

27 November, 2020

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: IFRS Foundation Consultation Paper on Sustainability Reporting

Dear IFRS Foundation Trustee Members,

The IFRS Council of Japan commends the ongoing efforts of the IFRS Foundation and welcomes the opportunity to comment on the *Consultation Paper on Sustainability Reporting* (hereinafter "Consultation Paper").

The Council is a conference body established for the purpose of gathering and exchanging the opinions of Japanese market participants related to International Financial Reporting Standards (IFRS), and comprises 9 organizations (Keidanren (Japan Business Federation), The Japanese Institute of Certified Public Accountants, Japan Exchange Group/Tokyo Stock Exchange, Inc., The Securities Analysts Association of Japan, the Accounting Standards Board of Japan, the Financial Accounting Standards Foundation, Financial Services Agency, Ministry of Economy, Trade and Industry, Ministry of Justice). A working group under the Council was formed for discussing and submitting the comments on the Consultation Paper, where representatives of major Japanese companies, industries, auditing firms, accounting standard-setter and government ministries and agency which are involved in the area of sustainability reporting participated. For other participants in the discussion at the working group, please refer to the Appendix.

In general, we welcome and support the proposal within the Consultation Paper to establish a new standard-setting board for sustainability reporting, under the presumption that the IFRS Foundation will maintain its role and responsibility of improving capital market transparency and efficiency through high-quality standard-setting and will not affect resources (financial and human resources) related to the development of IFRS Standards. Non-financial information, including sustainability information, is becoming increasingly important and the Council commends the IFRS Foundation's willingness to address the key issues of improving consistency and comparability in the area of sustainability reporting.

In Japan, the number of companies working on sustainability information disclosure is increasing year by year and interest in sustainability information is growing as well. For example, of those 1,542 companies and

institutions, including financial institutions, which support the Task force on Climate-related Financial Disclosures (TCFD) worldwide, 320 companies and institutions from Japan support the TCFD as of November 16, 2020. We believe that Japan is the largest contributor in the world.

We are willing to contribute to the efforts to improve global sustainability reporting through submitting our comments on the Consultation Paper. In addition, if the IFRS Foundation officially decides to work on the standard-setting for sustainability reporting, we would like to make a positive contribution to the sustainability reporting standard-setting process similar to what we have been doing for the standard-setting of IFRS Standards.

Among the proposals of the Consultation Paper, the points that we consider to be particularly important and the points that we think should be improved are as follows:

1. The IFRS Foundation has built a high reputation and credibility in the area of financial reporting through dialogue with key stakeholders and the proper governance. Leveraging these factors in the standard-setting of sustainability reporting is important for setting high quality, internationally and widely used standards.
2. A global network of investors, capital market participants and other users of financial information and the presence of strong governance structure are important factors in maintaining high reputation and credibility. It is imperative that the IFRS Foundation maintains and leverages these factors and secure the support from the key stakeholders with whom the IFRS Foundation has already built relationships and resources (financial and human resources) sufficient to develop high quality standards.
3. Given the role and track record of the IFRS Foundation in the area of financial reporting, we believe that the primary audience for sustainability reporting should be capital market participants, with investors at the center, and other users of financial information. Furthermore, we are of the view that the scope of materiality should be based on the impact on corporate finance, that is, single materiality.
4. Given that a wide variety of sustainability initiatives are already being undertaken globally, it is important for the Sustainability Standards Board (SSB) members to have diverse backgrounds, including the regions they come from and the industries to which they belong. In particular, it is important to ensure an overall balance that includes not only those people who specialize in ESG areas but also the major participants in capital markets such as preparers and investors. From this perspective, the number of SSB members should be similar to that of the International Accounting Standards Board (IASB). Moreover, the IFRS Foundation should consider the employment status of the SSB members so that it could be part-time instead of full-time, from the perspective of ensuring diversity by recruiting enough members to cover the wide variety of ESG matters but reducing the financial burden at the same time.

