

Strategy-Focused Human Capital Disclosures

The Approach to Meet Investor Expectations

Cabinet Secretariat
Financial Services Agency
Ministry of Economy, Trade and Industry

March 23, 2026

Purpose and Use of the Guidance

Purpose of the Guidance

- This Guidance has been developed based on the deliberations on what types of human capital disclosures are useful for facilitating constructive dialogue between entities and investors.
- The Guidance consists of the following two parts:
 - **Part 1 Alignment between Business Strategy and Human Capital Management Strategy**
Part 1 provides guidance for all entities aiming at describing human capital management strategy aligned with their business strategy.
 - **Part 2 Disclosures Based on the Four Core Contents**
Part 2 provides guidance for entities aiming at providing human capital disclosures based on the four Core contents in the IFRS Sustainability Disclosure Standards, developed by the International Sustainability Standards Board (hereinafter the “ISSB Standards”) or the sustainability disclosure standards developed by the Sustainability Standards Board of Japan (SSBJ) (hereinafter the “SSBJ Standards”). Part 2 would also be useful for entities aiming at providing human capital disclosures based on the four Core contents even when they do not state compliance with the ISSB or SSBJ Standards.
- Topic standard on human capital-related risks and opportunities has not been published by the ISSB or SSBJ. Therefore, when human capital-related risks or opportunities could reasonably be expected to affect an entity’s prospects, an entity applying the ISSB Standards is required to apply IFRS S1 “General Requirements for Disclosure of Sustainability-related Financial Information.” An entity applying the SSBJ Standards is also required to apply the Theme-based Sustainability Disclosure Standard No. 1 “General Disclosures.”

Use of the Guidance

- The Guidance is non-binding and is not intended to serve as a checklist or a template for disclosure.
- Entities that state compliance with the ISSB or SSBJ Standards are required to disclose in accordance with those standards. The ISSB or SSBJ Standards state the disclosure objectives, and disclosures are required to be made in line with those objectives.
- “Investor Expectations” and “Possible Disclosures” in the Guidance are illustrative examples of human capital disclosure. The paragraph numbers of the ISSB Standards shown alongside “Possible Disclosures” indicate related paragraphs in IFRS S1. “Possible Disclosures” do not imply that specific disclosures are recommended under the ISSB Standards or SSBJ Standards. Therefore, even if an entity does not disclose an item indicated in the Guidance, its disclosures may still be compliant with the ISSB or SSBJ Standards. Conversely, if disclosures cover only the items indicated in the Guidance, such disclosures may not be compliant with the ISSB or SSBJ Standards.
- The illustrative examples included in the Guidance are developed solely to facilitate understanding and do not relate to actual entities, organisations, or facts.

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Part 1

Alignment between Business Strategy and Human Capital Management Strategy

Background

Why Human Capital Disclosures Are Needed for Informed Investment Decision (1/2)

- Investors tell us that financial statements alone do not provide the information necessary for making informed investment decisions related to human capital.

Company A	
Revenue	500
Expenses*	400
Income	100
*Company A's Expenses include "Necessary Investments in Human Capital" but this is not shown in the financial statements.	

Company B	
Revenue	500
Expenses**	400
Income	100
**Company B's Expenses do not include "Necessary Investments in Human Capital" but this is not shown in the financial statements.	

- When two entities in the same industry generate the same income and cash flows, their future growth and sustainability can differ depending on whether they make necessary investments in human capital. However, financial statements do not provide this information.
- Management may perceive human capital investments as mere expenses that can be minimized or postponed to increase short-term profit.
- Relevant human capital investments contribute to corporate value creation over the medium to long term and, in turn, enhance shareholder returns, even though they may reduce short-term profit. Accordingly, disclosure of human capital investments is critical to facilitating constructive dialogue between investors and management.

Why Human Capital Disclosures Are Needed for Informed Investment Decision (2/2)

- Intangibles have become a key source of competitive advantage and a driver for sustainable corporate value creation. Among these intangibles, investment in human capital is a core element, and it has been pointed out that current corporate disclosures do not provide investors with sufficient information in this area.

Human Capital Management Strategy

- What types of human capital are necessary to achieve the entity's business strategy and future success (**Vision of Optimal Human Capital**).
- What are the **Necessary Investments in Human Capital** for the entity to attract such human capital, provide a workforce environment in which they can grow, and encourage their contributions.
- Whether the entity is considering **human capital-related risks and opportunities** that could reasonably be expected to have a material impact on its future cash flows or affect the entity's prospects.
- Whether the entity's **human capital management strategy is aligned with its business strategy and business model**.
- The relationship between **the amounts of human capital-related expenses** included in the financial statements and the Necessary Investments in Human Capital (connectivity).

Human Capital Metrics / Targets

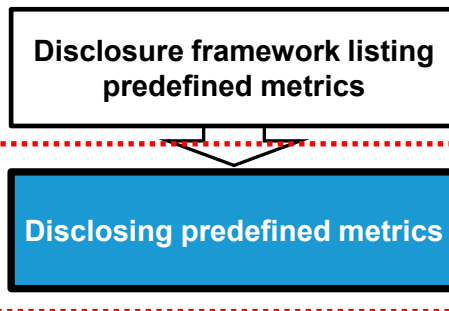
- **Targets** associated with the human capital management strategy, as well as relevant metrics that represent the entity's **progress toward those targets**.

Metrics-Focused and Strategy-Focused Human Capital Disclosures

- In a metrics-focused human capital disclosure framework, entities are expected to prioritise disclosures based on comparable and **predefined metrics**.
- In contrast, in a strategy-focused human capital disclosure framework, entities are expected to emphasise disclosures that reflect **an entity-specific human capital management strategy** aligned with the business strategy, as well as the **metrics based on the entity-specific human capital management strategy**.

Metrics-Focused Human Capital Disclosure Framework^{*1}

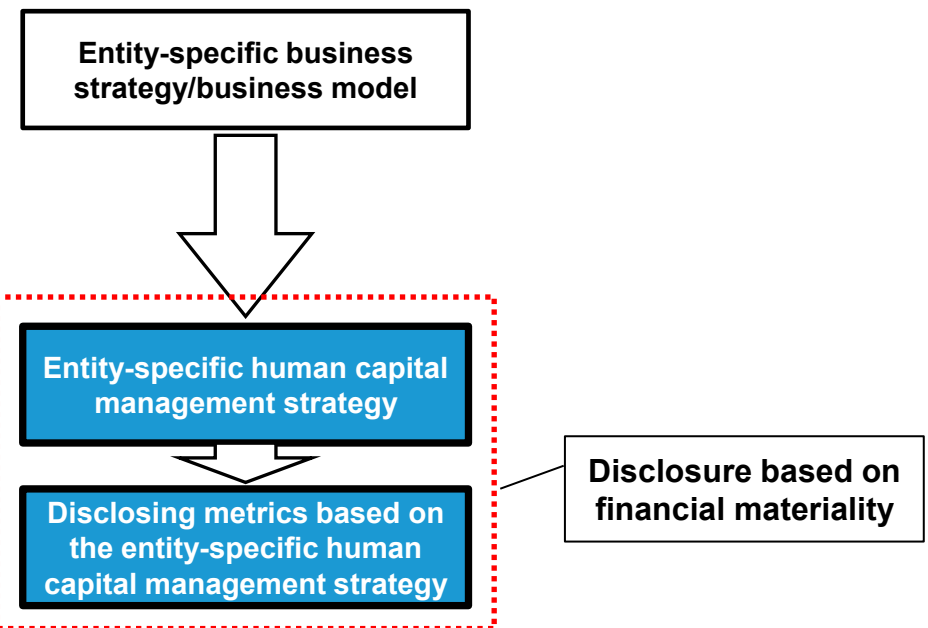
For the purpose
of addressing
social issues



In many cases, the metrics also include those related to impact materiality and double materiality.

^{*1} GRI Standards

Strategy-Focused Human Capital Disclosure Framework^{*2}

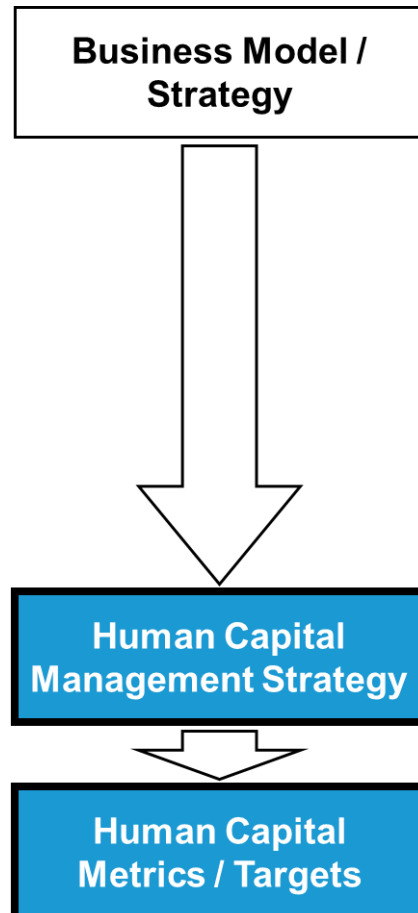


^{*2} U.S.SEC's principles-based human capital disclosure framework introduced in 2020
Japan's Guidance for Human Capital Disclosures

1. Concept of Alignment between Business Strategy and Human Capital Management Strategy

Alignment between Business Strategy and Human Capital Management Strategy

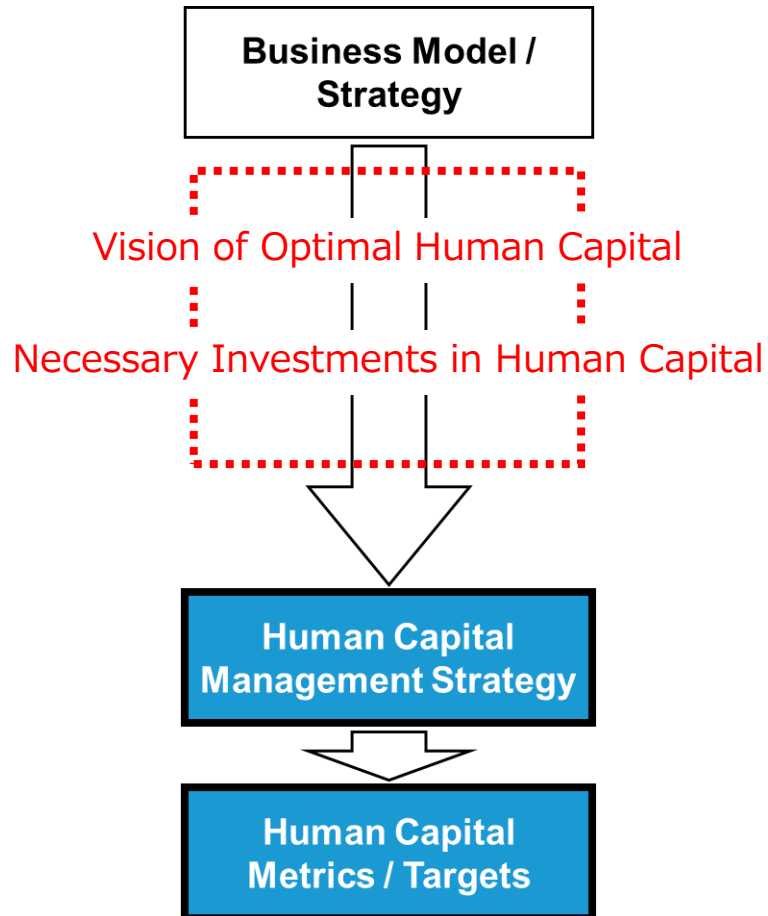
Guidance for Human Capital Disclosures (Previous version)



- The previous version of the Guidance for Human Capital Disclosures emphasised the importance of human capital management strategy aligned with business strategy. On this point, it is widely recognised that disclosures of human capital management strategy aligned with business strategy are useful—not only among Japanese investors but also among international investors.
- However, the previous version of the Guidance did not necessarily provide guidance how to disclose human capital management strategy aligned with business strategy.

Alignment between Business Strategy and Human Capital Management Strategy (1/3)

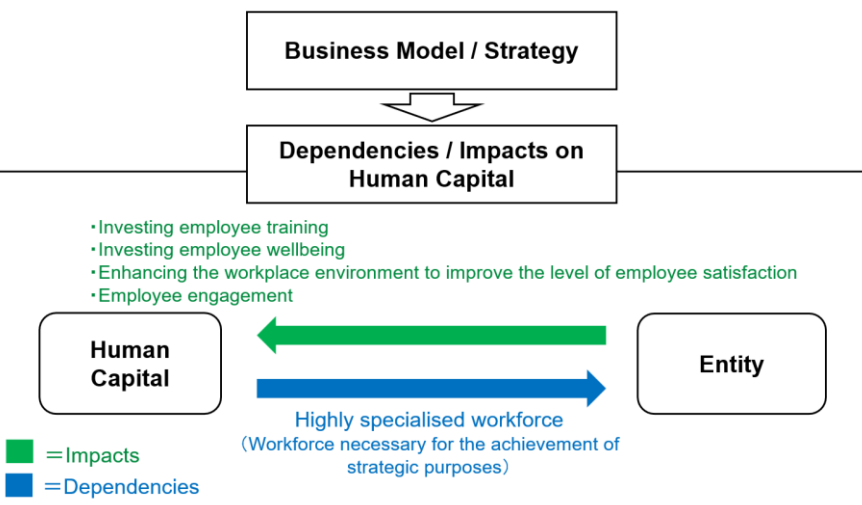
Guidance for Human Capital Disclosures (Revised version)



- The revised version of the Guidance provides specific guidance on how to achieve the alignment between business strategy, human capital management strategy, and human capital investments on the basis of international disclosure standards, as well as on the specific concepts and their practical application.
- Looking ahead, as a result of the rapid advance of innovative technologies, such as generative AI, and the declining population, it is expected that business environments and business processes will change significantly. In this context, it is essential to describe, as clearly as possible, the human capital portfolio that will be required in the future in order for entities to achieve their business and growth strategies.
- By clarifying this “Vision of Optimal Human Capital” and by identifying the “Necessary Investments in Human Capital” to address the challenges in achieving the vision, entities will be able to clarify how their human capital management strategy is aligned with their business strategy.

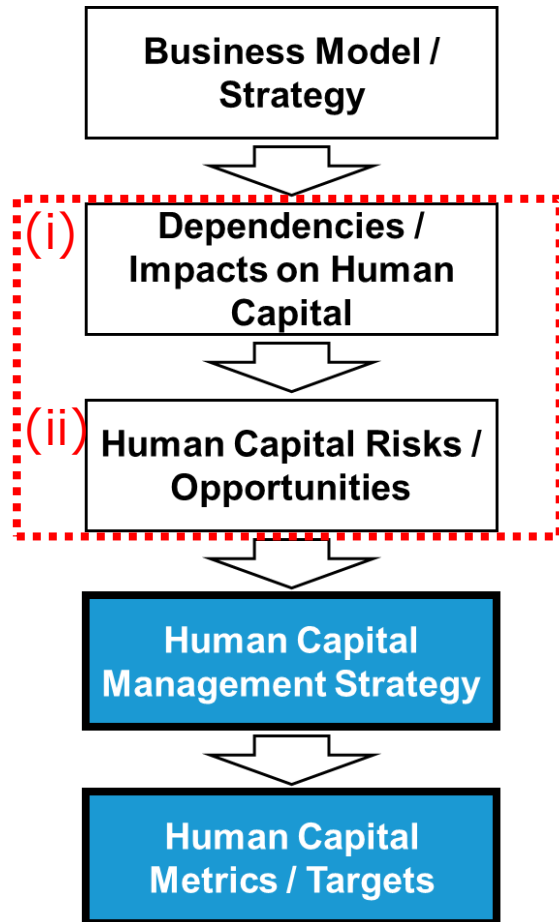
Alignment between Business Strategy and Human Capital Management Strategy (2/3)

Approaches under the ISSB standards



- In considering the “Vision of Optimal Human Capital” and the “Necessary Investments in Human Capital,” description in the ISSB standards serves as a useful reference.
- Appendix B Application guidance of IFRS S1 describes an example of an entity that requires (depends on) a highly specialised workforce to achieve its strategic purposes. In the example, an entity’s future success “depends” on its ability to attract and retain human capital, and its ability is “affected” by the entity’s investments in employee training and employee wellbeing, enhancement of the workforce environment to improve the level of employee satisfaction, and employee engagement.
- The Application guidance notes that the relationship (interaction) described above may give rise to sustainability-related (human capital-related) risks or opportunities that could be expected to materially affect the entity’s cash flows.
- An entity can explain its human capital management strategy aligned with its business strategy as an integrated story, by clearly and logically aligning the human capital-related risks and opportunities arising from its business strategy with its human capital management strategy and the human capital investments that respond to those risks and opportunities.

