activities of the ISSB described in the RFI, such as (i) beginning new research and standard-setting projects; (ii) supporting the implementation of the ISSB Standards IFRS S1 and IFRS S2; (iii) researching targeted enhancements to the ISSB Standards; and (iv) enhancing the Sustainability Accounting Standards Board (SASB) Standards, are all important, though the degree of their importance at the current juncture may vary. We also understand that the potential new research and standard-setting projects proposed in the RFI, such as “biodiversity, ecosystems and ecosystem services”, “human capital”, “human rights” and “integration in reporting” cover the topics that global investors place relevance.

On this basis, and considering the ISSB’s limited resources available, we believe that starting a human capital project should be prioritized in the ISSB’s work plan for the next two years. We think that various activities undertaken by the ISSB would benefit from this new project, for the following reasons:

First, enhancing human capital disclosure would meet high market demand for information on human capital management. Investors have strong interest in such information because human capital is fundamental to long-term value creation of companies. This need is especially acute in the context of a rapidly changing business environment faced by companies in both developed and developing economies, such as digitalisation and de-carbonisation. To assess the corporate value of the company in the long run, investors expect management to disclose and explain the company’s human capital management strategies to see if its human capital management strategy can adapt to changes in the business environment and its human resource is well aligned with the strategy. Investors increasingly recognize that human capital is often the most important capital for the agility and resilience of companies.

Second, advancing human capital disclosure would contribute to supporting the implementation of IFRS S1 and IFRS S2. We fully agree that effective implementation of the finalized ISSB

standards is an issue of global importance. In this context, developing or strengthening human resources with climate-related specialized knowledge is crucial for companies which regard climate change as a critical strategic matter. We therefore believe that information on the human capital management strategy in this area and its progress, such as training programs for upskilling or reskilling workforce, would be increasingly considered to be material information for investors. A company's actions to address sustainability issues are premised on the human capital with the knowledge necessary to take such actions. Such human capital enables the company to manage sustainability-related risks and create and/or maintain corporate value in relation to sustainability issues. Enhanced human capital disclosure would thus lead to treating expenditures for human resources properly as strategic investment leading to corporate value creation, rather than mere costs on income statements, in the disclosure framework. It would also strengthen the effectiveness of education and awareness-building to “support the provision of high-quality disclosure under the ISSB Standards” or of “guidance and materials” to support implementation of IFRS S1 and IFRS S2.

Third, embarking on a human capital project would play an important part in making the ISSB Standards “climate-first, but not climate only” sustainability disclosure standards, as human capital relates to S (Social) and G (Governance) areas in ESG disclosure.

Furthermore, by working on the human capital project, the IFRS Foundation would be able to make effective use of the organization's human resources and expertise, because human capital was considered by the former standard-setting initiatives, such as IIRC or SASB. For example, by examining the concepts of “human capital” and “value creation” in the Integrated Reporting Framework as part of the human capital project, the IFRS Foundation would be able to utilize insights of IIRC’s Integrated Reporting Framework. A consideration of disclosure requirement in relation to value creation in the context of the specific sustainability topic of human capital would contribute to the “integration in reporting” project in the future.

Please see below for specific responses on each question. Please feel free to contact us if you have any questions. Finally, let me assure you that the FSA continues to commit to contribute to the work of the ISSB in various ways, including through the Jurisdictional Working Group.

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### Question 1— Strategic direction and balance of the ISSB’s activities

Paragraphs 18–22 and Table 1 provide an overview of activities within the scope of the ISSB’s work.

- (a) From highest to lowest priority, how would you rank the following activities?
- (i) beginning new research and standard-setting projects
  - (ii) supporting the implementation of ISSB Standards IFRS S1 and IFRS S2
  - (iii) researching targeted enhancements to the ISSB Standards
  - (iv) enhancing the Sustainability Accounting Standards Board (SASB) Standards
- (b) Please explain the reasons for your ranking order and specify the types of work the ISSB should prioritise within each activity.

(a) We think that these are all important activities for the ISSB, although the degree of importance may vary. Considering the overall benefits to the ISSB’s various activities, we would suggest that the ISSB prioritize “(i) beginning new research and standard-setting projects” and “human capital” as the topic of the new project.