5. We understand that climate change is an urgent issue for the SSB to address. However, other ESG factors, especially S (Social) and G (Governance), should also be addressed in parallel to climate change.
6. In the area of financial reporting, we believe that the IFRS Foundation should maintain its commitment to continue working towards the realization of “a single set of high-quality global standards” set forth in the G20 declaration. As such, we believe the IFRS Foundation should manage the funding for the IASB separately from the funding for the SSB in order not to reduce resources (financial and human resources) related to the development of IFRS Standards.

For other comments regarding individual questions, please refer to the attachment. We hope that our comments will contribute to the discussions at the IFRS Foundation Trustees and the Task Force. If you have any questions, please contact us.

Sincerely yours,

Question 1

Is there a need for a global set of internationally recognised sustainability reporting standards?

- (a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?
- (b) If not, what approach should be adopted?

1. We agree with the need for internationally recognized sustainability reporting standards. Non-financial information, including sustainability information, is becoming more and more important to companies, investors and other market participants. We believe that providing information based on unified standards is likely to help enhance the transparency and efficiency of capital markets.
2. We believe that the IFRS Foundation's initiatives to develop sustainability reporting standards will contribute to the improvement of consistency and comparability. To date, the IFRS Foundation has worked “to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles” as defined in the objective section within its Constitution. This initiative played a role in providing decision useful information for investors, market participants and other users of financial information.
3. As a result of these initiatives, the IFRS Foundation has gained a high reputation and credibility in the international capital markets, which is a significant advantage over existing private organizations in the area of sustainability reporting. Although some initiatives are being taken among these private organizations to improve the alignment between each standard, considering that each organization has already spent considerable amount of resources in developing their respective standards and that the concepts underlying their respective standards and their history are different, we believe that there is a certain limit to the harmonization of the standards that can be achieved by the current efforts. Under these circumstances, the IFRS Foundation's initiatives to develop sustainability reporting standards will be a driving force for the convergence of a large number of existing sustainability reporting standards.
4. For the above reasons, we support the expansion of the IFRS Foundation’s activities into setting standards for sustainability reporting, provided that the IFRS Foundation takes proper actions to meet the requirements for success listed in paragraph 31 of the Consultation Paper.

Question 2

Is the development of a sustainability standards board (SSB) to operate under the governance structure of the IFRS Foundation an appropriate approach to achieving further consistency and global comparability

in sustainability reporting?

5. We agree and support the proposal to establish a separate and new SSB in addition to the IASB under the IFRS Foundation's governance structure, under the presumption that the IFRS Foundation will maintain its role and responsibility of improving capital market transparency and efficiency through high-quality standard-setting and will not affect resources (financial and human resources) related to the development of IFRS Standards, if the IFRS Foundation decides to work on the standard-setting for sustainability reporting. Similar to the IASB, it is important for the SSB to ensure the independence and transparency of standard-setting. We believe that it is appropriate to incorporate the SSB into the current governance structure of the IFRS Foundation.
6. However, we have concerns about the resources (financial and human resources) needed to set up the SSB (see Question 3 for details).

Question 3

Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?
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7. We agree and support the requirements for success as proposed in the Consultation Paper. In particular, we believe that the governance structure, funding source, and ensuring the diversity of human resources are important for the successful development of the international sustainability reporting standards by the IFRS Foundation. Our proposition to address these issues are as follows.

Sufficient Governance Structure

8. As mentioned in the Consultation Paper, we believe that the current three-tier governance structure of the IFRS Foundation is appropriate and is working effectively. We support the current monitoring framework of the IASB by the IFRS Foundation Trustees and the Monitoring Board, which consists of capital market authorities, because it has helped to ensure transparency and credibility of the IASB. Therefore, if the approach to materiality is single materiality (see paragraph 22), we support that maintaining the current governance framework is a requirement for success.

Funding Source

9. We believe that it is important to have adequate funding sources and funding method for sustainability reporting standard-setting. We believe that the IFRS Foundation should not devote the financial and human resources that have been secured for the IASB, the IFRS Interpretation Committee, the response to “consistent application” and other activities of the financial reporting standard-setting when establishing and operating the SSB. Rather, we believe the IFRS Foundation should secure completely

separate funding source from IASB activities and the funds used for the SSB should be completely segregated and managed from the funds used for the IASB.