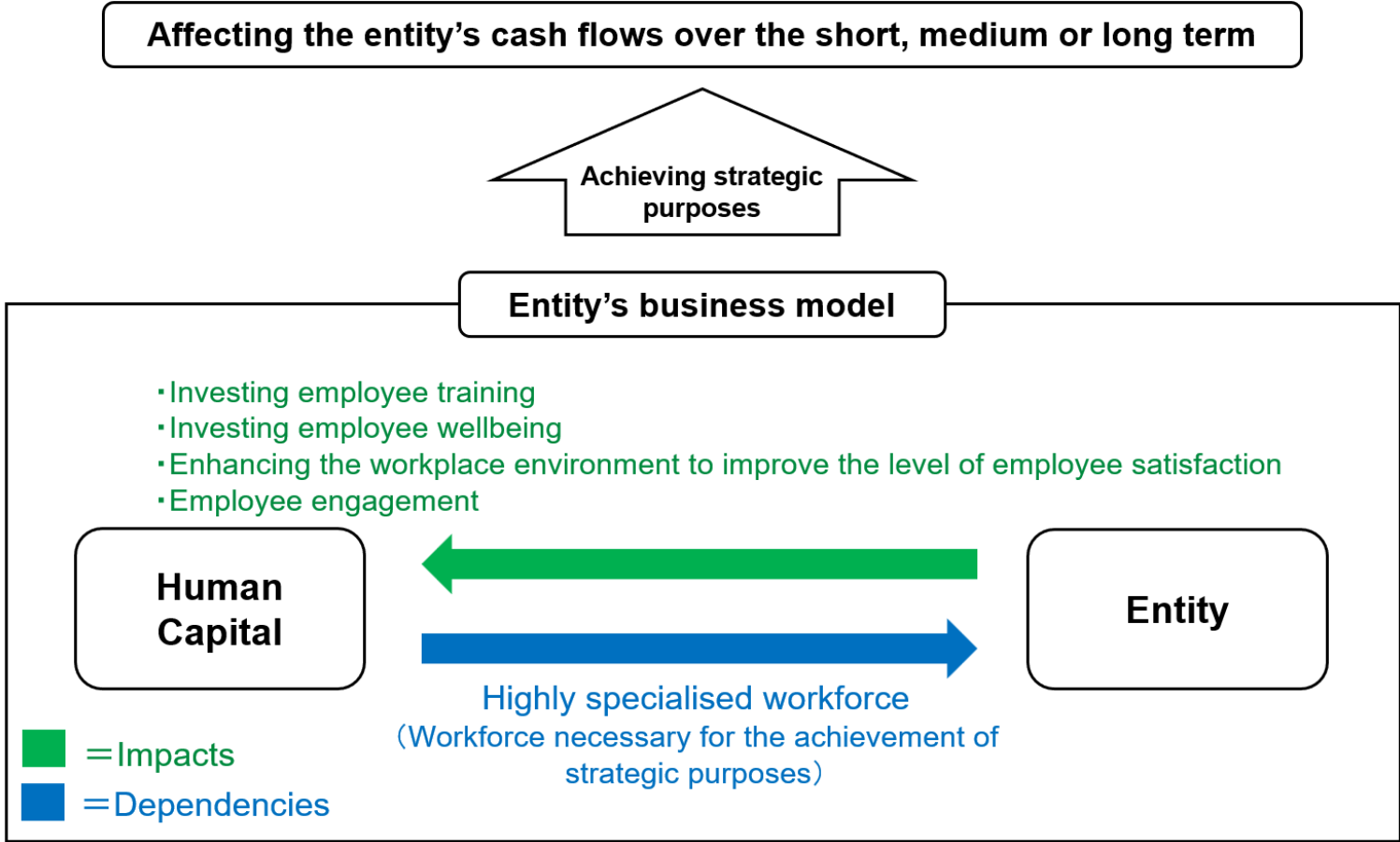
Guidance for Human Capital Disclosures (Revised version)



- Based on the discussions above, the Guidance for Human Capital Disclosures (revised version) describes the alignment between business strategy and human capital management strategy in a more specific way, through two steps, that is, “dependencies and impacts on human capital” and “human capital-related risks and opportunities”. We think that this approach is consistent with the approaches under the ISSB standards.
- (i): **Dependencies and impacts on human capital**
 - An entity’s achievement of its business strategy **depends** on whether it can secure the necessary human capital in light of the “Vision of Optimal Human Capital.” In addition, in order to secure such human capital, the entity makes the “Necessary Investments in Human Capital,” including recruitment, training and development, and workforce environment improvements such as setting appropriate wage levels, investment in employee wellbeing, and initiatives to enhance employee engagement, thereby having an **impact** on its human capital. This represents an interaction between the entity and its human capital.
- (ii): **Human capital-related risks and opportunities**
 - Clarifying such interactions is helpful for identifying the **human capital-related risks and opportunities that could reasonably be expected to affect the entity’s prospects, e.g., affect the entity’s cash flows**, in achieving its business strategy.
 - Moreover, performing this analysis helps clarify not only the human-capital-related risks and opportunities that arise at the consolidated group level, but also in specific parts of the business model—such as business segments, functions within the value chain, or geographical areas.
 - Through this process, it is considered that entities will be able to disclose their human capital management strategy in a manner that is useful for investors’ decision-making.

(Reference) Description of Dependencies and Impacts on Human Capital in IFRS S1 (1/2)

- Based on paragraphs B1–B3 of Appendix B Application Guidance of IFRS S1, an example of an entity that “depends” on a highly specialised workforce can be illustrated as follows. Based on this, an entity is expected to disclose information about human-capital-related risks and opportunities that could reasonably be expected to affect the entity’s cash flows over the short, medium or long term.



Source: Prepared by the FSA based on IFRS S1 Appendix B Application guidance, paragraphs B1–B3.

(Reference) Description of Dependencies and Impacts on Human Capital in IFRS S1 (2/2)

- Appendix B Application guidance of IFRS S1 describes the relationship between “dependencies” and “impacts,” as well as the resulting “sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects” as follows:

IFRS S1 Appendix B, Application guidance (paragraphs B1–B3)

B1 This Standard requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital over the short, medium or long term (referred to as ‘sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects’) (see paragraph 3).

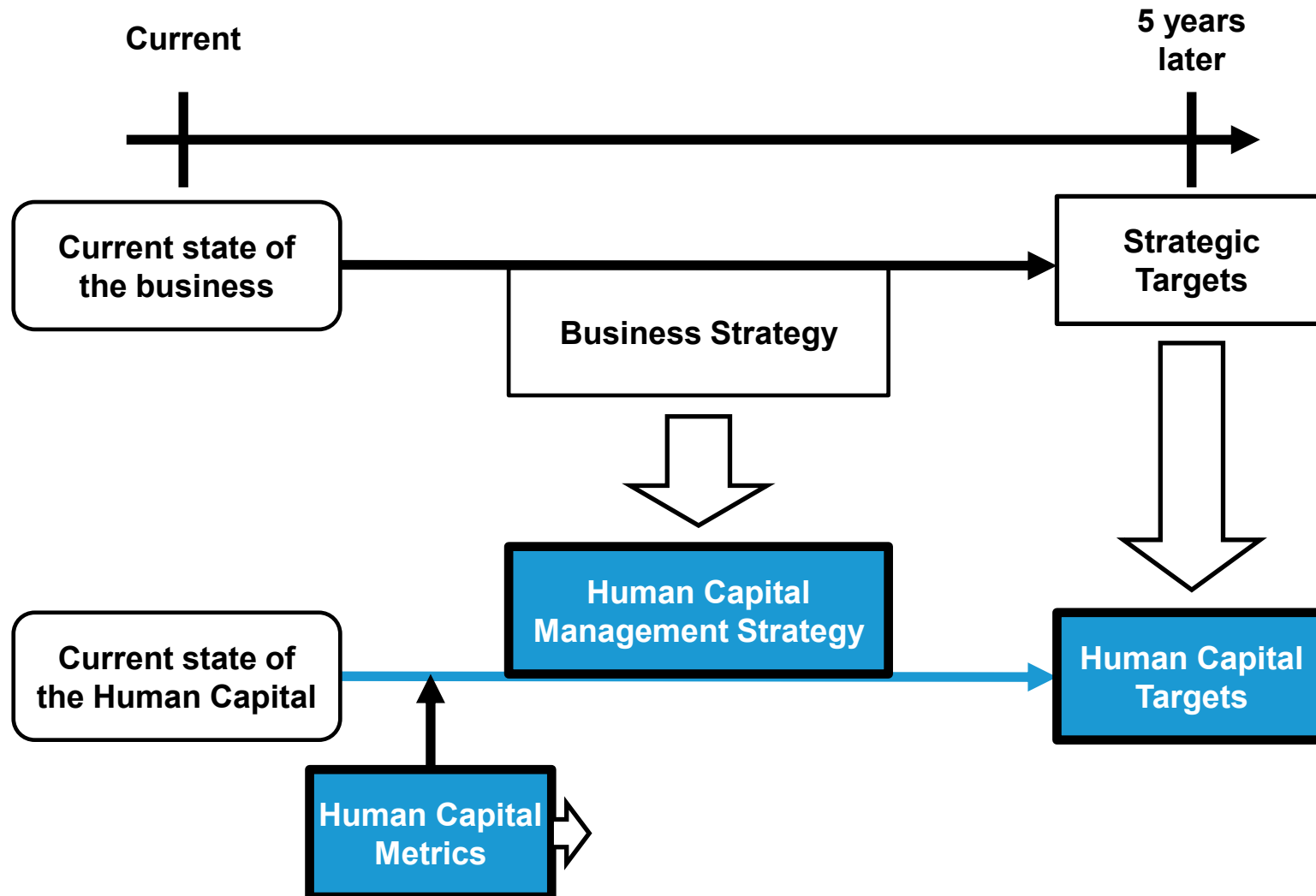
B2 An entity’s sustainability-related risks and opportunities arise out of the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity’s value chain. These interactions—which can be direct and indirect—result from operating an entity’s business model in pursuit of the entity’s strategic purposes and from the external environment in which the entity operates. These interactions take place within an interdependent system in which an entity both depends on resources and relationships throughout its value chain to generate cash flows and affects those resources and relationships through its activities and outputs—contributing to the preservation, regeneration and development of those resources and relationships or to their degradation and depletion. These dependencies and impacts might give rise to sustainability-related risks and opportunities that could reasonably be expected to affect an entity’s cash flows, its access to finance and cost of capital over the short, medium and long term.

B3 ...Similarly, if an entity operates in a highly competitive market and requires a highly specialised workforce to achieve its strategic purposes, the entity’s future success will likely depend on the entity’s ability to attract and retain that resource. At the same time, that ability will depend, in part, on the entity’s employment practices—such as whether the entity invests in employee training and wellbeing—and the levels of employee satisfaction, engagement and retention. These examples illustrate the close relationship between the value the entity creates, preserves or erodes for others and the entity’s own ability to succeed and achieve its goals.

2. Disclosure of Metrics and Targets Based on the Human Capital Management Strategy

Human Capital-related Metrics and Targets Aligned with the Human Capital Management Strategy

- It is considered important that the disclosure of human capital-related metrics and targets be aligned with the human capital management strategy.



- Investors often note that it is important to set human capital-related targets to be aligned with the strategic targets. For example, considering that human capital management strategy plays a critical role in achieving the business strategy, investors commented that the time horizons for human capital-related targets should be set in line with the time horizons of the strategic targets.

Entity-specific and Comparable Human Capital-related Metrics (1/2)

- In setting human capital-related metrics, investors expect entities to monitor the progress of their entity specific initiatives on human capital management strategy. The initiatives address entity-specific management challenges, taking into account their business strategy and business model, which differ from entity to entity.

Investors' Views on Entity-specific and Comparable Human Capital Disclosures

- As business models and sources of competitive advantage have become more diverse across entities, an entity cannot describe its own business strategy and human capital management strategy using only comparable information. It is **important for an entity to consider entity-specific disclosures that describe its human capital management strategy and human capital investment**.
- Entities using entity-specific human capital-related metrics are expected to disclose the definitions of those metrics, the method used to calculate them and the inputs to the calculation, in line with the ISSB standards. In addition to these disclosures, investors also expect the following:
 - the reasons why the disclosure is considered important
 - how the metrics are aligned with the human capital management strategy
 - time-series performance that enables an assessment of progress and comparability over time
 - connectivity with the current period's financial statements
- Even when an entity uses common metrics, the reasons for disclosing those metrics may be strongly influenced by its own business strategy or business model. In that case, the entity can provide entity-specific information while providing comparable information, by **explaining why the entity considers those disclosures to be material to their strategy or business model and how the entity positions the common metrics within its integrated story**.
- However, investors are **concerned that an excessive emphasis on comparability could undermine entity-specific disclosures**. Investors expect that, when entities use entity-specific metrics to explain their initiatives based on their own strategies, the entities logically explain their growth story based on objective evidence. Entity-specific metrics are considered preferable to the extent that they demonstrate the progress of the entity's human capital management strategy that is aligned with its business strategy.

Entity-specific and Comparable Human Capital-related Metrics (2/2)

- Regarding the metrics that a wide range of entities are expected to disclose — (1) employee numbers, (2) personnel expenses, (3) turnover rate, and (4) employee engagement score — global investors expressed the following views.

<p>(1) employee numbers</p>	<ul style="list-style-type: none"> Understanding employee composition — including the number of employees by business segment and region, as well as whether employee numbers are increasing or decreasing — provides deeper insight into the entity’s business model and helps investors identify challenges in recruitment.
<p>(2) personnel expenses</p>	<ul style="list-style-type: none"> Human capital disclosures are very useful as they provide additional insights on the entity’s intangibles that are not reflected in financial statements. For example, breaks down information of personnel expenses—including salaries, stock-based compensation and training costs—by job level, expense category, and business segment or region is considered as very useful for investment decision-making, as it helps investors understand how an entity manages and utilises its workforce. Such disclosure enables investors to gain a clearer understanding on how human capital investments contribute to the entity’s long-term financial performance.
<p>(3) turnover rate</p>	<ul style="list-style-type: none"> It is important to provide contextual information explaining how management interprets turnover and retention rates. The levels of turnover and retention that management considers appropriate differ between rapidly growing entities and more stable ones. <p>(*) It has been noted that a certain degree of workforce mobility can contribute to innovation by enabling entities to incorporate diverse perspectives, which is important for improving medium- to long-term corporate value. (See the “Report of the Study Group on Improvement of Sustainable Corporate Value and Human Capital,” p. 48.)</p>
<p>(4) employee engagement score</p>	<ul style="list-style-type: none"> Regarding employee engagement, disclosing engagement scores and related metrics (such as survey results) over time, together with future targets, is highly useful for monitoring the effectiveness of an entity’s human capital management strategy. As the survey questions and scoring methodologies differ across entities, simple cross-entity comparisons are not possible. Therefore, information that provides insight into areas where improvements have been observed, changes over time, distinctive features relative to industry peers, and what is the value the entity emphasizes is particularly useful.

Examples of Investor Expectations for Disclosures on Human Capital-related Metrics and Targets (1/2)

- The UK investor association, the Investment Association, expects entities to disclose a combination of entity-specific metrics and comparable metrics.
 - (1) Entity-specific disclosures: investments to enhance employee productivity; key opportunities and risks related to human capital management and corresponding strategies; etc.
 - (2) Comparable disclosures: (a)Employee numbers (b)Turnover rate (c)Investments in training/skills development (d)Employee engagement scores

Excerpt from *The Investment Association Long Term Reporting Guidance*

HUMAN CAPITAL AND CULTURE

This section outlines our members' expectations as to how companies should report on human capital and culture.

