

December 18, 2020

To: IFRS Foundation

Global Strategy Task Force on ESG Disclosure
Committee on Financial and Capital Markets
Keidanren

**Comments on the Consultation Paper on Sustainability Reporting
by the IFRS Foundation**

Keidanren welcomes the opportunity to submit comments on the Consultation Paper on Sustainability Reporting (hereinafter "Consultation Paper") published by the IFRS Foundation.

General Comments

Keidanren is the Japan's largest comprehensive economic organization with a membership comprised of more than 1,400 representative companies of Japan across all sectors including manufacturing, financial services, other services, distribution, construction and transportation. Many of its members are raising and managing funds in both domestic and international markets.

Since the establishment of the IFRS Foundation, Keidanren has always supported IFRS Foundation's activities and contributed to the development of IFRS Standards and their dissemination in Japan through human and financial support as well as submission of our opinions to the International Accounting Standards Board (IASB). Under these circumstances, we respect and support the IFRS Foundation's timely initiative to develop global sustainability reporting standards by leveraging its network it has cultivated with market participants. If the IFRS Foundation decides to work on the development of sustainability reporting standards, we are ready to make a positive contribution to the development of sustainability reporting standards in parallel with our ongoing contribution to the development of IFRS Standards.

Currently, demand for better disclosure of sustainability information from investors and other capital market participants including investors is steadily increasing. In order to

meet such demand from investors and other capital market participants, an increasing number of Japanese companies have started to actively disclose sustainability information.¹ Keidanren has set “striving for sustainable economic growth and the resolution of social issues” through business management focusing on various stakeholders as one of its action guidelines, and encouraged its members to comply. Moreover, we now take initiatives in creating innovations and promoting sustainable finance toward the Carbon Neutral by 2050. We welcome the development of sustainability reporting standards by the IFRS Foundation as it is in line with our such activities. That being said, we request that, should the IFRS Foundation proceed with the development of sustainability reporting standards, the IASB’s initiative to further improve the quality of IFRS Standards be not adversely affected as many Japanese companies have adopted IFRS Standards.

The key points of Keidanren’s comments on the proposal within the Consultation Paper are as follows (Specific comments are described in our responses to each question):

- 1. We support the IFRS Foundation’s initiative to develop a single set of high-quality international sustainability reporting standards for investors and other capital market participants, building on the network and expertise it has accumulated, and to create a new Sustainability Standards Board (SSB) under the governance structure of the IFRS Foundation. (Questions 1 & 2)**
- 2. The SSB members should be selected from talented people of various backgrounds from various countries and regions. We request that the number of the SSB members be at least similar to that of the IASB members and that the SSB members be selected from various countries, regions or backgrounds by reference to the IASB member composition. (Question 3)**
- 3. If the IFRS Foundation is to seek financial support from each country for the development of the standards by the SSB, it is a prerequisite that the IFRS Foundation makes its own efforts to reduce the financial burden. We believe that the IFRS Foundation should take reasonable measures such as making many of the SSB members part-time in order to ensure the number of the SSB members similar to that of the IASB members while reducing the financial burden of the SSB, and having board meetings online in order to improve the efficiency of the**

¹ For example, of those 1,567 companies and institutions, including financial institutions, which support the Task Force on Climate-related Financial Disclosures (TCFD) worldwide, 321 companies and institutions are from Japan, making Japan the largest contributor in the world (as of November 30, 2020).

standard development. (Question 3)

4. **The materiality of sustainability reporting differs by company, sector, or region. In order to enhance flexibility of disclosure by each company, the SSB should avoid adopting a rules-based approach but adopt a principles-based approach similar to the IFRS Standards when developing sustainability reporting standards. (Question 5)**
5. **The SSB should give the highest priority to climate change and proceed with the development of internationally harmonized standards. As to non-financial factors other than climate change, the SSB should identify which factors are commonly important to investors and other capital market participants and consider standard development focusing only on such important factors. (Questions 7 & 8)**
6. **As the IASB has developed IFRS Standards for investors and other capital market participants, we believe the SSB should develop sustainability reporting standards for investors and other capital market participants utilizing its expertise and network with stakeholders. From this perspective, it is appropriate for the IFRS Foundation to first focus on disclosure of the impact of non-financial factors on a company's value creation (single materiality) which is most relevant to investors. (Question 9)**
7. **It should be left to the decision of regulatory authority of each country whether the disclosed sustainability information should be audited, and it is not something that a standard-setting body should decide. As there is no international consensus on the need and procedures of audit or external assurance for the sustainability information, it is premature to start discussions on the introduction of such audit or assurance. (Question 10)**