Diversity of SSB members

10. We believe that the requirements for the SSB members should include not only the technical expertise but also the diversity of the regions they come from, the industries to which they belong, and other areas of expertise/specialization. In particular, it is important to ensure an overall balance that includes not only those people who specialize in ESG areas but also the major participants in capital markets such as preparers and investors. As such, we believe that the number of SSB members should be similar to that of the IASB members, given that the diversity among current IASB members contributes to the development of the high-quality standards.

Full-time or part-time (Employment status of SSB members)

11. The Consultation Paper proposes that the standard-setting work for sustainability reporting would be based on the initiatives of each region and that the resources of existing initiatives would be leveraged. When working in line with this proposal, it will be more important for the SSB to coordinate with stakeholders considering the existing initiatives, rather than developing standards from scratch as is the case of the IASB. Such proposal may need to involve many different people who could be potentially become Board members from existing initiatives around the globe and other stakeholders surrounding the area of ESG. As such, we are of the view that it is necessary to consider ways to reduce the financial burden of the SSB while ensuring the diversity described in the paragraph 10. In this regard, one example to mitigate such burden is to make the SSB members part-time members.

Current mission of the IFRS Foundation in financial reporting

12. We believe that the IFRS Foundation should maintain its commitment to continue working towards the realization of “a single set of high-quality global standards” set forth in the G20 declaration. If the IFRS Foundation were to work to develop standards for sustainability reporting, it should be under the presumption that the IFRS Foundation continues to commit to the development of a single, high-quality international accounting standards. If the IFRS Foundation determines that it is necessary to change this commitment, then it will be necessary to review the initiatives of the IFRS Foundation to date and will need to discharge its accountability to key stakeholders.

Question 4
Could the IFRS Foundation use its relationships with stakeholders to aid the adoption and consistent application of SSB standards globally? If so, under what conditions?

13. We believe that it is important for the IFRS Foundation to leverage the global network of stakeholders it has built to develop high quality and globally acceptable sustainability reporting standards. The

network of capital market participants, including authorities and national accounting standard-setters, is an important factor in the IFRS Foundation's development, dissemination and promotion of high-quality and consistent sustainability reporting standards.

14. In order to leverage the existing network of the IFRS Foundation, it is imperative that the IFRS Foundation obtains sufficient support from a wide range of stakeholders regarding the development of standards for sustainability reporting. In leveraging the existing network, the IFRS Foundation should take into account the opinions of global stakeholders, the circumstances of each jurisdiction, the standard setting work given the legal systems and practices in each region, and application issues once the standards are developed.

Question 5

How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?

15. We agree that the IFRS Foundation would work with existing initiatives to develop sustainability reporting standards based on their initiatives. We believe that it is not only inefficient for the IFRS Foundation to develop the sustainability reporting standards from scratch, but it only further complicates the current situation of the already existing large number of sustainability reporting standards.
16. In addition, we believe that the IFRS Foundation should avoid adopting a rules-based approach but adopt a principles-based approach similar to IFRS Standards when developing sustainability reporting standards. This is to increase the possibility of enabling global dissemination and promotion, while allowing companies a certain degree of flexibility, similar to IFRS Standards. However, in order to ensure consistent application after the individual standards are developed, it will be necessary to work on various issues related to the application of the standard.
17. We believe that, if the SSB were to be established, the IFRS Foundation should consider how to provide comparable information to users while maintaining a principles-based approach. For example, when it comes to climate-related information, the TCFD recommendation which is a principles-based framework could be a starting point, whereas some say that this may not ensure comparability of disclosures. It may be technically difficult to ensure comparability in sustainability reporting in the same manner as comparability in financial reporting. In the standard-setting work by the SSB, we believe that it is necessary to consider a specific method of balancing between a principles-based approach and comparability considering the work already performed by the existing initiatives such as the TCFD.

Question 6

How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to
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find a global solution for consistent sustainability reporting?