Human capital and productivity

46. A key driver of productivity is how a company is managing its workforce and whether it is being deployed efficiently. Our members believe a well-engaged, stable, and trained workforce is more likely to be more productive and, in turn, be more likely to drive long term business success.
47. However, there is limited reporting by companies setting out their approach to human capital management, how it is working to develop a positive operating culture, and of the significant investments being made to improve the productivity of their workforces over the longer term.
48. We believe that these issues are deserving of more transparency by companies through enhanced annual disclosures on human capital. Human capital considerations are integral to our members' initial decision-making processes and ongoing stewardship activities.

Understanding a company's approach to human capital management

49. Company disclosures should foster improved investor understanding of the role played by the company's workforce in generating sustainable, long term value creation. To achieve this, within the Strategic Report companies should provide shareholders with a narrative discussion on:
 - 49.1. The significant investments that the company has made over the past year, and is planning to make in the next, to improve the productivity of its workforce, including the outcomes of those decisions where possible;
 - 49.2. The significant opportunities, and principal risks, relating to the company's approach to human capital management, and of the strategy adopted by the Board to respond these issues; and
 - 49.3. The manner by which the workforce is incentivised to be more productive, and how this approach to motivating the workforce is compatible with the businesses' long term strategy.

Metrics to support human capital disclosures

50. Our members consider that boilerplate statements based on a long-list of reporting metrics are unhelpful when it comes to understanding a company's approach to managing its human capital.
51. Companies should consider the appropriate mix of quantitative and qualitative disclosures to help explain its approach to human capital management, and how this creates value. Companies should develop a combination of both narrative discussion and metric-based reporting to facilitate investor understanding.
52. As each company will likely have a different approach to human capital management, our members acknowledge that it is up to companies themselves to determine which metrics best support the narrative discussion to shareholders.
53. Having reviewed the requirements of 12 other organisations and bodies and consolidated the potential metrics that could be used to explain a company's approach to human capital. As a minimum, our members have identified the following metrics as being of particular importance:
 - 53.1. Total headcount – broken down by the division between full-time and part-time employees, gender, and diversity;
 - 53.2. Annual turnover – including both planned and regrettable turnover;
 - 53.3. Investment in training, skills, and professional development – including the rate of progression and promotion within the business; and
 - 53.4. Employee engagement score.
54. In addition to disclosing the headline company-wide figure, each metric should be segmented by market, geographic location, and/or sector to provide greater awareness of the workforce's overall composition and stability.
55. For each metric, companies should provide an explanation for how the figure is calculated. Companies should also provide an explanation of what figures for a particular metric represent in terms of progress towards broader strategic objectives or productivity improvements.

- Paragraph 49 requires companies to provide strategic narratives to shareholders on:

- ① Investments made (past year) or planned (next year) to enhance employee productivity, including outcomes if available
- ② Key opportunities and risks related to human capital management, and corresponding strategies
- ③ Incentives to boost employee productivity and alignment with long-term business strategy

Entity-specific disclosures

- Paragraph 53 sets minimum disclosure requirements for all companies:

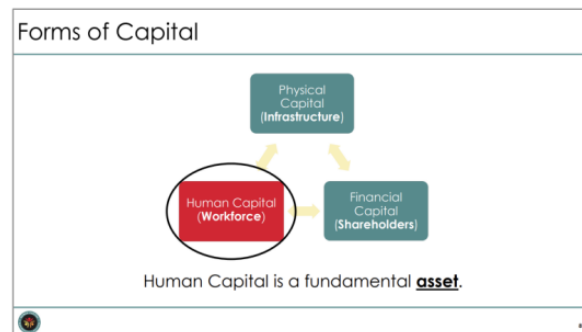
- ① Employee numbers (by division, employment type, gender)
- ② Turnover rate (planned and unplanned turnover)
- ③ Investments in training, skills development, and professional development (including promotion linkage)
- ④ Employee engagement scores

Comparable disclosures

Examples of Investor Expectations for Disclosures on Human Capital-related Metrics and Targets (2/2)

- The global investor group that emphasises human capital, the HCMC, expects entities to disclose a combination of entity-specific metrics and comparable metrics.
 - Entity-specific disclosures: how human capital management strategy supports overall business strategy; how performance aligns with benchmarks and objectives; etc.
 - Comparable disclosures: (a) Employee headcount (b) Total labour costs (salaries, training, etc.) (c) Employee turnover rate (d) Diversity data

Excerpt from HCMC HP Foundational Human Capital Reporting: Taking a Balanced Approach



- Key Criteria for Mandatory Human Capital Reporting
- RELIABLE, CONSISTENT, CLEAR and COMPARABLE** – Quantitative disclosure that allows for robust consistency, clarity, verifiability and comparability for efficient collection, analysis and benchmarking
 - UNIVERSAL** – Universally applicable across all companies
 - TIMELESS** – Any company that employs people can collect and report data
 - POINT-IN-TIME** – Collectible as of a point in time, similar to traditional financial metrics, allowing for greater efficiency in collection and reporting
 - COST-EFFECTIVE TO COLLECT** – Companies already collect data requested
 - Basic workforce data like payroll & benefits costs tracked using in-house or external service-based HR tools
 - U.S. companies already collect diversity data for mandatory EEO-1 reporting
 - PROXY FOR MANAGEMENT QUALITY** – Taken together, these metrics help investors evaluate the issuer's human capital management skill and identify human capital risks and opportunities

- Balanced Approach: Four Fundamental Metrics
- Requires four **fundamental universally-applicable** disclosures to **anchor** open-ended human capital-related information companies provide under Item 101(c)(1)(iii) and establish a through-line with financial statements
- The HCMC supports the following four fundamental disclosures:
- how many workers** (including employees and independent contractors) the company uses to accomplish its strategy;
 - total cost of the work force**, presented in a way that evinces a discernable through-line from the company's audited financial reports to issuer disclosures;
 - turnover**, including management's actions to attract and retain workers and how changes in the ability to attract and retain workers affects the company's performance and strategy; and
 - diversity data**, including diversity by seniority, sufficient to understand the company's efforts to access and develop new sources of human capital and any strengths or weaknesses in its ability to do so.

- Balanced Approach: Tailored Principles
- Principles-based disclosures include information that may be more appropriate based on a company's industry/sector and/or business strategy
 - For example, companies in the mining industry may face different health and safety issues than a hospital, potentially impacting the metrics companies in each industry measure and monitor
 - A tech firm that abandons hardware manufacturing for cloud computing services would need to retool its recruitment, succession planning, and talent development processes
 - The best disclosures will help investors better understand a firm's human capital management strategy, how this strategy supports the overall business strategy, and how the company ensures that it is performing against its own benchmarks and objectives.
 - Principles-based disclosures should include metrics related to the following (non-exclusive list):
 - Workforce Health & Safety
 - Workforce Skills & Capabilities
 - Workforce Culture, Engagement, and Empowerment
 - Human and Labor Rights
 - Workforce Pay & Incentives

- Effective management and integration of financial, physical, and human capital are essential for long-term corporate value creation. These three capitals combined serve as key drivers of corporate growth.

- Disclosures required from companies regarding human capital includes four fundamental metrics:
 - Employee headcount (by employment type: full-time, part-time, contract, etc.)
 - Total labor costs (salaries, overtime, stock compensation, retirement benefits, welfare, training, etc.)
 - Employee turnover rate
 - Diversity data

- In addition to these metrics, the report recommends principle-based disclosures to help investors understand how the company's human capital management strategy supports its overall business strategy, and how performance aligns with benchmarks and objectives.

Comparable disclosures

Entity-specific disclosures

(Reference) Segment Disclosures of Human Capital-related Metrics and Targets

- Material human-capital related risks and opportunities may be concentrated in specific parts of the business model, such as business segments or geographical areas. For this reason, investors note that disclosures limited to the consolidated group level do not necessarily provide useful information.
- While the entity maintains its human capital management strategy at the consolidated group level as the foundation, investors note that it is useful for investment decision-making to focus on the businesses, countries and geographical areas that could materially affect the entity's cash flows and to disclose human capital-related risks and opportunities at that level, together with the corresponding human capital management strategy. Disclosure of human capital-related metrics and targets on a segment basis, reflecting such risks, opportunities and associated strategies, is considered particularly informative.

(*) An example of human capital-related risks and opportunities are concentrated in a specific country or geographical area is as follows: the entity identifies, as human capital-related risks and opportunities, in a subsidiary that has expanded its operations into a new country, whether it can secure the local personnel necessary to provide services that are suited to local business practices, culture and language.

Usefulness of Segment Disclosures

- An entity may need to differentiate workforce investments or human capital management strategies among different business segments or geographical segments, although the entity maintains the entity-wide human capital management strategy as the foundation. The entity may reflect differences in characteristics or business environments in different business sectors. The entity may also reflect differences in human resource systems, hiring regulations, and practices, as well as unique considerations in different regions.
- In this case, human capital-related disclosures are obscured if an entity only discloses average data on an entity-wide/consolidated basis and provide narrative disclosures that combine the initiatives in different segments, instead of disclosing segment-specific initiatives and quantitative information.
- In addition, even when the same strategy or initiative is implemented across multiple segments, the outcomes of the strategy may differ due to differences in segment-specific characteristics.
- In light of the above, it is beneficial for an entity to determine whether to provide segment-specific disclosures by business or geographical segments, in addition to developing entity-wide human capital management strategy and providing entity-wide disclosures.

**3. Illustrative Examples of
Alignment between Business Strategy and Human Capital Management Strategy,
and of Metrics and Targets Based on the Human Capital Management Strategy**

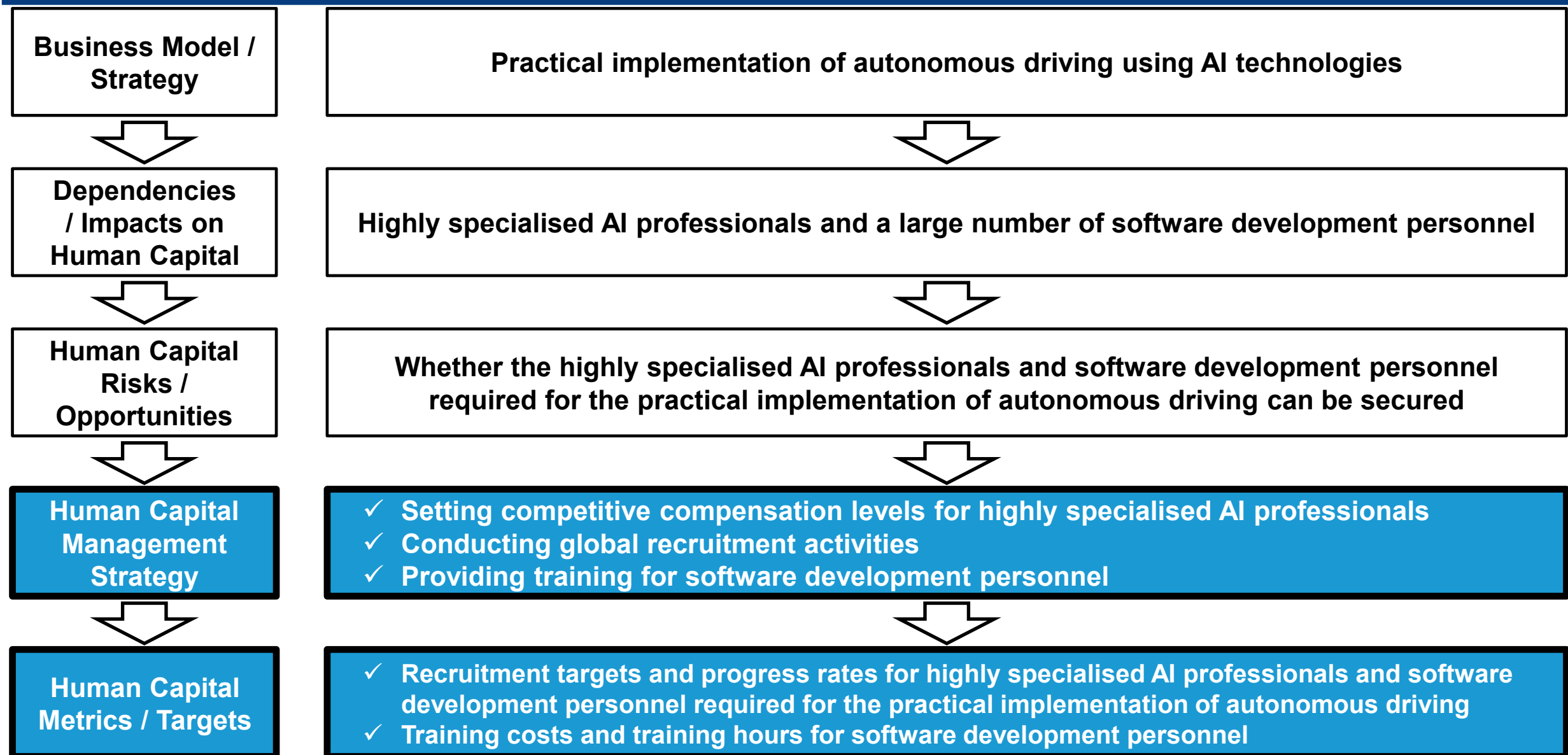
Alignment between Business Strategy and Human Capital Management Strategy, and the Resulting Metrics and Targets—Example: Entity A (1/2)

Example: Entity A (an entity in the technology industry)

- Entity A is in the technology industry, which has set the practical implementation of autonomous driving using AI technologies as a business strategy. To realise this business strategy, Entity A “depends” on human capital in the form of highly specialised AI professionals and software development personnel as part of its future talent portfolio. Looking ahead, to secure the necessary human capital, Entity A also “affects” it by setting competitive compensation levels to attract and hire such personnel and by investing in human capital through training for software development personnel.
- Because the realisation of Entity A’s business strategy depends on securing such human capital in the future, Entity A has concluded that failing to secure highly specialised AI professionals and software development personnel required for the practical implementation of autonomous driving constitutes a human capital-related risk that could reasonably be expected to affect the Entity’s prospects, as it would determine whether the business strategy of realising autonomous driving can be achieved. On the other hand, Entity A has concluded that, if it is able to implement the necessary measures through the execution of its human capital management strategy, opportunities will arise to secure the human capital necessary for realising the business strategy.

The examples presented under “Possible Disclosures” in Part 2 were developed with a hypothetical Entity A (an entity in the technology industry) above.

Alignment between Business Strategy and Human Capital Management Strategy, and the Resulting Metrics and Targets—Example: Entity A (2/2)



Note: The above has been prepared with reference to the matters under consideration by the ISSB in its human capital-related research project as of October 2025. It does not represent a definitive decision to develop standards on human capital in the manner described above.