#### **Importance of human capital as a sustainability disclosure topic**

Enhancing human capital disclosure would meet high market demand for information on human capital management. Investors have strong interest in such information because human capital is fundamental to long-term value creation of companies. This need is especially acute in the context of a rapidly changing business environment faced by companies in both developed and developing economies, such as digitalisation and de-carbonisation. To assess the corporate value of the company in the long run, investors expect management to disclose and explain the company’s human capital management strategies to see if its human capital management strategy can adapt to changes in the business environment and its human resources is well aligned with the strategy. Investors increasingly recognize that human capital is often the most important capital for the agility and resilience of companies.

It would be beneficial for the ISSB to work on the human capital project before working on other sustainability topics. In both developed and developing countries, companies are addressing a range of sustainability issues, including “biodiversity, ecosystems and ecosystem services”, as well as “climate change.” While the significance of individual sustainability topics varies from company to company, whether or not a company has in place human resources with specialized knowledge relevant to the sustainability issues it faces is seen as material in relation

to the company's long-term value creation and risk management. Accordingly, investors are expected to demand information on companies' human capital management strategies and responses to the sustainability issues that are significant to their businesses.

### **The importance of engaging in human capital projects at the time the IFRS S1 and IFRS S2 are implemented**

Advancing human capital disclosure would contribute to supporting the implementation of IFRS S1 and IFRS S2. We fully agree that effective implementation of the finalized ISSB standards is an issue of global importance. In this context, developing or strengthening human resources with climate-related specialized knowledge is crucial for companies which regard climate change as a critical strategic matter. We therefore believe that information on the human capital management strategy in this area and its progress, such as training programs for upskilling or reskilling workforce, would be increasingly considered to be material information for investors. A company's actions to address sustainability issues are premised on the human capital with the knowledge necessary to take such actions. Such human capital enables the company to manage sustainability-related risks and create and/or maintain corporate value in relation to sustainability issues. Enhanced human capital disclosure would thus lead to treating expenditures for human resources properly as strategic investment leading to corporate value creation, rather than mere costs on income statements, in the disclosure framework.

The development of human resources with expertise in climate-related issues would include the development of human resources that are involved directly and indirectly in climate-related disclosure. It is unlikely that the corporate reporting department of a company can prepare climate-related disclosure by itself. In order to prepare climate-related disclosure in accordance with the IFRS S2, data needs to be collected not only from within the group companies but also from value chains outside of the group companies. Climate literacy may need to be developed not only at corporate reporting department, but also among wider personnel. Accordingly, education and training at companies on climate-related disclosure would be important for the successful implementation of the IFRS S1 and IFRS S2. The RFI indicates that, as part of the "supporting the implementation of the ISSB Standards IFRS S1 and IFRS S2," the ISSB will "develop or strengthen guidance and materials" and "deliver education and build awareness to support the provision of high-quality disclosure under the ISSB Standards." Although these initiatives would of course be important, the ISSB's objectives will not be achieved unless the deliverables of these initiatives are used by companies. By enhancing transparency regarding companies' human resource management strategies, including related to climate change, enhanced human capital disclosure would contribute to promoting effective implementation of IFRS S1 and IFRS S2.

Advancing the human capital project would also contribute to enhancing the disclosure of information investors need in relation to “just transition” to a lower-carbon economy. Transitioning to a low GHG-emission business is a significant challenge faced by many companies. Investors need to understand whether the company is able to achieve the transition in an orderly manner, as it would help to maintain its corporate value. In this context, investors would have strong interest in companies’ strategies for re-skilling of the workforce—given the global shortage of human resources with specialized knowledge on climate-related issues, many companies cannot rely fully on external hiring and would need to develop substantial part of human resources with such expertise in-house. Enhanced disclosure on workforce investment could thus contribute to mitigating the disruptive impact of climate transition on employment.

In this connection, the agenda paper for the July 2023 ISSB meeting indicated that the ISSB would develop the educational material that explains and illustrates how particular existing requirements in IFRS S2 might be applied for companies to disclose information on “Just transition.” On this point, the ISSB may wish to listen carefully to stakeholders’ views on whether enhancing the application of IFRS S2 by developing non-binding educational material is an appropriate way to enhance the disclosure of such information. It could be argued that, if the ISSB to require or enhance disclosure of such information, it should go through the ordinary process of standard-setting projects, including public consultation. If that is the case, we believe that advancing the human capital project would be beneficial, as discussed above.