Our comments to questions

Question 1

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

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

Comment

(Need for a set of international sustainability standards)

With the growing importance of sustainability information in financial and capital markets, many sustainability reporting standards have been developed to date. While it requires considerable efforts by both reporting companies and investors to understand and respond to each of the standards, companies' activities and strategies relating to sustainability may not be properly reflected in the market function. As international convergence and unification of sustainability reporting standards are expected to improve the consistency and comparability in sustainability reporting, reduce costs and realize proper market functions, we believe it is of great significance that a single set of high-quality international sustainability reporting standards be developed.

(Role of the IFRS Foundation)

The IFRS Foundation has a history and experience of developing IFRS Standards, widely supported by companies, capital market participants including investors, and regulators. ***We support the IFRS Foundation's initiative to develop a single set of high-quality international sustainability reporting standards for investors and other capital market participants, building on the network and expertise it has accumulated.***

On the other hand, as many sustainability reporting standards already exist, the IFRS Foundation should carefully proceed with the development of the standards, seeking understanding from many countries, market participants, and existing sustainability reporting standard-setting bodies. ***We strongly request that, in developing the standards, the IFRS Foundation maintain transparency, neutrality, and efficiency without any bias towards interests of specific countries, regions, or stakeholders and that it build a system that incorporates balanced opinions from various countries and regions.***

Question 2

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

Comment

We agree with the proposal to create a new SSB separately from the IASB under the governance structure of the IFRS Foundation. It is appropriate to incorporate the SSB into the governance structure that the IFRS Foundation currently has, in order to ensure the transparency, neutrality, and efficiency of the development of the standards by the SSB. In particular, the development of the standards by the SSB should be carried out as a public activity like the ongoing development of IFRS Standards, maintaining neutrality from political and commercial pressures. The SSB should also keep close contact with the IASB as the SSB is expected to clarify new standards' relationship with the ESG's impact on corporate finance and corporate values in the course of the standard development.

Question 3

Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?

Comment

We agree with the content of the requirements for success listed in paragraph 31 as all of them are important. That being said, we propose that “ensuring the diversity of the SSB members” be added to the requirements for success. We also request that the SSB carry out “efficient development of the standards” in order to achieve the funding described in paragraph 31(e). The details are as follows.

(1) Ensuring the diversity of the SSB members

If the SSB is to be responsible for the development of the sustainability reporting standards that will be widely used internationally, it is essential that the SSB proceeds with the standard development, seeking understanding from market participants

(including investors and companies) in many countries. To that end, the SSB members should be selected from talented people of various backgrounds from various countries and regions. If the SSB members are selected with a bias toward specific countries, regions, or backgrounds, the legitimacy of global standard development by the SSB would be lost. Therefore, ***we request that the number of the SSB members be at least similar to that of the IASB members and that the SSB members be selected from various countries, regions, or backgrounds*** by reference to the IASB member composition.

(2) Efficient development of the standards

If the IFRS Foundation is to seek financial support from each country for the development of the standards by the SSB, it is a prerequisite that the IFRS Foundation makes its own efforts to reduce the financial burden. ***We believe that IFRS Foundation should take reasonable measures such as making many of the SSB members part-time² in order to ensure the number of the SSB members similar to that of the IASB members while reducing the financial burden of the SSB, and having board meetings online in order to improve the efficiency of the standard development.***

Question 4

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

Comment

The IFRS Foundation has established networks with various stakeholders through the development of IFRS Standards by the IASB. A good relationship of trust has also been established between Japanese companies and the IFRS Foundation as they directly participate in standard development and reviews after adoption. As a result, many Japanese companies have adopted IFRS Standards. For the development of sustainability reporting standards, the IFRS Foundation should fully exploit support from such existing stakeholders and proceed with the development and adoption of the standards leveraging its networks.