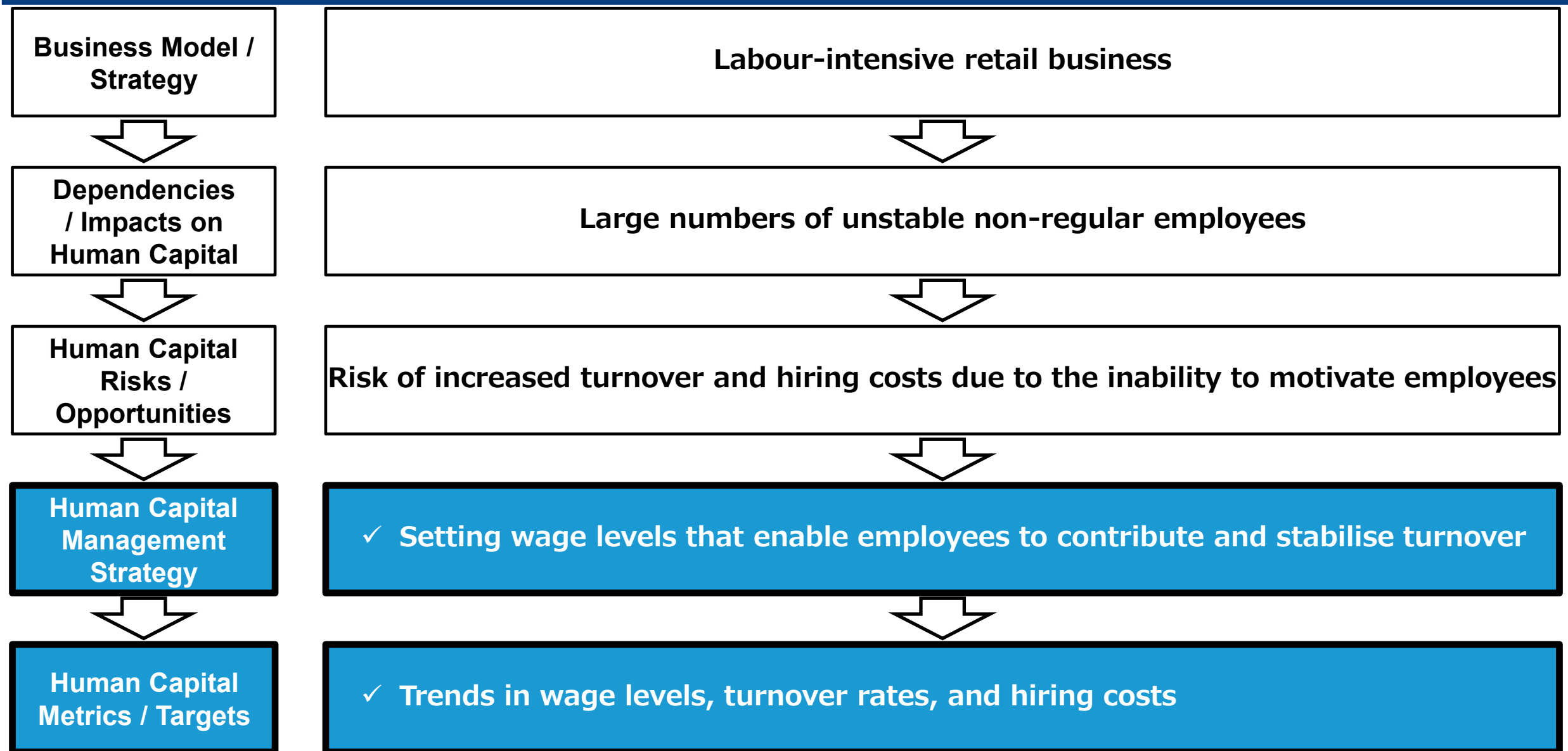
Source: Prepared by the FSA with reference to “Structuring the ISSB’s analysis of research findings” (pp. 20–23), a document used at the October 2025 ISSB meeting and published on the IFRS Foundation website. <https://www.ifrs.org/content/dam/ifrs/meetings/2025/october/issb/ap4-structuring-issb-analysis-research-findings.pdf>

Alignment between Business Strategy and Human Capital Management Strategy, and the Resulting Metrics and Targets—Example: Entity B (1/2)

Example: Entity B (an entity in the retail industry)

- Entity B’s business model is a labour-intensive retail business and therefore “depends” on human capital in the form of a large number of unstable non-regular employees. Looking ahead, to secure this human capital, Entity B also “affects” it by setting wage levels that enable employees to contribute and stabilise turnover, and by improving the workforce environment.
- Because Entity B’s business model depends on securing such human capital, Entity B has concluded that failing to motivate employees through wage setting and improvements to the workforce environment constitutes a human capital-related risk that could reasonably be expected to affect the Entity’s prospects, as it would lead to higher turnover and increased hiring costs to fill vacancies. On the other hand, Entity B has concluded that if it is able to motivate employees through the implementation of its human capital management strategy, opportunities will arise to achieve stable operation of its business model by keeping turnover and hiring costs at an adequate level.

Alignment between Business Strategy and Human Capital Management Strategy, and the Resulting Metrics and Targets—Example: Entity B (2/2)



Note: The above has been prepared with reference to the matters under consideration by the ISSB in its human capital-related research project as of October 2025. It does not represent a definitive decision to develop standards on human capital in the manner described above.

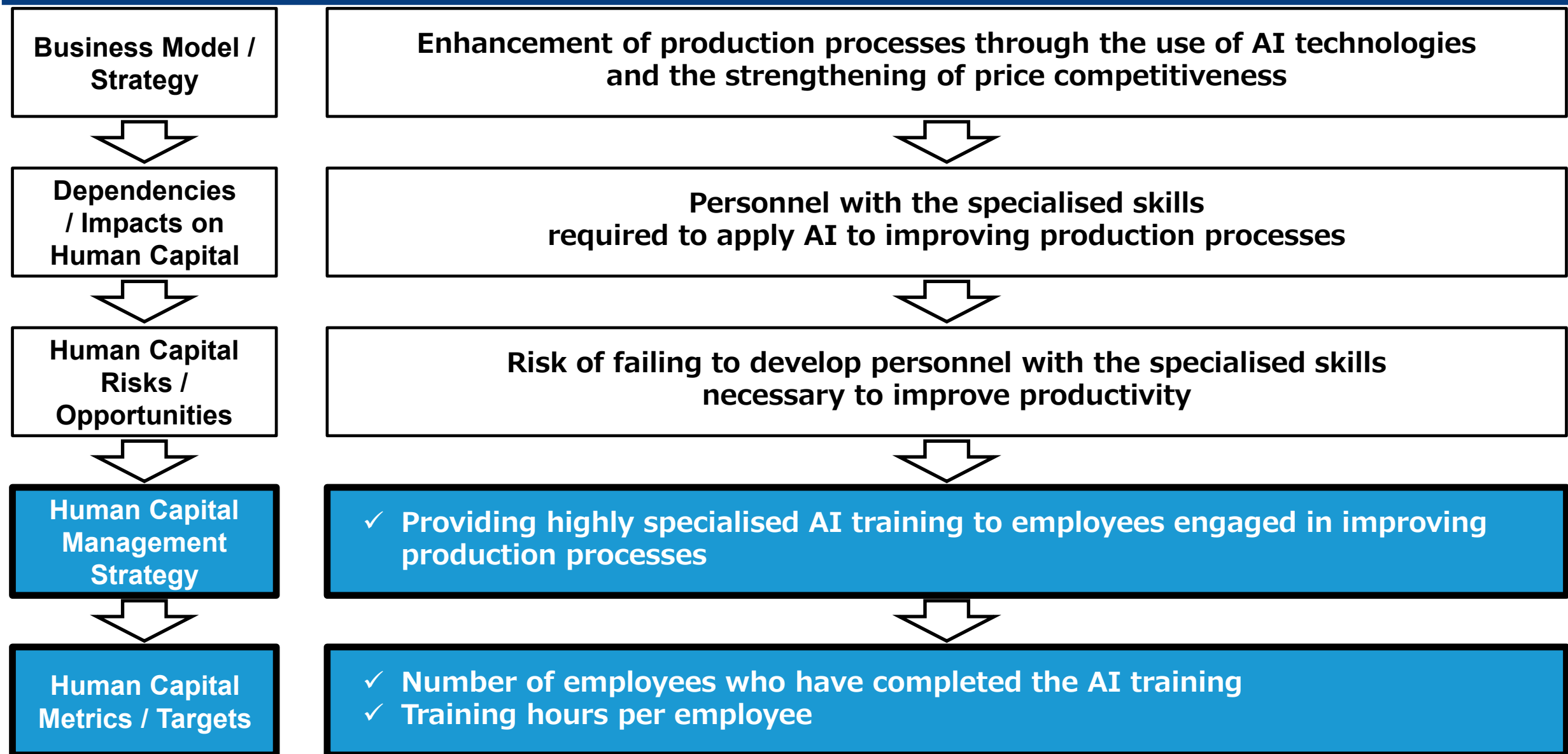
Source: Prepared by the FSA with reference to “Structuring the ISSB’s analysis of research findings” (pp. 20–23), a document used at the October 2025 ISSB meeting and published on the IFRS Foundation website. <https://www.ifrs.org/content/dam/ifrs/meetings/2025/october/issb/ap4-structuring-issb-analysis-research-findings.pdf>

Alignment between Business Strategy and Human Capital Management Strategy, and the Resulting Metrics and Targets—Example: Entity C (1/2)

Example: Entity C (an entity in the manufacturing industry)

- Entity C is in the manufacturing industry, which has set the enhancement of production processes through the use of AI technologies and the strengthening of price competitiveness as its business strategy. To realise this business strategy, Entity C “depends” on human capital with the expertise required to apply AI to improving production processes. Looking ahead, to secure such specialised human capital, Entity C also “affects” the human capital by developing its workforce through highly specialised AI training provided to employees engaged in improving production processes.
- Because the realisation of Entity C’s business strategy depends on securing human capital with AI-related expertise, Entity C has concluded that failing to develop personnel with the specialised skills required to apply AI to improving production processes constitutes a human capital-related risk that could reasonably be expected to affect the Entity’s prospects, as it would hinder progress in improving those processes, prevent productivity from increasing, and place the entity at a disadvantage in price competition with industry peers that are utilising AI. On the other hand, Entity C has concluded that, if it is able to secure such specialised personnel through the execution of its human capital management strategy, opportunities will arise to realise productivity improvements and to strengthen competitiveness.

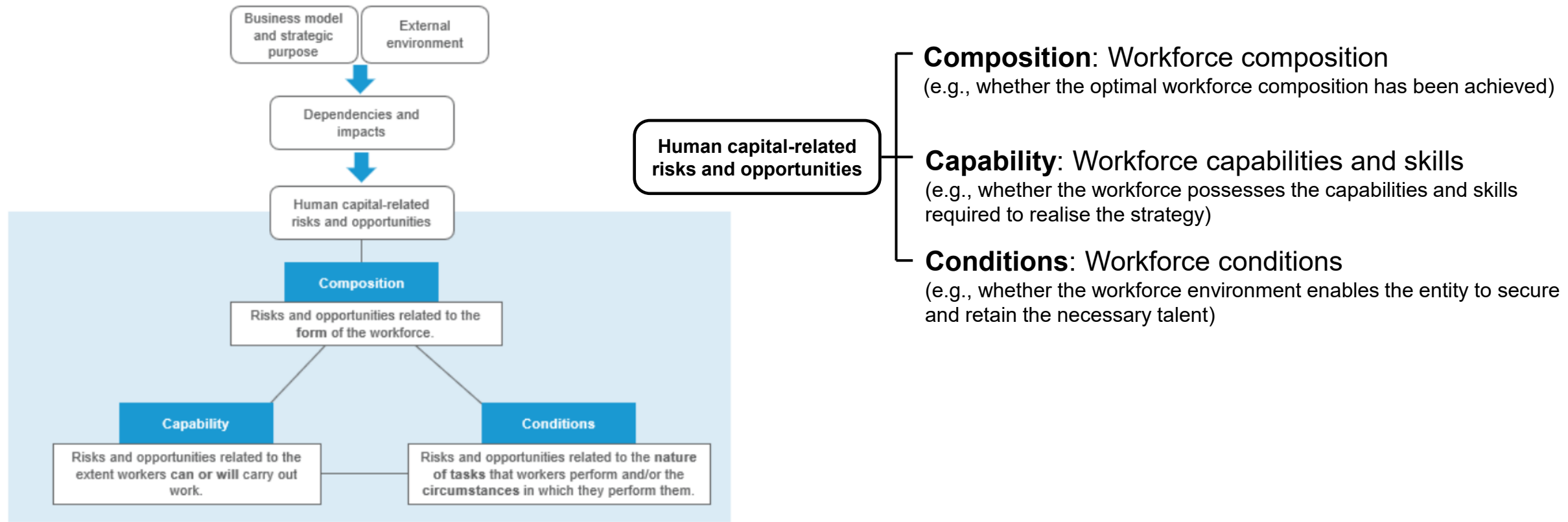
Alignment between Business Strategy and Human Capital Management Strategy, and the Resulting Metrics and Targets—Example: Entity C (2/2)



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Ongoing ISSB Deliberations on Human Capital Disclosure and a Proposed Categorisation of “Human Capital-related Risks and Opportunities”

- In the ISSB’s Human Capital Research Project, the ISSB has presented the view that human capital-related risks and opportunities arise from an entity’s “dependencies and impacts” on human capital, based on its business model and strategy.
- Furthermore, the ISSB has considered classifying human capital-related risks and opportunities into three categories.



Note: The above has been prepared with reference to the matters under consideration by the ISSB in its human capital-related research project as of October 2025. It does not represent a definitive decision to develop standards on human capital in the manner described above.

Source: Prepared by the FSA with reference to “Structuring the ISSB’s analysis of research findings” (p.13), a document used at the October 2025 ISSB meeting and published on the IFRS Foundation website. <https://www.ifrs.org/content/dam/ifrs/meetings/2025/october/issb/ap4-structuring-issb-analysis-research-findings.pdf>

Example Based on the ISSB’s Proposed Categorisation of Human Capital-Related Risks and Opportunities (1/2)

- The following is an example, based on the categorisation of human capital-related risks and opportunities on Page 30, which illustrates how a hypothetical entity—one that is entering into a new business as its business strategy—may consider human capital disclosure from the perspectives of Composition, Capability, and Conditions.

	Composition (e.g., workforce composition)	Capability (e.g., capabilities and skills)	Conditions (e.g., workforce conditions)
Human Capital Risks / Opportunities	Whether the entity can secure the number of personnel required for entering the new business	Whether the entity can secure talent with the level of specialised skills required for entering the new business	Whether the entity can provide a workforce environment that attracts the necessary talent in a new business where competition for talent is intensifying
Human Capital Management Strategy	Estimating the number of personnel required for entering the new business and setting annual hiring targets	Establishing a structured training programme for acquiring the specialised skills required for entering the new business	Setting competitive wage levels to strengthen the entity’s ability to attract talent
Human Capital Metrics / Targets	Target and actual hiring numbers in the new-business segment	Number of employees who have completed training programmes in the new-business segment	Wage-increase policy (wage-increase rate) in the new-business segment

Note: The above has been prepared with reference to the matters under consideration by the ISSB in its human capital-related research project as of October 2025. It does not represent a definitive decision to develop standards on human capital in the manner described above.

Source: Prepared by the FSA with reference to “Structuring the ISSB’s analysis of research findings” (pp. 20–23), a document used at the October 2025 ISSB meeting and published on the IFRS Foundation website. <https://www.ifrs.org/content/dam/ifrs/meetings/2025/october/issb/ap4-structuring-issb-analysis-research-findings.pdf>

Example Based on the ISSB’s Proposed Categorisation of Human Capital-Related Risks and Opportunities (2/2)

- The following is an example, based on the categorisation of human capital-related risks and opportunities on Page 30, which illustrates how a hypothetical entity—one that has set the overseas expansion of its B-to-C business as its business strategy—may consider human capital disclosure from the perspectives of Composition, Capability, and Conditions.

	Composition (e.g., workforce composition)	Capability (e.g., capabilities and skills)	Conditions (e.g., workforce conditions)
Human Capital Risks / Opportunities	Whether the entity can secure the number of personnel required to provide services at its overseas subsidiaries	Whether the entity can secure talent at its overseas subsidiaries that can deliver service quality equivalent to that in the home country	Whether the entity can provide incentives for employees to remain with the entity over the long term in countries with high workforce mobility
Human Capital Management Strategy	Estimating the number of personnel required to provide services at overseas subsidiaries and setting annual hiring targets	Establishing training programmes to provide local employees with the skills needed to deliver service quality equivalent to that in the home country	Providing attractive welfare and benefits programmes, compared with industry peers, to support the long-term retention of local talent
Human Capital Metrics / Targets	Target and actual hiring numbers at overseas subsidiaries	Number and pass rate of certification exam candidates for training programmes designed to ensure service quality equivalent to that in the home country	Annual investment in welfare and benefits programmes Voluntary turnover rate

Note: The above has been prepared with reference to the matters under consideration by the ISSB in its human capital-related research project as of October 2025. It does not represent a definitive decision to develop standards on human capital in the manner described above.