### **The importance of human capital in making the ISSB Standards “climate first, but not climate only” sustainability disclosure standards**

By embarking on a project on human capital, the ISSB could demonstrate that it is taking steady steps to make the ISSB standards cover a broad range of sustainability issues beyond climate, including environment, social, and governance (ESG).

The RFI states that “We also reflect on our mission to issue ISSB Standards that address ‘climate first, but not climate only.’”

Disclosure on human capital is considered to cover that on both employees and governance bodies (including the board of directors). Disclosure of information on employees is considered to be S (social) related disclosure. On the other hand, disclosure of information on governance bodies is considered to be G (governance) related disclosure.

In this connection, disclosure on human capital could contribute to globally consistent disclosure on corporate governance. Disclosure on governance bodies may include disclosure on the diversity and capabilities of the Board of Directors, which overlaps with disclosure on

corporate governance. The importance of disclosure on corporate governance is widely recognized by investors from the standpoint of contribution to long term value creation.

Accordingly, a human capital project would play an important part in making the ISSB Standards “climate-first, but not climate only” sustainability disclosure standards.

### **The importance of the human capital project in making effective use of the resources and expertise of the IFRS Foundation**

By working on a human capital project, we believe that the IFRS Foundation would be able to make effective use of the organization’s human resources and expertise.

- *Utilizing the knowledge accumulated in the former IIRC:* this would be achieved through an examination of the concepts of “human capital” and “value creation” in the Integrated Reporting Framework (discussed below).
- *Enhancing the SASB standards:* there is a view that consideration of concrete objectives of disclosure is necessary to improve SASB standards. In that case, an enhancement of the SASB standards would need to be built on standard-setting projects of specific sustainability topics. As human capital is a pervasive topic relating to (almost) all 77 industries in the SASB standards, the standard setting project of human capital, which includes consideration of the objectives of disclosure on human capital, would contribute to the enhancement of SASB standards in the future.
- *Leveraging the insights in the CDSB Standards:* As human capital was carefully considered in the CDSB Standards, they can be considered in the human capital project.

### **Resulting impact of human capital disclosure on the global economy**

Although it is not the objective of enhancing human capital disclosure, human capital disclosure may consequently have positive effects on the sustainable growth of the global economy. As many developed and emerging economies are moving toward a society with a declining population, it is essential to improve productivity in order to achieve sustainable economic growth. Human capital disclosure would achieve enhanced transparency to investors as to whether a company is implementing a human capital management strategy contributing to long-term value creation. If investors invest in companies implementing such a human capital management strategy, more capital will be allocated to companies with higher productivity, human capital stock will be accumulated at companies and in society as a whole, leading to improvements in productivity and growth in the broader economy. This potential positive effect

on the growth of global economy is in line with the IFRS Foundation’s mission statement, “Our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy.”

**Question 3—New research and standard-setting projects that could be added to the ISSB’s work plan**

Paragraphs 27-38 provide an overview of the ISSB’s approach to identifying sustainability-related research and standard setting projects. Appendix A describes each of the proposed projects that could be added to the ISSB’s work plan.

- (a) Taking into account the ISSB’s limited capacity for new projects in its new two-year work plan, should the ISSB prioritise a single project in a concentrated effort to make significant progress on that, or should the ISSB work on more than one project and make more incremental progress on each of them?
- (i) If a single project, which one should be prioritised? You may select from the four proposed projects in Appendix A or suggest another project.
- (ii) If more than one project, which projects should be prioritised and what is the relative level of priority from highest to lowest priority? You may select from the four proposed projects in Appendix A or suggest another project (or projects).

We understand that potential new research and standard-setting projects on the RFI, such as “biodiversity, ecosystems and ecosystem services”, “human capital”, “human rights” and “integration in reporting” are all important topics for global investors. On this basis, considering the ISSB’s limited resources, we believe that the human capital project is the priority topic for the two-year work plan, considering the overall benefits to the ISSB’s various activities. (as explained in response to question 1).

**Question 5—New research and standard-setting projects that could be added to the ISSB’s work plan: Human capital**

The research project on human capital is described in paragraphs A15-A26 of Appendix A. Please respond to the following questions:

- (a) Of the subtopics identified in paragraph A22, to which would you give the highest priority? Please select as many as applicable.  
Please explain your choices and the relative level of priority with particular reference to the information needs of investors.  
You may also suggest subtopics that have not been specified. To help the ISSB analyse the feedback, where possible, please provide:
- (i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and

(ii) your view on the importance of the subtopic with regard to an entity's sustainability-related risks and opportunities and the usefulness of the related information to investors.