18. As explained in paragraph 16, we believe that the development of sustainability reporting standards should be based on a principles-based approach, similar to IFRS Standards. This is to increase the possibility of enabling global dissemination and promotion, while allowing companies a certain degree of flexibility, similar to IFRS Standards. However, in order to ensure consistent application after the individual standards are developed, it will be necessary to work on various issues related to the application of the standard. Please refer to the paragraph 17 for comparability.

Question 7

If the IFRS Foundation were to establish an SSB, should it initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting?
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19. We understand that climate change is an urgent issue. However, we believe that other ESG factors, especially S (Social) and G (Governance), should be addressed in parallel to climate change. In particular, in response to the COVID-19 pandemic, the importance of G (Governance) to respond to changes in economic and social structures such as employee health, employment, and digitalization has been attracting attention, and such governance could have a huge impact on the medium- to long-term sustainability of companies. Investors' needs for these S (Social) and G (Governance) elements are growing rapidly. Given the fact that standards that address ESG comprehensively are already widespread, we believe it is important to respond to factors other than climate change in a timely manner.

Question 8

Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?

20. As explained in paragraph 19, we believe that when developing sustainability reporting standards, the IFRS Foundation should comprehensively address all ESG factors, not just climate-related risks. It is inappropriate to delay the response to factors other than climate change and, therefore, the definition of E (Environment) should include broader environmental factors.

Question 9

Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?
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21. In light of the advantages of the IFRS Foundation described in paragraphs 2 and 3, we support the proposal that the IFRS Foundation provide useful sustainability information that is most relevant to investors and other market participants. If the primary audience of the sustainability reporting is extended beyond capital market participants, the IFRS Foundation will need to radically reconfigure its

mission and structure, which may undermine the reputation and credibility that the IFRS Foundation has built up. In addition, in order to address sustainability issues including climate change, it is critical that private funds flow into the sustainable arena further. For these reasons, it is important to provide sufficient information to investors and other capital market participants to meet their needs regarding sustainability reporting.

22. We support the direction that the scope of materiality is based on the impact on the corporate finance, that is, single materiality, assuming that the primary audience for sustainability reporting is capital market participants, with investors at the center. This is also beneficial for sustainability reporting standards when coordinating with IFRS Standards. Our understanding is that single materiality can be interpreted to have a certain range: it may include not only financial information but also forward-looking information that is financially material. Therefore, it is important to work through sufficient dialogue to determine what is relevant information for investors and other capital market participants.

Question 10
Should the sustainability information to be disclosed be auditable or subject to external assurance? If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision-useful?

23. We agree that it may be desirable in the future to make sustainable information subject to external assurance to ensure its reliability. However, in the context of providing assurance for sustainability information, there are various conceptual and practical issues that should be resolved. Sufficient discussions with related parties and accumulation of practice are needed.

Question 11
Stakeholders are welcome to raise any other comment or relevant matters for our consideration.

24. Given the role that the IFRS Foundation has played in improving the transparency and efficiency of capital markets through high-quality standard-setting, we expect the IFRS Foundation to continue to play this role in both financial reporting and sustainability reporting. Once again, we commend the IFRS Foundation and its Task Force for their willingness to address the key issues of improving consistency and comparability in the area of sustainability reporting and we would like to make a positive contribution similar to what we have been doing for the standard-setting of IFRS Standards.

Appendix Members of the Working Group under the IFRS Council

Members of the IFRS Council

- Keidanren (Japan Business Federation)
- Japanese Institute of Certified Public Accountants
- Japan Exchange Group/ Tokyo Stock Exchange, Inc.
- The Securities Analysts Association of Japan
- Accounting Standards Board of Japan
- Financial Accounting Standards Foundation
- Financial Services Agency
- Ministry of Economy, Trade and Industry
- Ministry of Justice

Other participants in the discussion at the working group for submitting the comments on the Consultation Paper

- Government Pension Investment Fund
- Japanese Bankers Association
- Japan Securities Dealers Association
- The Life Insurance Association of Japan
- General Insurance Association of Japan
- Japan Investment Advisers Association
- Ministry of the Environment