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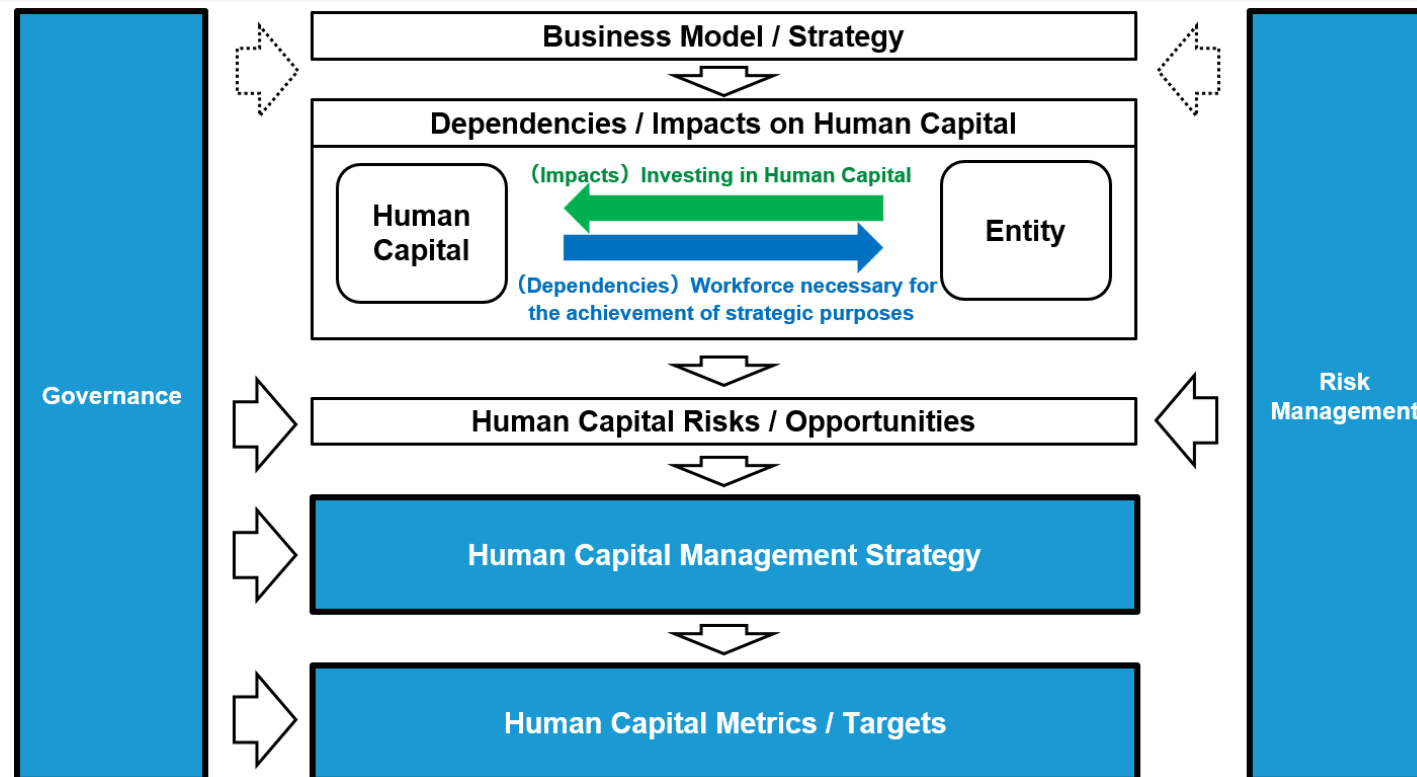
Part 2

Disclosures Based on the Four Core Contents

Overview

Overview of Human Capital Disclosures with the Four Core Contents

- Under the ISSB Standards, entities are required to disclose information based on the four core contents: governance, strategy, risk management, and metrics and targets. Among these four core contents, we have discussed (human capital management) strategy and (human capital) metrics and targets in Part 1 “Alignment between Business Strategy and Human Capital Management Strategy.”
- Furthermore, when entities also provide information on governance and risk management aligned with their (human capital management) strategy and (human capital) metrics and targets, human capital disclosures will cover all four core contents in the ISSB Standards (four blue boxes in the following diagram).



Note: The above provides an illustrative overview of approaches to human capital disclosure, with reference to the four core contents under the ISSB Standards. While the ISSB Standards include descriptions related to human capital, the ISSB Standards do not prescribe any specific disclosure requirements in human capital.

Source: Prepared by the FSA with reference to the ISSB Standards

Human Capital Disclosures Based on the Four Core Contents

- When preparing human capital disclosures that meet investors' expectations, entities may consider presenting human capital disclosures in line with the four core contents (governance, strategy, risk management, and metrics and targets) set out in the ISSB Standards.

	<u>Explanation</u>	<u>Disclosure objective</u>
Governance	The governance processes, controls, and procedures the entity uses to monitor, manage and oversee human capital-related risks and opportunities	To enable users of general purpose financial reports to understand the governance processes, controls, and procedures an entity uses to monitor, manage, and oversee human capital-related risks and opportunities
Human Capital Management Strategy	The approach the entity uses to manage human capital-related risks and opportunities (human capital management strategy)	To enable users of general purpose financial reports to understand the entity's strategy for managing human capital-related risks and opportunities (human capital management strategy)
Risk Management	The processes the entity uses to identify, assess, prioritise, and monitor human capital-related risks and opportunities	To enable users of general purpose financial reports to understand an entity's processes to identify, assess, prioritise, and monitor human capital-related risks and opportunities, and to assess the entity's overall risk profile and its overall risk management process
Human Capital Metrics / Targets	The entity's performance in relation to human capital-related risks and opportunities (progress towards any targets the entity has set in relation to its human capital management strategy)	To enable users of general purpose financial reports to understand an entity's performance in relation to its human capital-related risks and opportunities, including progress toward any targets the entity has set

Note: The above provides an overview of approaches to human capital disclosures, with reference to the four core contents under the ISSB Standards. While the ISSB Standards include descriptions related to human capital, the ISSB Standards do not prescribe any specific disclosure requirements in human capital.

Source: Prepared by the FSA with reference to the ISSB Standards

Investor Expectations for Human Capital Disclosures Based on the Four Core Contents

- Investors expressed the following expectations regarding human capital disclosures based on the four core contents.

Governance

The governance processes, controls, and procedures the entity uses to monitor, manage and oversee:

- (1) whether the entity’s human capital management strategy is aligned with its business strategy and business model; and
- (2) whether the entity’s metrics and targets enable the entity to understand the human capital’s contributions for achieving its business strategy and maintaining and reinforcing its business model, and to identify indicators of risks.

Human Capital Management Strategy

The strategies for the formation and development of human capital, and related investment strategies in human capital (human capital management strategies), contributing to the achievement of the entity’s business strategy and to maintaining, reinforcing, and transforming its business model. Human capital includes intangibles that are not recognised in the financial statements, such as employees’ performance capabilities and organisational culture.

Risk Management

Processes that the entity uses to identify, assess, prioritise, and respond to sustainability-related risks and opportunities, including unexpected events or changes in the business strategy’s and business model’s dependencies and impacts on human capital.

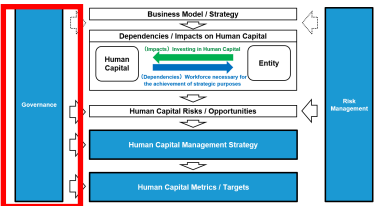
Human Capital Metrics / Targets

Metrics and targets (which may be a combination of entity-specific and comparable metrics) that the entity uses to:

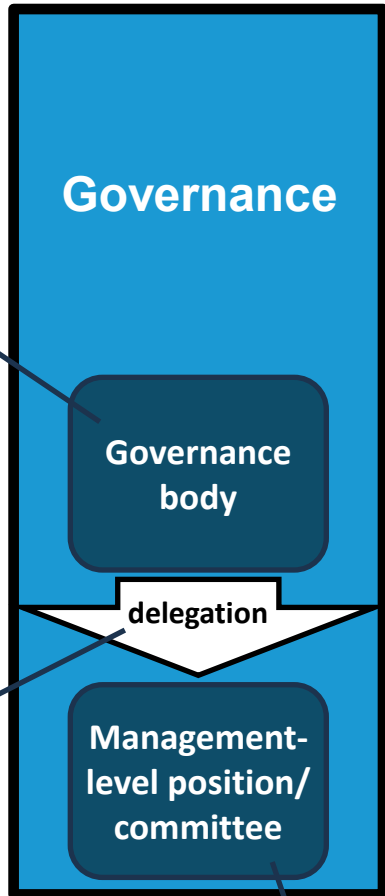
- (1) make it clear how its human capital management strategy contributes to achieving its business strategy, through human capital-related initiatives and their expected effects, given the business strategy’s and business model’s dependencies and impacts on human capital; and
- (2) assess the progress of those initiatives toward achieving its targets.

1. Governance

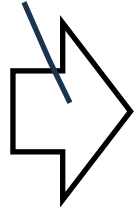
Human Capital Disclosure in Line with IFRS S1 – Governance



S1.27(a)(i)(ii)



S1.27(a)(iii)



Human Capital Risks / Opportunities

S1.27(a)(iv)



Human Capital Management Strategy

S1.27(a)(v)



Human Capital Metrics / Targets



S1.27(b)(i)

S1.27(b)(ii)

Human Capital Disclosure – Governance (1/6)

Identification and Role of the Governance Body

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> To achieve sustainable corporate growth and enhance corporate value over the medium to long term, it is important that there is a governance body—such as the board of directors, when it holds such responsibility—that both sets the overall direction of the business strategy and effectively oversees management in its execution. It is also essential that this governance body functions appropriately. It is important that the governance body oversees and monitors the formulation and implementation of the human capital management strategy in order to ensure alignment with the business strategy and business model and to support the achievement of the business strategy. 	<ul style="list-style-type: none"> When a governance body responsible for oversight of human capital-related risks and opportunities exists, the entity may identify that governance body and disclose information about how responsibilities for human capital-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body. 	<p>27. ...</p> <p>(a) the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of sustainability-related risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about:</p> <p>(i) how responsibilities for sustainability-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s);</p> <p>...</p>

Illustrative Example of “Possible Disclosures”

(For all sustainability topics) Under the oversight of the Board of Directors, the XX and the XX Committee, which are delegated by the Executive Management Committee, address the Entity’s sustainability issues.

- The Board of Directors approves the medium- to long-term management plan that sets the entity’s strategic direction and determines the basic policies for addressing sustainability issues, including human capital utilisation, that support the plan. In addition, the “Sustainability Committee” and the “Human Capital Management Office,” both delegated by the Executive Management Committee, report to the Board of Directors on the progress of their initiatives on a quarterly basis. Based on these reports, the Board of Directors oversees the execution of the basic policies.

Human Capital Disclosure – Governance (2/6)

Skills and Competencies of the Governance Body

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> ● It is important to clarify the skills and competencies required for the governance body to oversee human capital management strategy and human capital-related risks and opportunities, because these skills and competencies are prerequisite for the effective function of the governance body. It is also important to determine how these skills and competencies will be developed when these skills and competencies are not sufficient. ● In addition, in some cases it may be useful to disclose the entity’s approach to ensuring an appropriate composition of the board of directors. 	<ul style="list-style-type: none"> ● An entity may disclose whether appropriate skills and competencies necessary to oversee the human capital management strategy are available, and, how these skills and competencies will be developed when these are not available. 	<p>27. ... (a) (ii) how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to sustainability-related risks and opportunities; ...</p>

Illustrative Example of “Possible Disclosures”

- The skills and competencies required for the Board of Directors are incorporated into the skills matrix used by the Nomination Committee—established under the Board—when selecting director candidates. By including the skills and competencies necessary to oversee sustainability and human capital management within this matrix, the Entity seeks to ensure appropriate oversight by the Board of Directors. In addition, the entity organizes meetings with external experts to further enhance these skills and competencies. During the current fiscal year, the Entity conducted XX and XX for this purpose.

Human Capital Disclosure – Governance (3/6)

Governance Body’s Oversight (1/3)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> ● It is important for the governance body to obtain, in a timely manner, the information necessary to monitor target setting and progress toward the targets, using performance metrics related to the progress of the human capital management strategy, so that it can conduct in-depth oversight of the human capital management strategy and human capital-related risks and opportunities. ● In addition, disclosure on information that provides visibility into how key issues are being deliberated, including the frequency of meetings and the contents of discussions, can be useful. 	<ul style="list-style-type: none"> ● An entity may disclose how and how often the governance body discusses human capital-related risks and opportunities, and what information it receives in those discussions. 	<p>27. ... (a) (iii) how and how often the body(s) or individual(s) is informed about sustainability-related risks and opportunities; ...</p>

Illustrative Example of “Possible Disclosures”

- The Board of Directors receives quarterly reports from the XX Committee on the hiring status of software development personnel—broken down by required skill sets—necessary to realise the business strategy of commercializing autonomous driving technology using AI. For those development positions where actual hiring has fallen short of the hiring plan, and where such shortfalls are expected to have a significant impact on achieving the business strategy, the Board held quarterly discussions on the hiring status and the measures to be taken.

Human Capital Disclosure – Governance (4/6)

Governance Body’s Oversight (2/3)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
Same as above	<ul style="list-style-type: none"> An entity may disclose how the governance body oversees progress in implementing the human capital management strategy from the perspective of realising the business strategy. 	27. ... (a) (iv) how the body(s) or individual(s) takes into account sustainability-related risks and opportunities when overseeing the entity’s strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; ...

Illustrative Example of “Possible Disclosures”

- The Board of Directors deliberates on the basic policies for addressing sustainability issues, including human capital management, as key matters supporting the execution of the medium-term management plan. During the current fiscal year, the Board deliberated on XX, XX, and XX.

Human Capital Disclosure – Governance (5/6)

Governance Body’s Oversight (3/3)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> Disclosures regarding the oversight of setting of targets and the monitoring of progress towards achieving those targets related to the human capital management strategy are considered important information for investors. For example, it can be useful to disclose whether the entity monitors the appropriateness of its plans—such as the development of a future human capital portfolio and the measures for securing that talent—by taking into account the external competitive environment as well as the objective perspectives of external directors. Reflecting human capital-related performance indicators that are critical to realising business strategy in the determination of executive compensation can also enhance both the transparency of the human capital management strategy and the effectiveness of the governance body’s oversight, when the governance body supervises human capital-related risks and opportunities. 	<ul style="list-style-type: none"> An Entity may disclose how the governance body oversees the setting of targets for performance metrics related to their human capital management strategy and how it monitors progress towards achieving those targets. 	<p>27. ... (a) (v) how the body(s) or individual(s) oversees the setting of targets related to sustainability-related risks and opportunities, and monitors progress towards those targets (see paragraph 51), including whether and how related performance metrics are included in remuneration policies. ...</p>

Illustrative Example of “Possible Disclosures”

- The Board of Directors oversees whether the hiring targets for software development personnel—necessary for achieving the business strategy—are appropriately set based on that strategy, and monitors progress on a quarterly basis. Detailed reviews are delegated to the XX Committee, from which the Board receives reports.
- In addition, to enhance the effectiveness of the Board’s oversight of sustainability initiatives, the Entity includes overall sustainability-related items (e.g., GHG emissions) and human capital-related items (e.g., employee engagement scores) in the evaluation criteria for the medium- to long-term performance-linked portion of executive compensation. (For further details, see Executive Compensation.)