(b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.

(c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standardsetters and framework providers to expedite the project, while taking into consideration the ISSB's focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A25 should be prioritised by the ISSB in pursuing its research? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified. You can suggest as many materials as you deem necessary. To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

(a) We believe that “workforce investment”, “DEI” and “employee engagement” are the high priority subtopics, with a view to providing investors with information that relates to how a company creates, preserves or erodes value.

Companies need innovations to achieve value creation. Innovations can only be developed by creative ideas, which emerges in an environment where capable, diverse, and engaged persons interact with each other. Focusing on “workforce investment”, “DEI” and “employee engagement” would therefore best meet investors' need for information on human capital.

- *Workforce investment*: information on workforce investment, including to train employees to develop expertise that is necessary to create innovations in line with the company's business strategy, would be decision-useful for investors.
- *DEI*: Investors consider that DEI is important information in relation to value creation because diverse perspectives come from management and employees with different backgrounds. DEI is also important for the governance of companies.



- *Employee engagement*: we understand that employee engagement has been increasingly attracting investors' attention in recent years, as engaged employees are crucial for innovations. It is essential for employee engagement that management communicate its views on business strategy clearly and effectively to employees. Strengthening employee engagement also helps management to measure the progress of the company's human capital management strategy and human resource development policy.

Each of these human capital subtopics would be an important element that serves as a foundation for companies to address sustainability issues, such as to measure, value and manage natural capital, or to respond to climate change. A company's actions to address sustainability issues are premised on the human capital with the knowledge necessary to take such actions. Such human capital enables the company to manage sustainability-related risks and create and/or maintain corporate value in relation to sustainability issues.

It should be noted that relevant indicators and metrics can vary depending on the business model and strategy of the company. Accordingly, consideration should be given to designing disclosure requirements that lead to the disclosure of information material for each company.

**Question 7—New research and standard-setting projects that could be added to the ISSB's work plan: Integration in reporting**

The research project on integration in reporting is described in paragraphs A38–A51 of Appendix A. Please respond to the following questions:

- (a) The integration in reporting project could be intensive on the ISSB's resources. While this means it could hinder the pace at which the topical development standards are developed, it could also help realise the full value of the IFRS Foundation's suite of materials. How would you prioritise advancing the integration in reporting project in relation to the three sustainability-related topics (proposed projects on biodiversity, ecosystems and ecosystem services; human capital; and human rights) as part of the ISSB's new two-year work plan?
- (b) In light of the coordination efforts required, if you think the integration in reporting project should be considered a priority, do you think that it should be advanced as a formal joint project with the IASB, or pursued as an ISSB project (which could still draw on input from the IASB as needed without being a formal joint project)?
  - (i) If you prefer a formal joint project, please explain how you think this should be conducted and why.
  - (ii) If you prefer an ISSB project, please explain how you think this should be conducted and why.
- (c) In pursuing the project on integration in reporting, do you think the ISSB should build on and incorporate concepts from:
  - (i) the IASB's Exposure Draft Management Commentary? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you

disagree, please explain why.

(ii) the Integrated Reporting Framework? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.

(iii) other sources? If you agree, please describe the source(s) and any particular concepts that you think the ISSB should incorporate in its work.

(d) Do you have any other suggestions for the ISSB if it pursues the project?