In order to promote and expand the adoption of sustainability reporting standards, the IFRS Foundation should adequately hear opinions of companies that use the standards

² Key posts such as chairman can be full-time. Also, staff should basically be full-time.

for reporting. In addition, disclosure content required by investors is also diverse. Furthermore, preconditions differ depending on countries, regions, and sectors of reporting companies and, accordingly, important sustainability items which should be disclosed also differ. Therefore, in developing sustainability reporting standards, the IFRS Foundation should consider disclosure content which reporting companies aim for, disclosure content which investors require, and regional characteristics by fully leveraging various networks.

Question 5

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

Comment

We agree that the SSB works with existing standard-setting bodies and develop sustainability reporting standards based on their initiatives. Given existing standards that have received international support such as the TCFD's final recommendations or the Standards of Sustainability Accounting Standards Board (SASB), it is not only inefficient for the SSB to develop the sustainability reporting standards from scratch, but it only further complicates the current situation of the already existing large number of sustainability reporting standards.

On the other hand, the ultimate goal of the SSB should be to develop a single set of high-quality international sustainability reporting standards.

In addition, *the SSB should avoid adopting a rules-based approach but adopt a principles-based approach similar to IFRS Standards when developing sustainability reporting standards. This is because it is necessary to enhance flexibility of disclosure by each company as the materiality of sustainability reporting differs by company, sector, or region.* In addition to these common principles-based standards, we request that the SSB consider developing guidelines for ESG evaluation that take into account sectors and regional characteristics based on the needs of companies and investors in order for smooth adoption of the standards.

Question 6

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

As explained in our comment to Question 5, for global dissemination of the standards to be developed by the SSB, it should adopt a principles-based approach which respect jurisdictional initiatives and materiality of disclosure. We also request, as explained in our comment to Question 3, the SSB members be selected from various countries and regions.

Question 7

If the IFRS Foundation were to establish an SSB, should it initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting?
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Question 8

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

Comment

Given that climate change is a globally common issue among sustainability factors and that standard development and other initiatives are already underway in each jurisdiction and by private-sector organizations, ***the SSB should give the highest priority to climate change and proceed with the development of internationally harmonized standards.*** As know-how on climate-related standard development has already been accumulated thanks to the TCFD recommendations, we believe effective and efficient standard development will be made possible by referring to such know-how.

As to non-financial factors other than climate change, the COVID 19 pandemic has made them more important, which include solution of social issues through innovations of digital and other technologies, stronger resilience of social infrastructure regarding on public health and energy and of supply chains, care of employee health conditions, and contribution to local communities. The SSB should identify which non-financial factors other than climate-change are commonly

important to investors and other capital market participants and consider standard development focusing only on such important factors.

Question 9

Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?
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Comment

We agree with the approach in paragraph 50. *As the IASB has developed IFRS Standards for investors and other capital market participants, we believe the SSB should develop sustainability reporting standards for investors and other capital market participants utilizing its expertise and network with stakeholders. From this perspective, it is appropriate for the IFRS Foundation to first focus on disclosure of the impact of non-financial factors on a company's value creation (single materiality) which is most relevant to investors.*

On the other hand, there is no doubt that the disclosure of the impact of a company on non-financial factors is becoming increasingly important from a perspective of disclosure for multi-stakeholders. The IFRS Foundation should first focus on single materiality for promoting better disclosure of information most relevant to investors and other capital market participants, and if demand for disclosure of the impact of a company on non-financial factors increases from investors and other capital market participants, it can broaden its scope to include consideration of disclosure standards in such fields.

Question 10

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

Comment

It should be left to the decision of regulatory authority of each country whether the

disclosed sustainability information should be audited, and it is not something that a standard-setting body should decide. As there is no international consensus on the need and procedures of audit or external assurance for the sustainability information, it is premature to start discussions on the introduction of such audit or assurance.

As there is no internationally established auditing standard for sustainability information, making disclosed sustainability information subject to audit or assurance would set a higher hurdle than necessary for the development of the standards. In addition, we are concerned that making sustainability information subject to audit or assurance would adversely affect flexible disclosure by reporting companies.

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

Comment

As stated in General Comments, we respect and support the IFRS Foundation’s challenge to develop global sustainability reporting standards by leveraging its network it has cultivated so far with market participants. When the SSB starts the development of standards, Keidanren will actively participate in it.