Human Capital Disclosure – Governance (6/6)

Delegation from the Governance Body to Committees in which Management Participates

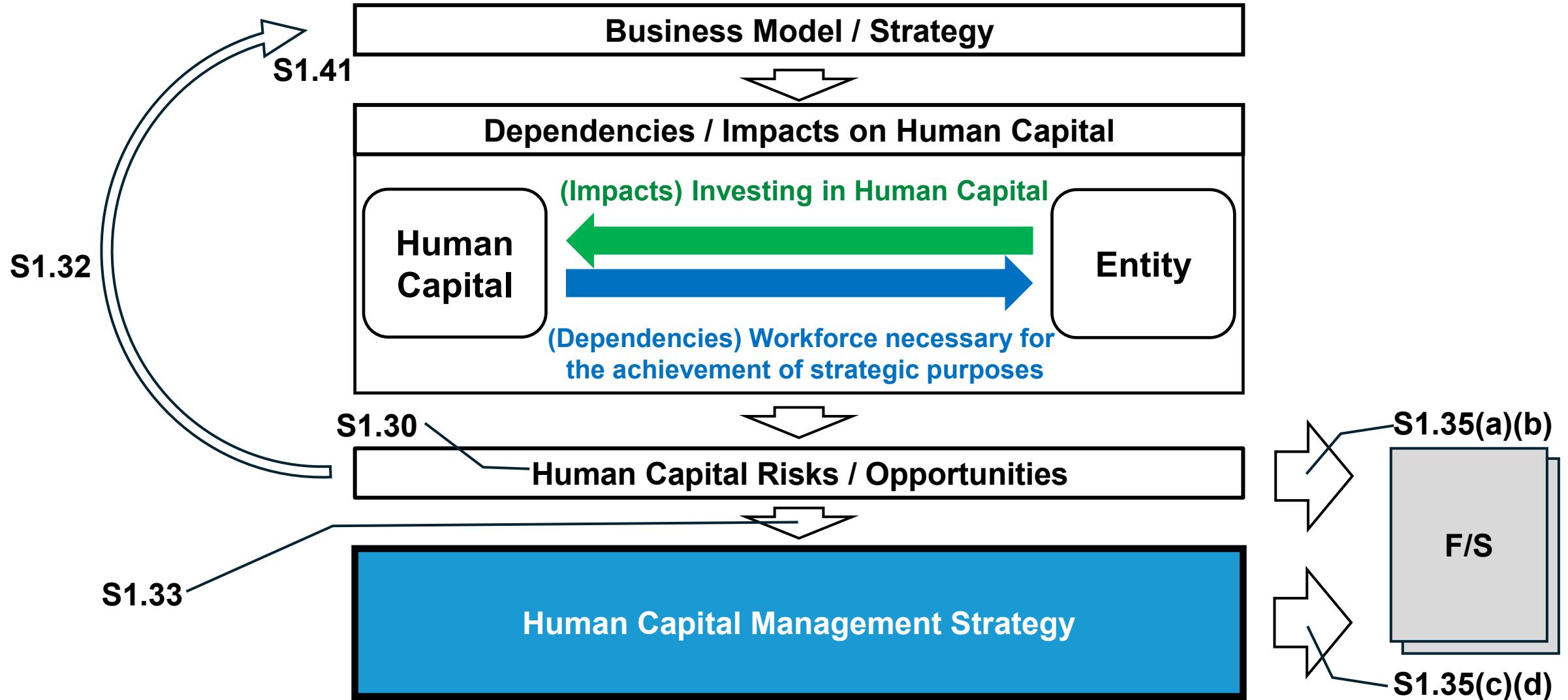
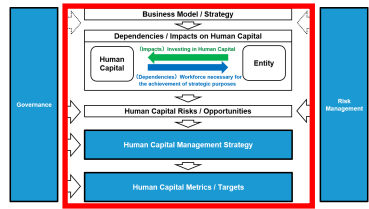
Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> To enhance the feasibility of the business strategy and the human capital management strategy that supports it, it is important to clearly delineate the roles of oversight and execution—that is, to clarify the respective roles of the governance body and management, as well as the relationship between them. 	<ul style="list-style-type: none"> If the roles related to the governance processes, controls, and procedures used to monitor, manage, and oversee human capital-related risks and opportunities are delegated to committees in which the CHRO or management participate, an entity may disclose such delegation. 	<p>27. ...</p> <p>(b) management’s role in the governance processes, controls and procedures used to monitor, manage and oversee sustainability-related risks and opportunities, including information about:</p> <p>(i) whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and</p> <p>(ii) whether management uses controls and procedures to support the oversight of sustainability-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.</p>

Illustrative Example of “Possible Disclosures”

- In executing the basic policies determined by the Board of Directors, the sustainability matters are divided into two areas—“(1) Overall Sustainability” and “(2) Human Capital”—and the execution for each area is monitored accordingly.
 - Overall Sustainability:** Under the Executive Management Committee, the Entity has established the Sustainability Committee, chaired by the CEO and composed of the heads of relevant business units. The committee monitors the progress of initiatives based on the basic policies for sustainability issues and provides quarterly reports to both the Executive Management Committee and the Board of Directors.
 - Human Capital:** Under the Executive Management Committee, the entity has established the Human Capital Management Office, chaired by the CEO and joined by the CHRO and managements of key business units. The Office monitors progress on initiatives based on the basic policies for human capital and provides quarterly reports to both the Executive Management Committee and the Board of Directors. The Entity’s CHRO shares responsibility and authority with the CEO for formulating and executing the human capital management strategy.

2. Strategy

Human Capital Disclosure in Line with IFRS S1 – Strategy



Human Capital Disclosure – Strategy (1/11)

Human Capital-related Risks and Opportunities (1/2)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> ● It is important for an entity to identify human capital-related risks and opportunities that could reasonably be expected to affect its cash flows, in order to sustain and enhance its business model over the long term amid rapid changes in industry structures and the business environment. ● For investors, understanding such human capital-related risks and opportunities is also important from the perspective of corporate valuation. ● In identifying human-capital-related risks and opportunities, it is useful to consider and organise them along three dimensions: (1) Workforce composition (e.g. whether the optimal workforce composition has been achieved), (2) Capabilities and skills (e.g. whether the workforce possesses the skills required to realise the strategy), and (3) Workforce conditions (e.g. whether the workforce environment enables the entity to secure and retain the necessary talent). Although human capital-related risks and opportunities vary depending on an entity’s business strategy and business model, this classification is generally applicable to all entities. It is pointed out that disclosing such risks and opportunities across these three categories helps users understand whether the entity has undertaken the necessary analysis. 	<ul style="list-style-type: none"> ● An entity may disclose human capital-related risks and opportunities that could reasonably be expected to affect the entity’s cash flows. 	<p>30. An entity shall disclose information that enables users of general purpose financial reports to understand the sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects. Specifically, the entity shall:</p> <p>(a) describe sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects</p> <p>...</p>

Illustrative Example of “Possible Disclosures”

- Because autonomous driving is expected to come into widespread use in the future, the Entity expects that its ability to adapt to this trend will have a significant impact on its future competitiveness and profitability. In addressing this trend, the Entity believes that securing highly specialised AI professionals and software development personnel—both necessary for the practical implementation of autonomous driving—is particularly important, and has therefore identified the securing of such talent as its most important human capital-related risk and opportunity.

Human Capital Disclosure – Strategy (2/11)

Human Capital-related Risks and Opportunities (2/2)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> ● It is recognised that entities differ in their investment and business cycles, as well as in the time horizons used for decision-making and capital-allocation planning, reflecting the characteristics of the industries in which they operate. ● Therefore, understanding how an entity considers the time horizons over which the effects of human capital-related risks and opportunities could be expected to occur is important for investors. 	<ul style="list-style-type: none"> ● An entity may present the time horizons over which the effects of human capital-related risks and opportunities could be expected to occur as the short, medium or long term, and explain how the entity defines ‘short term’, ‘medium term’ and ‘long term’ and how these definitions are linked to the planning horizons used by the entity for strategic decision-making. 	<p>30. ...</p> <p>(b) specify the time horizons—short, medium or long term—over which the effects of each of those sustainability-related risks and opportunities could reasonably be expected to occur; and</p> <p>(c) explain how the entity defines ‘short term’, ‘medium term’ and ‘long term’ and how these definitions are linked to the planning horizons used by the entity for strategic decision-making.</p>

Illustrative Example of “Possible Disclosures”

- The Entity manages its business in line with a medium-term business plan formulated every three years under a ten-year vision of “Becoming an Entity that contributes to people’s new lifestyles and safety.” Adapting to autonomous driving is one of the pillars of the current medium-term business plan.
- Because securing highly specialised AI professionals and software development personnel—which the Entity has identified as its human capital-related risks and opportunities—is aligned with this business plan, the Entity adopts the same time horizons as the plan: one year for the short term, three years for the medium term and ten years for the long term.

Human Capital Disclosure – Strategy (3/11)

Effects of Human Capital-related Risks and Opportunities on the Business Model (1/2)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> ● By understanding an entity’s human capital-related risks and opportunities, investors can deepen their understanding of the business model the entity has developed, how its existing business model may need to transform, and how the entity plans to carry out such transformation. ● Information on an entity’s human capital management strategy—including the setting of competitive wage levels to secure the talent necessary for executing its business strategy—is valuable for investors. ● Furthermore, as the spread of generative AI and other developments may change the “Vision of Optimal Human Capital” and the “Necessary Investments in Human Capital,” disclosure by the entity of how it intends to respond to such changes is valuable to investors. 	<ul style="list-style-type: none"> ● An entity may disclose information on the current and anticipated material effects of human capital-related risks and opportunities on the entity’s business model. 	<p>32. An entity shall disclose information that enables users of general purpose financial reports to understand the current and anticipated effects of sustainability-related risks and opportunities on the entity’s business model and value chain. Specifically, the entity shall disclose:</p> <p>(a) a description of the current and anticipated effects of sustainability-related risks and opportunities on the entity’s business model and value chain; and</p> <p>...</p>

Illustrative Example of “Possible Disclosures”

- Demand for autonomous driving is expected to increase rapidly in the future. As a result, the impact of securing “highly specialised AI professionals” and “software development personnel” on the Entity’s business model is also expected to grow significantly. In light of this situation, the Entity will introduce a global HR policy applied consistently across the group and provide competitive compensation packages compared with overseas competitors, in order to recruit talented individuals from around the world.

Human Capital Disclosure – Strategy (4/11)

Effects of Human Capital-related Risks and Opportunities on the Business Model (2/2)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> By disclosing where and how human capital-related risks and opportunities affect the entity’s business model and value chain, investors can deepen their understanding of the entity’s human capital management strategy, thereby enabling more informed decision-making in relation to that strategy. 	<ul style="list-style-type: none"> An entity may disclose information on where in the entity’s business model and value chain human capital-related risks and opportunities are concentrated. 	32. ... (b) a description of where in the entity’s business model and value chain sustainability-related risks and opportunities are concentrated (for example, geographical areas, facilities and types of assets).

Illustrative Example of “Possible Disclosures”

- The Entity considers that the part of its business model most affected by the practical implementation of autonomous driving will be the XX Electronics Division, which engages in the relevant operations. This division is expected to become a major driver of the Entity’s growth in the future, and in the long term, the Entity anticipates that it will have a significant impact on the Entity’s overall business model as well.

Human Capital Disclosure – Strategy (5/11)

Financial Effects of Human Capital-related Risks and Opportunities

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> Investments in human capital tend to reduce profit and lower capital efficiency in the short term, given that most human capital investment is recorded as an expense in financial statements. However, not only entities but also investors are increasingly recognising that human capital investment is a strategic investment that directly contributes to growth and the enhancement of corporate value. Ensuring connectivity between financial statements and human capital disclosures can be helpful to bridge the gap between the information disclosed in the financial statements and the information investors require. When such information cannot be presented quantitatively, qualitative disclosures may also provide useful insights. 	<ul style="list-style-type: none"> An entity may disclose quantitative and qualitative information about how human capital-related risks and opportunities have affected its financial position, financial performance and cash flows for the reporting period. 	<p>35. Specifically, an entity shall disclose quantitative and qualitative information about:</p> <p>(a) how sustainability-related risks and opportunities have affected its financial position, financial performance and cash flows for the reporting period;</p> <p>(b) the sustainability-related risks and opportunities identified in paragraph 35(a) for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;</p> <p>...</p>

Illustrative Example of “Possible Disclosures”

- Based on its human capital management strategy of securing “highly specialised AI professionals” and “software development personnel” required for the practical implementation of autonomous driving, the Entity conducted training for AI software developers in collaboration with a training institution in the United States and recognised ¥XX billion in training expenses for the current reporting period.

Human Capital Disclosure – Strategy (6/11)

Anticipated Financial Effects of the Human Capital Management Strategy

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> ● Among investors, the effects of an entity’s human capital management strategy on future cash flows are widely regarded as the most important information within human capital disclosures. ● Therefore, it is expected that an entity disclose such information in a manner that enables investors to understand the effects of the entity’s human capital management strategy on its future cash flows and financial statements. When such information cannot be presented quantitatively, qualitative disclosures may also provide useful insights. 	<ul style="list-style-type: none"> ● An entity may disclose quantitative and qualitative information about how the entity expects its financial position, financial performance and cash flows to change in the future, given its human capital management strategy for managing human capital-related risks and opportunities. 	<p>35. ...</p> <p>(c) how the entity expects its financial position to change over the short, medium and long term, given its strategy to manage sustainability related risks and opportunities, taking into consideration: ...</p> <p>(d) how the entity expects its financial performance and cash flows to change over the short, medium and long term, given its strategy to manage sustainability-related risks and opportunities.</p>

Illustrative Example of “Possible Disclosures”

1. The Entity plans to increase its training expenses for software development personnel in the AI field required for the practical implementation of autonomous driving from ¥XX billion in the current reporting period to ¥XX billion in one year, ¥XX billion in three years and ¥XX billion in ten years. As a result, the proportion of these training expenses within the Entity’s total training expenses is planned to increase from XX% in the current reporting period to XX% in one year, XX% in three years and XX% in ten years, enabling the Entity to allocate training resources more efficiently to priority areas.
2. With respect to the anticipated financial effects associated with the opportunity to secure “highly specialised AI professionals” and “software development personnel” required for the practical implementation of autonomous driving, the Entity considers it difficult to distinguish and identify those effects separately from other factors. However, the Entity expects that the personnel developed through this training will become critical talent supporting its competitiveness in the autonomous-driving field—which is anticipated to become a major market in the future—and will contribute to increases in future revenue and profit. Specifically, the Entity expects that such talent will make a significant contribution to achieving the targets set out in its medium-term business plan—revenue of ¥XX billion, profit of ¥XX billion and ROIC of XX%—as well as the long-term targets stated in its corporate vision—revenue of ¥XX billion, profit of ¥XX billion and ROIC of XX%.

Human Capital Disclosure – Strategy (7/11)

Effects of Human Capital-related Risks and Opportunities on Human Capital Management Strategy and Decision-making (1/4)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> ● An entity can explain its business strategy and human capital management strategy as an integrated story by clearly and logically aligning the human capital-related risks and opportunities arising from its business strategy with its human capital management strategy and the human capital investments that respond to those risks and opportunities. ● It is valuable for investors when human capital management strategies include following information: <ul style="list-style-type: none"> • What types of human capital are necessary to achieve the entity’s business strategy and future success (Vision of Optimal Human Capital). • What are the Necessary Investments in Human Capital for the entity to attract such human capital, provide a workforce environment in which they can grow, and encourage their contributions. • Whether the entity is considering human capital-related risks and opportunities that could reasonably be expected to have a material impact on its future cash flows or affect the entity’s prospects. • Whether the entity’s human capital management strategy is aligned with its business strategy and business model. 	<ul style="list-style-type: none"> ● An Entity may disclose information about how they have responded to, and plans to respond to, human capital-related risks and opportunities in their human capital management strategy and decision-making. 	<p>33. An entity shall disclose information that enables users of general purpose financial reports to understand the effects of sustainability-related risks and opportunities on its strategy and decision-making. Specifically, the entity shall disclose information about: (a) how the entity has responded to, and plans to respond to, sustainability-related risks and opportunities in its strategy and decision-making;</p> <p>...</p>

Human Capital Disclosure – Strategy (8/11)

Effects of Human Capital-related Risks and Opportunities on Human Capital Management Strategy and Decision-making (2/4)

Illustrative Example of “Possible Disclosures”

- As a human capital management strategy addressing the human capital-related risks and opportunities associated with whether the Entity can secure highly specialised AI professionals and software development personnel necessary for the practical implementation of autonomous driving, the Entity has launched a “Workforce Capability Enhancement Project” and is implementing the following two-stage approach.

(i) Hiring of external talent

At present, the Entity has limited AI-related capabilities, and recognises that, in launching the “Workforce Capability Enhancement Project,” it is essential to hire external professionals with cutting-edge expertise in the AI field. Accordingly, the Entity has appointed an externally recruited professional as the project leader, who is responsible for developing the training programmes and internal rules necessary to enhance capability of its workforce.