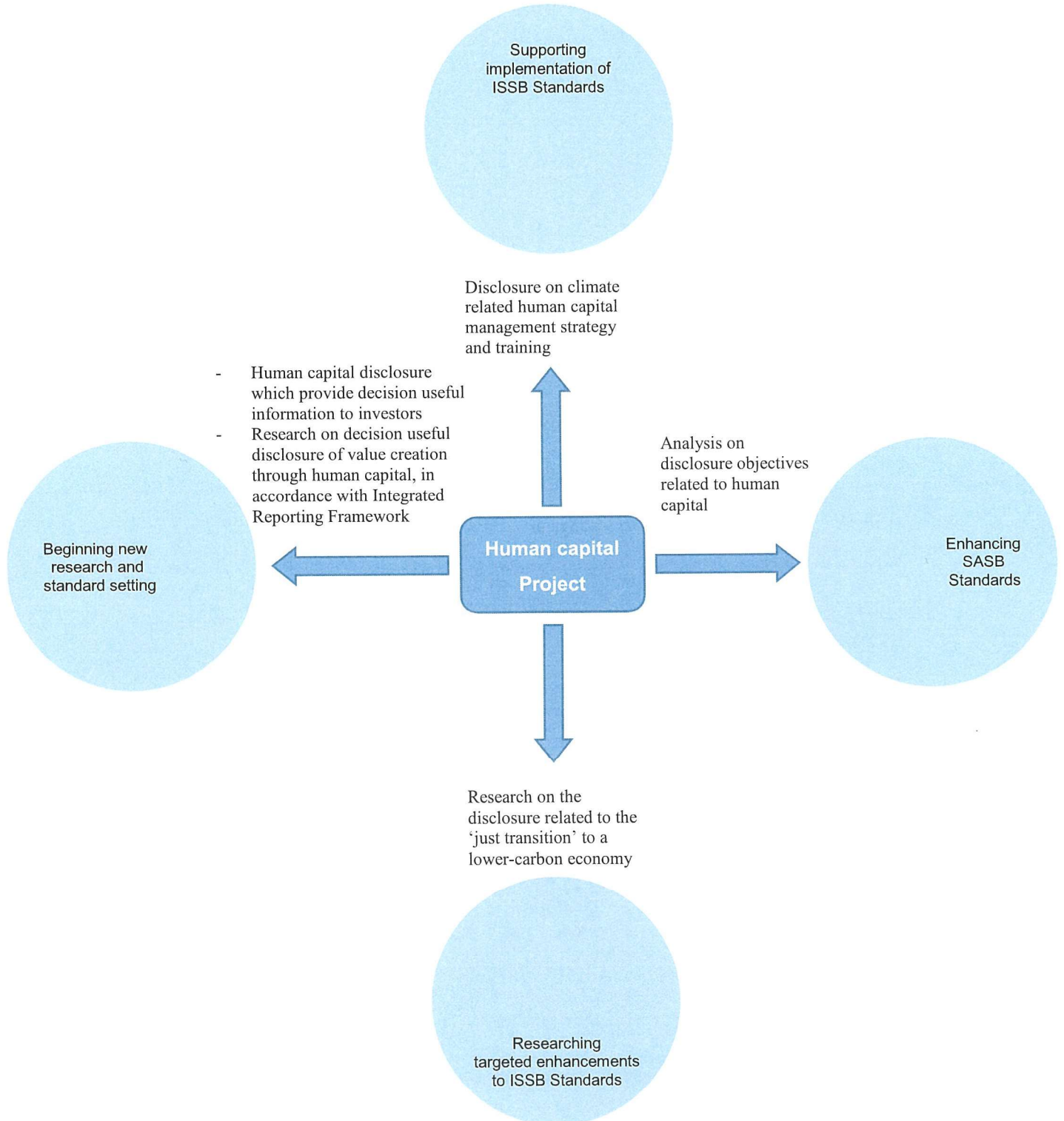
(a) As described above, we believe that the human capital project is the priority for the two-year work plan. However, as a part of the human capital project, it would be beneficial for the ISSB to consider the relevant parts of the Integrated Reporting Framework. The consideration would contribute to the disclosure of corporate value creation that investors need to understand. In addition, the analysis could contribute to future consideration of the integration in reporting project.

(c) (ii) The concepts of the Integrated Reporting Framework that the ISSB should consider are “human capital” and “long-term value creation (based on human capital)”.

When the human capital disclosure was incorporated into Japanese regulatory framework, it was considered that the disclosure of the “Human Resources Development Policy” which takes into account the importance of human capital management strategy in relation to long-term value creation is important, in order to provide useful information to investors. When determining human capital disclosure requirements, it is important to clarify the relationship between human capital disclosure and long-term value creation in order to provide relevant sustainability disclosure to investors leading to the value creation.

We think that consideration of the Integrated Reporting Framework may be beneficial, because it focuses on explaining value creation and treats human capital as one of the categories of capital.

(Appendix 1) Benefit of the human capital project on various activities of the ISSB



(Appendix 2) Effects of human capital project on ESG-related topics