(ii) Enhancement of employees’ skills

To transform the Entity’s business model in response to the accelerating trend towards autonomous driving, it is necessary that not only a limited group of employees but, at a minimum, all employees of the XX Electronics Division understand the importance of AI and enhance their skills. Accordingly, the “Workforce Capability Enhancement Project” team is developing an Entity-specific training system to facilitate the reskilling of employees, mainly those in the XX Electronics Division. The Entity monitors the status of talent development by assessing reskilling progress using a five-level scale from A to E. Looking ahead, the Entity will continue its reskilling initiatives under this proprietary training system. In securing highly specialised AI professionals, the Entity recognises that, in addition to reskilling, the reform of its corporate culture—including the development of a comfortable and supportive workforce environment—is also essential. The Entity therefore plans to implement various measures to improve the workforce environment. To monitor employees’ circumstances, the Entity will track employee engagement scores and other metrics, and will continue working to enhance the workforce environment.

Human Capital Disclosure – Strategy (9/11)

Effects of Human Capital-related Risks and Opportunities on Human Capital Management Strategy and Decision-making (3/4)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> ● Disclosure of information regarding the progress, analysis, and challenges associated with the implementation of a human capital management strategy is valuable for investors' investment decision-making. ● Disclosure of plans under human capital management strategies developed in the past and the subsequent progress in their implementation constitutes material information, as it clarifies the importance and direction of newly developed human capital management strategies. 	<ul style="list-style-type: none"> ● An entity may disclose information about the progress against the plans the entity has disclosed in previous reporting periods. 	<p>33. ... (b) the progress against plans the entity has disclosed in previous reporting periods, including quantitative and qualitative information; and ...</p>

Illustrative Example of “Possible Disclosures”

- The cumulative number of software development personnel hired and trained through the current fiscal year, compared with the hiring and training plans previously disclosed.
- As at the end of the current reporting period, the number of personnel who have reached Level B or above in their reskilling stage is XX.

Human Capital Disclosure – Strategy (10/11)

Effects of Human Capital-related Risks and Opportunities on Human Capital Management Strategy and Decision-making (4/4)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> ● In some cases, trade-offs may exist between human capital-related risks and opportunities and other sustainability-related risks and opportunities. ● Disclosure of information on the interrelationships among sustainability topics may, in such cases, be useful information for investors. 	<ul style="list-style-type: none"> ● An Entity may disclose information about trade-offs related to human capital-related risks and opportunities. 	33. ... (c) trade-offs between sustainability-related risks and opportunities that the entity considered ...

Illustrative Example of “Possible Disclosures”

(i) Trade-offs among different human capital-related risks and opportunities

In order to allocate resources, including human capital, to the XX Electronics Division, the Entity needs to implement business portfolio transformation, such as scaling back other business divisions that are currently highly profitable but for which future growth is not expected. Employees in the business divisions to be scaled back will be transferred to the XX Electronics Division and reskilled through the training programmes described above so that they can become talent that contributes to the Entity’s growth.

(ii) Trade-offs between different sustainability topics

A trade-off exists between the opportunity to secure highly specialised AI professionals and software development personnel through the acquisition of another entity’s AI business division and the risk of a significant increase in GHG emissions resulting from the large volume of electricity consumed by AI data centres owned by the acquired division.

Human Capital Disclosure – Strategy (11/11)

Resilience

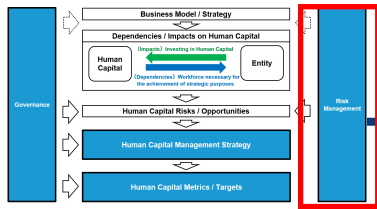
Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> Because a human capital management strategy is long-term in nature, it is developed based on various assumptions about the entity's future state. Accordingly, entities may need to disclose information that enables investors to understand the assumptions underlying the human capital management strategy. They may also need to disclose the measures the entity would consider taking to maintain the effectiveness of the human capital management strategy if those assumptions are not met. Such disclosures can enhance investors' confidence in the human capital management strategy. 	<ul style="list-style-type: none"> An entity may assess and disclose the nature of uncertainties arising from human capital-related risks, as well as the resilience of the entity's strategy and business model in relation to such uncertainties. An entity may also disclose the time horizons considered in carrying out such assessments. 	<p>41. An entity shall disclose information that enables users of general purpose financial reports to understand its capacity to adjust to the uncertainties arising from sustainability-related risks. An entity shall disclose a qualitative and, if applicable, quantitative assessment of the resilience of its strategy and business model in relation to its sustainability-related risks, including information about how the assessment was carried out and its time horizon.</p> <p>...</p>

Illustrative Example of “Possible Disclosures”

- According to research conducted by XX, labour shortages in Japan are expected to become more severe over the long term as the working-age population declines. In particular, the research indicates that the supply of specialised talent in the IT and AI fields is likely to become increasingly constrained.
- On that basis, the Entity recognises that risks associated with implementing its human capital management strategy of securing highly specialised AI professionals and software development personnel include the possibility that the Entity may be unable to acquire the external talent it had anticipated, or that skilled employees developed through training programmes may leave the Entity, resulting in an inability to secure the required talent.
- To enhance the resilience of its human capital management strategy, the Entity is working to secure highly specialised AI professionals and software development personnel by improving the workforce environment, as described in the “Strategy” section. In addition, through its “Risk Management” processes, the Entity monitors progress in the implementation of the strategy. The status of such progress is reported to the Board of Directors, and the Entity intends to revise its human capital management strategy as necessary, including its medium- to long-term strategy, to support the realisation of the strategy. The Entity has also secured financial resources to cover additional personnel and training costs that may arise if circumstances change, enabling it to take appropriate actions in response to revisions to the human capital management strategy.

3. Risk Management

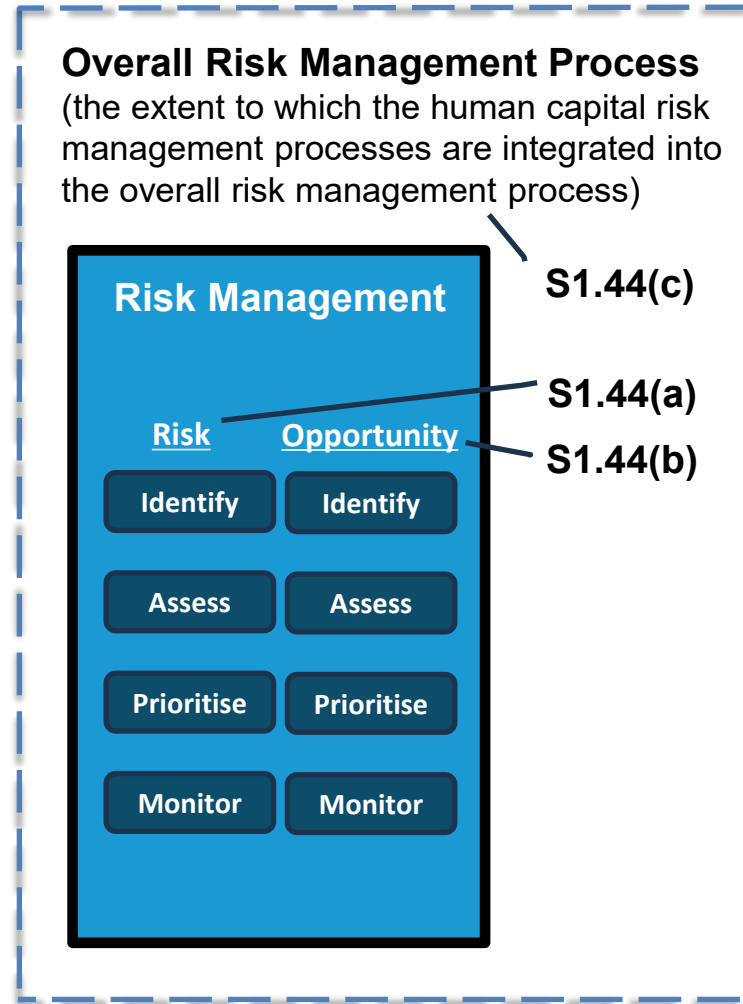
Human Capital Disclosure in Line with IFRS S1 – Risk Management



Human Capital Risks / Opportunities

Human Capital Management Strategy

Human Capital Metrics / Targets



Note: If an entity integrates its risk management of sustainability-related risks and opportunities, the entity may integrate the disclosures on risk management instead of providing separate disclosures on risk management for human capital-related risks and opportunities.

Human Capital Disclosure – Risk Management (1/7)

Processes for Managing Human Capital-related Risks (1/5)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> Information on what inputs an entity uses to identify, assess, prioritize, and monitor human capital-related risks can help investors evaluate the adequacy of the entity’s risk management activities. In addition, it is also important to consider unexpected events and changes in the dependencies and impacts of the entity’s business strategy and business model on human capital. 	<ul style="list-style-type: none"> An entity may disclose the information about the processes the entity uses to manage human capital-related risks. The entity may also disclose information about the inputs the entity uses in its risk management activities, such as data sources. 	<p>44. ...</p> <p>(a) the processes and related policies the entity uses to identify, assess, prioritise and monitor sustainability-related risks, including information about:</p> <p>(i) the inputs and parameters the entity uses (for example, information about data sources and the scope of operations covered in the processes);</p> <p>...</p>

Illustrative Example of “Possible Disclosures”

- The Human Capital Management Office, chaired by the CEO and joined by the CHRO and other members, identifies, assesses, prioritises, and monitors the risks and opportunities associated with human capital that are critical to executing the Entity’s medium- to long-term management plan. The Office reports its activities to the Board of Directors on a quarterly basis, and when issues are identified, the basic policies are supplemented or revised as necessary.
- Data source: Benchmarking of compensation levels for software development personnel.

Human Capital Disclosure – Risk Management (2/7)

Processes for Managing Human Capital-related Risks (2/5)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
Same as above	<ul style="list-style-type: none"> An entity may disclose information about how the entity assesses the nature, likelihood, and magnitude of the effects of human capital-related risks. 	44. ... (a) (ii) whether and how the entity uses scenario analysis to inform its identification of sustainability-related risks; (iii) how the entity assesses the nature, likelihood and magnitude of the effects of those risks (for example, whether the entity considers qualitative factors, quantitative thresholds or other criteria); ...

Illustrative Example of “Possible Disclosures”

- The Human Capital Management Office identifies the risks and opportunities related to human capital that are necessary for executing the medium- to long-term management plan. In doing so, it considers both the magnitude of the expected impact on the Entity’s prospect—such as future cash flows and the cost of capital—and the likelihood of such risks materializing.
- The division assessed the likelihood of the risk of failing to secure sufficient software development personnel as moderate. It further determined that, if this risk were to materialize, the resulting delays in software development—and consequently in establishing autonomous driving technology—would have a high impact on cash flows. The likelihood assessment was based on the scarcity of the skills required of development personnel in the labour market.

Human Capital Disclosure – Risk Management (3/7)

Processes for Managing Human Capital-related Risks (3/5)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
Same as above	<ul style="list-style-type: none"> An entity may disclose information about whether and how the entity prioritises human capital-related risks relative to other types of risk. 	44. ... (a) (iv) whether and how the entity prioritises sustainability-related risks relative to other types of risk; ...

Illustrative Example of “Possible Disclosures”

- The prioritisation of risks and opportunities is conducted based on the magnitude of their potential impact on the Entity’s prospect and their likelihood, as described above. However, when issues arise in executing the medium- to long-term management plan and such issues are identified as being attributable to human capital, new human capital-related risks and opportunities may be established, or the prioritisation of existing risks and opportunities may be revised.
- For example, securing software development personnel with highly scarce XX skills was assigned a high priority, as the likelihood of this risk materializing was assessed to be high.
- Furthermore, the entity analysed software development areas that can be outsourced versus those that cannot, and assigned higher priority to securing software development personnel possessing skills in areas where outsourcing is difficult.

Human Capital Disclosure – Risk Management (4/7)

Processes for Managing Human Capital-related Risks (4/5)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
Same as above	<ul style="list-style-type: none"> An entity may disclose information about how the entity monitors human capital-related risks. 	44. ... (a) (v) how the entity monitors sustainability-related risks; ...

Illustrative Example of “Possible Disclosures”

- To monitor the identified risks and opportunities, the Entity has established metrics and targets that enable the Entity to measure the progress of its human capital management strategy and assess that progress towards its targets.
- Software development personnel are categorized based on the skills required, and the quarterly hiring results for each skill category are continuously aggregated against the planned number of hires. These results are reported to the XX Committee. Based on the progress reported, the XX Committee decided to implement YY.

Human Capital Disclosure – Risk Management (5/7)

Processes for Managing Human Capital-related Risks (5/5)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
Same as above	<ul style="list-style-type: none"> An entity may disclose information about how the entity has changed the risk management processes it uses compared with the previous reporting period, if the entity changed the process. 	44. ... (a) (vi) whether and how the entity has changed the processes it uses compared with the previous reporting period; ...

Illustrative Example of “Possible Disclosures”

- As the actual hiring results for software development personnel have begun to deviate from the hiring plan, the Entity has decided to increase the monitoring frequency to a monthly basis and to implement XX as an additional measure.

Human Capital Disclosure – Risk Management (6/7)

Processes for Managing Human Capital-related Opportunities

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> When an entity manages not only risks but also opportunities, information about its management processes may be useful to investors. 	<ul style="list-style-type: none"> An entity may disclose the information about the processes used to manage human capital-related opportunities. 	44. ... (b) the processes the entity uses to identify, assess, prioritise and monitor sustainability-related opportunities; ...

Illustrative Example of “Possible Disclosures”

- To secure a large number of software development personnel within a short period, the Entity continuously gathers information from external research firms regarding the feasibility of pursuing M&A with startups specializing in autonomous driving technology and has implemented XX.

Human Capital Disclosure – Risk Management (7/7)

Human Capital Risk Management Processes are Integrated into the Overall Risk Management Process

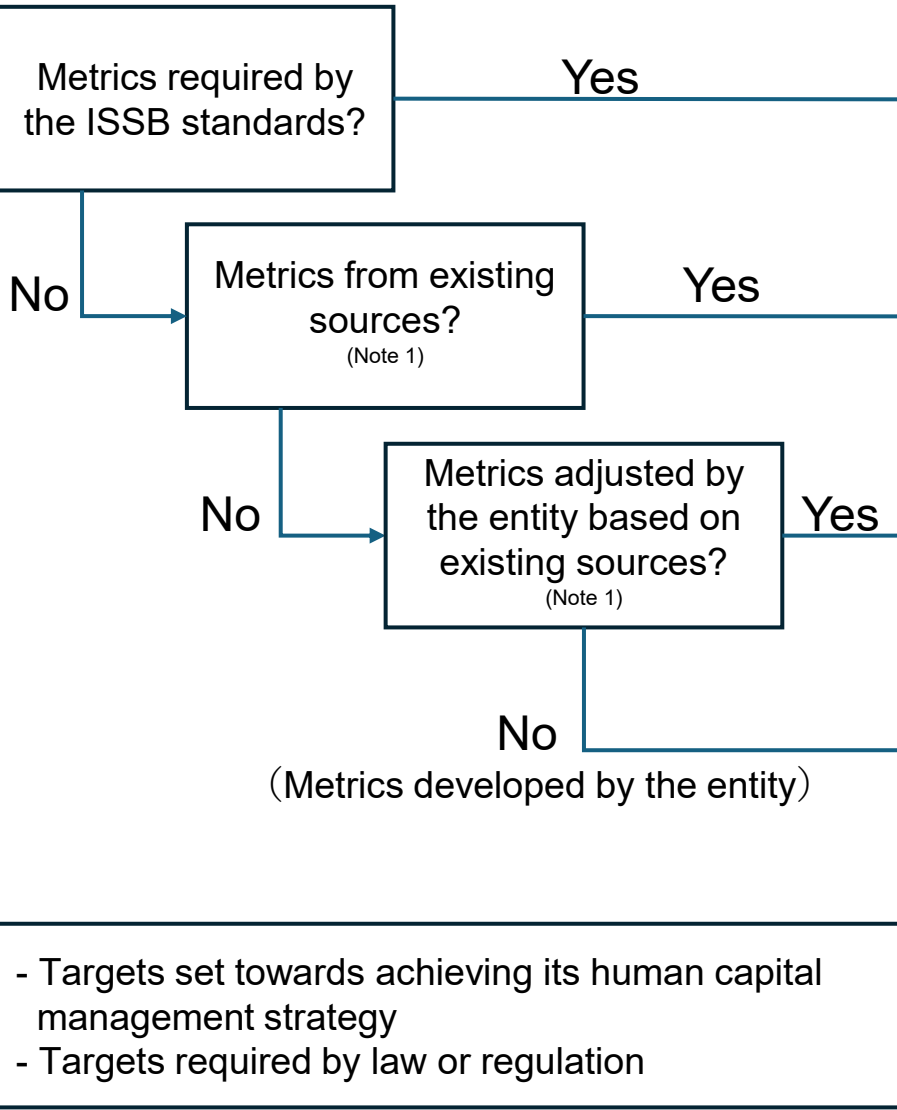
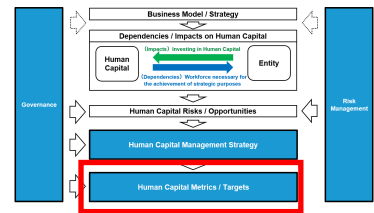
Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> ● An entity often have established processes for identifying, assessing, and responding to sustainability-related risks and opportunities as part of their enterprise risk management process. ● In this context, information on how human capital-related risk management processes are integrated into the overall risk management process can help investors evaluate the adequacy of an entity’s risk management activities. For this reason, investors are interested in such information. 	<ul style="list-style-type: none"> ● An Entity may disclose the information about how the processes for managing human capital-related risks are integrated into the entity’s overall risk management process. 	<p>44. ... (c) the extent to which, and how, the processes for identifying, assessing, prioritising and monitoring sustainability-related risks and opportunities are integrated into and inform the entity’s overall risk management process.</p>

Illustrative Example of “Possible Disclosures”

- For human capital-related risks, the XX Committee, chaired by the CEO, conducts in-depth discussions and reports material matters to the Executive Management Committee and the Board of Directors. In addition, as part of enterprise risk management, the Executive Management Committee and the Board of Directors discuss important human capital-related risks together with other business risks and sustainability-related risks.

4. Metrics and Targets

Human Capital Disclosure in Line with IFRS S1 – Metrics and Targets



Disclosure of Metrics (Note 2)		IFRS S1
<ul style="list-style-type: none"> - Disclose metrics required by the ISSB Standards, if any (At this point, no ISSB topic-specific standard for human capital has been issued.) 	46(a)	Comparable Metrics ↔ Entity-specific Metrics
<ul style="list-style-type: none"> - Sources of guidance (name of the guidance) - Metrics from the sources (name of metrics) 	46(b), 49	
<ul style="list-style-type: none"> - Definition of metrics (including differences from the metrics of the sources) - Calculation method, inputs to the calculation, etc. 	46(b), 50	
<ul style="list-style-type: none"> - Definition of metrics - Calculation method, inputs to the calculation, etc. 	46(b), 50	
Disclosure of Targets		
<ul style="list-style-type: none"> - Targets set towards achieving its human capital management strategy - Targets required by law or regulation 	<ul style="list-style-type: none"> - Quantitative or qualitative targets - Period over which the target applies, milestones and interim targets, performance against each target, etc. 	51

Note 1: The SASB Standards, the CDSB Framework Application Guidance, the GRI Standards, the ESRS, and most recent pronouncements of other standard-setting bodies whose requirements are designed to meet investors' needs. [IFRS S1 Paragraphs 47, 57, 58 and C2]

Note 2: Metrics disclosed shall include metrics associated with particular business models, activities or other common features that characterise participation in an industry. [IFRS S1 Paragraph 48]

Human Capital Disclosure – Metrics and Targets (1/7)

Disclosure of Metrics (1/2)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> ● For an entity to enhance corporate value over the long term in a sustainable manner, it is important to monitor, using metrics, the progress in implementing the human capital management strategy to realise the business strategy. ● Useful metrics and targets (which may be a combination of entity-specific and comparable metrics) are ones that the entity uses to: <ul style="list-style-type: none"> • make it clear how its human capital management strategy contributes to achieving its business strategy, through human capital-related initiatives and their expected effects, given the business strategy's and business model's dependencies and impacts on human capital; and • assess the progress of those initiatives toward achieving its targets. ● Because it takes time for the effects of a human capital management strategy to be reflected in the financial statements, demonstrating the progress of the strategy using such metrics is important. ● It is useful to provide explanations regarding the linkage between disclosed human capital-related metrics and the financial statements. In particular, it is important for personnel expenses, including investments in human capital development, to be disclosed as sustainability information while ensuring connectivity with figures in the financial statements. ● As entities differ in their business strategies and business models, it is important for each entity to use a human capital management strategy that addresses its entity-specific challenges, together with entity-specific metrics to monitor the progress of that strategy, in order to support meaningful discussions by the Board of Directors. It is also considered useful to disclose such metrics. 	<ul style="list-style-type: none"> ● An entity may disclose metrics the entity uses to measure and monitor human capital-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, etc, as well as the entities' performance in relation to the risk or opportunity. ● In doing so, entities may disclose a combination of entity-specific metrics that are important for monitoring their human capital management strategy and investments in human capital, together with metrics that enable investors to compare entities. ● An entity may disclose progress towards any targets the entity has set. 	<p>46. An entity shall disclose, for each sustainability-related risk and opportunity that could reasonably be expected to affect the entity's prospects:</p> <ul style="list-style-type: none"> (a) metrics required by an applicable IFRS Sustainability Disclosure Standard; and (b) metrics the entity uses to measure and monitor: <ul style="list-style-type: none"> (i) that sustainability-related risk or opportunity; and (ii) its performance in relation to that sustainability-related risk or opportunity, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.

Human Capital Disclosure – Metrics and Targets (2/7)

Disclosure of Metrics (2/2)

Illustrative Example of “Possible Disclosures”

- To monitor progress toward the realisation of the human capital management strategy objectives described under “Strategy,” the Entity has established the following metrics. There have been no changes from the previous fiscal year.

	Current Fiscal Year	1 Year Later	3 Years Later	10 Years Later
<u>XX Electronics Division</u>				
Highly specialised AI professionals	XX (persons)	XX (persons)	XX (persons)	XX (persons)
Software development personnel*1	XX (persons)	XX (persons)	XX (persons)	XX (persons)
Training for AI-related software development personnel*2	XX billion yen	XX billion yen	XX billion yen	XX billion yen
<Workforce Environment>				
Employee engagement score*3	XX%	XX%	XX%	XX%
Turnover rate	XX%	XX%	XX%	XX%
Paid leave utilisation rate	XX%	XX%	XX%	XX%

.....

- *1: “Software development personnel” refers to workers whose skill level has been recognised as Level B or above under the Entity’s training programme (criteria for Level A to E: see p. XX).
- *2: Of the XX billion yen recorded in the current fiscal year as “training for AI-related software development personnel,” this amount is included in “Selling, general and administrative expenses” in the consolidated financial statements.
- *3: “Employee engagement score” refers to the positive-response rate among regular employees in the Entity’s employee survey, based on the following survey questions: XX, XX and XX.

Hiring and training of “highly specialised AI professionals” and “software development personnel” are proceeding as planned. On the other hand, improvements in the employee engagement score are falling short of the plan because of XX. Accordingly, the Entity will focus on improving the workforce environment and will implement measures including XX.

Human Capital Disclosure – Metrics and Targets (3/7)

Comparable Metrics

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> ● From a comparability perspective, investors may place emphasis on metrics specified in existing sustainability disclosure standards and frameworks. ● With respect to such comparable metrics, entities are expected to explain them in alignment with their human capital-related risks and opportunities and/or their human capital management strategy. ● Following metrics are useful and expected to be disclosed by a wide range of entities — (1) employee numbers, (2) personnel expenses, (3) turnover rate, and (4) employee engagement score ● It has also been noted that, in relation to human capital-related risks and opportunities that are common within a particular industry, the disclosure of metrics that enable a high level of comparability among entities within that industry is valuable. 	<ul style="list-style-type: none"> ● If an entity discloses a human capital metric taken from a source (existing sustainability disclosure standards and frameworks) other than IFRS Sustainability Disclosure Standards, the entity may identify the source and the metric taken. 	<p>49. If an entity discloses a metric taken from a source other than IFRS Sustainability Disclosure Standards, the entity shall identify the source and the metric taken.</p>

Human Capital Disclosure – Metrics and Targets (4/7)

Entity-specific Metrics (1/2)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> ● It has been noted that, if an entity discloses metrics that have been adjusted from human capital-related metrics specified in existing standards or frameworks, it is valuable for such adjustments to be disclosed in a manner that enables investors to understand them. 	<ul style="list-style-type: none"> ● If a human capital metric (entity-specific metric) has been developed by an entity, and where such metric is derived by adjusting a human capital-related metric taken from a source other than IFRS Sustainability Disclosure Standards (existing sustainability disclosure standards or frameworks), in order to provide basis for investor’s understanding, an entity may disclose information including: <ul style="list-style-type: none"> ✓ how the metric is defined, (e.g., the source and how the metric disclosed by the entity differs from the metric specified in that source) ✓ the method used to calculate the metric ✓ The inputs to the calculation 	<p>50. If a metric has been developed by an entity, the entity shall disclose information about:</p> <ul style="list-style-type: none"> (a) how the metric is defined, including whether it is derived by adjusting a metric taken from a source other than IFRS Sustainability Disclosure Standards and, if so, which source and how the metric disclosed by the entity differs from the metric specified in that source; (b) whether the metric is an absolute measure, a measure expressed in relation to another metric or a qualitative measure (such as a red, amber, green—or RAG—status); (c) whether the metric is validated by a third party and, if so, which party; and (d) the method used to calculate the metric and the inputs to the calculation, including the limitations of the method used and the significant assumptions made.

Human Capital Disclosure – Metrics and Targets (5/7)

Entity-specific Metrics (2/2)

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> ● Even within the same industry, business strategies may vary from entity to entity, and the human capital management strategies that support them are also considered to vary accordingly. Therefore, the metrics used to measure progress in human capital management strategies are likely to be entity-specific. ● With respect to entity-specific metrics, in addition to the disclosure of the definitions of the metrics, the methods used to calculate them, and the inputs to the calculation, investors also expect the following disclosures: <ul style="list-style-type: none"> • the reasons why the entity-specific metrics are important • an explanation of how the metrics are aligned with the human capital management strategy of the entity • time-series performance that enables an assessment of progress and comparability over time • connectivity with the current period’s financial statement figures ● It has also been noted that the disclosure of human capital-related metrics that contribute to enhancing creativity and productivity is valuable. When these metrics are used, an entity is expected to consider which metrics represent creativity and productivity for the entity, taking into account their entity-specific circumstances. 	<ul style="list-style-type: none"> ● If a human capital metric (entity-specific metric) has been developed by an entity, and where such metric is not derived by adjusting a human capital-related metric taken from a source (existing sustainability disclosure standards or frameworks), in order to provide basis for investor’s understanding, an entity may disclose information including: <ul style="list-style-type: none"> ✓ how the metric is defined, (including a statement that the metric has been developed by the entity) ✓ the method used to calculate the metric ✓ The inputs to the calculation 	<p>50. If a metric has been developed by an entity, the entity shall disclose information about:</p> <p>(a) how the metric is defined, including whether it is derived by adjusting a metric taken from a source other than IFRS Sustainability Disclosure Standards and, if so, which source and how the metric disclosed by the entity differs from the metric specified in that source;</p> <p>(b) whether the metric is an absolute measure, a measure expressed in relation to another metric or a qualitative measure (such as a red, amber, green—or RAG—status);</p> <p>(c) whether the metric is validated by a third party and, if so, which party; and</p> <p>(d) the method used to calculate the metric and the inputs to the calculation, including the limitations of the method used and the significant assumptions made.</p>

Illustrative Example of “Possible Disclosures”

- As there were no relevant metrics available under existing sustainability disclosure standards or frameworks, the Entity specified XX and XX as the criteria that software development personnel required for the practical implementation of autonomous driving must meet, and defined the number of software development personnel who satisfy these criteria as an entity-specific metric.

Human Capital Disclosure – Metrics and Targets (6/7)

Disclosure of Changes in Metrics

Investor Expectations	Possible Disclosures	(Reference) IFRS S1 Requirements
<ul style="list-style-type: none"> To understand the progress in the implementation of a human capital management strategy over time, the definitions and calculation methods of the metrics used need to be consistent over time. However, metrics may be changed as a result of material changes in the business strategy or human capital management strategy. Accordingly, if an entity redefines or replaces a human capital metric, investors need information about the reasons for those changes. Disclosure of a revised comparative amount based on the redefined or replacement metric enhances time-series comparability and is considered useful information for investors. 	<ul style="list-style-type: none"> If an entity redefines or replaces a human capital metric in the reporting period, the entity may <ul style="list-style-type: none"> explain the changes explain the reasons for those changes; and Disclose a revised comparative amount based on the redefined or replacement metric. If an entity introduces a new metric in the reporting period, it shall disclose a comparative amount for that metric. 	<p>B52. If an entity redefines or replaces a metric in the reporting period, the entity shall:</p> <p>(a) disclose a revised comparative amount, unless it is impracticable to do so;</p> <p>(b) explain the changes; and</p> <p>(c) explain the reasons for those changes, including why the redefined or replacement metric provides more useful information.</p> <p>B53. If an entity introduces a new metric in the reporting period, it shall disclose a comparative amount for that metric unless it is impracticable to do so.</p>

Illustrative Example of “Possible Disclosures”

- In response to advances in autonomous driving technology, the Entity changed one of the criteria that the software development personnel are required to meet from XX to XX. As a result, the Entity recalculated the number of the software development personnel hired that had been disclosed in the previous fiscal year based on the revised definition and disclosed the updated figure.

Human Capital Disclosure – Metrics and Targets (7/7)

Disclosure of Targets

Investor Expectations

- Presenting the vision (targets) that a human capital management strategy seeks to achieve, and disclosing information that enables the monitoring of progress toward those targets, is valuable for investors.
- Investors often note that it is important to set human capital-related targets to be aligned with the strategic targets. For example, considering that human capital management strategy plays a critical role in achieving the business strategy, investors commented that the time horizons for human capital-related targets should be set in line with the time horizons of the strategic targets.
- In relation to targets, the following information is particularly useful:
 - progress toward previously disclosed targets;
 - analysis of performance against those targets; and
 - identified challenges.
- Human capital management strategies may be changed in response to revisions to the business strategy or progress in implementing the business strategy. In such cases, information should be provided in relation to targets, including whether any revisions were made to the targets and, if not, the reasons why the targets were not revised.

Possible Disclosures

- An entity shall disclose following information about human capital target:
 - ✓ the metric used to set the target and to monitor progress towards reaching the target;
 - ✓ the specific quantitative or qualitative target the entity uses;
 - ✓ the period over which the target applies;
 - ✓ the base period from which progress is measured(e.g., fiscal year XX as the base year);
 - ✓ any milestones and interim targets;
 - ✓ performance against each target and an analysis of trends or changes in the entity’s performance; and
 - ✓ any revisions to the target and an explanation for those revisions.

(Reference) IFRS S1 Requirements

51. An entity shall disclose information about the targets it has set to monitor progress towards achieving its strategic goals, and any targets it is required to meet by law or regulation. For each target, the entity shall disclose:

- (a) the metric used to set the target and to monitor progress towards reaching the target;
- (b) the specific quantitative or qualitative target the entity has set or is required to meet;
- (c) the period over which the target applies;
- (d) the base period from which progress is measured;
- (e) any milestones and interim targets;
- (f) performance against each target and an analysis of trends or changes in the entity’s performance; and
- (g) any revisions to the target and an explanation for those revisions.

Illustrative Example of “Possible Disclosures”

- In order to set targets for securing software development personnel necessary for the practical implementation of autonomous driving and to manage progress toward achieving those targets, the Entity established, as a metric, the number of software development personnel who meet the Entity’s definition of such personnel. As specific quantitative targets, the Entity aims to hire XX personnel within one year, XX personnel within three years, and XX personnel within ten years. In the current fiscal year, the number of software development personnel hired was XX. While progress toward the targets shows an improving trend when viewed on a time-series basis, the Entity analyses that XX.