



29 December 2020

IFRS Foundation
Columbus Building
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London E14 4HD
United Kingdom

Re: IFRS Foundation Consultation Paper on Sustainability Reporting

Dear IFRS Foundation Trustee Members:

The Securities Analysts Association of Japan (SAAJ) is pleased to comment on the *Consultation Paper on Sustainability Reporting* (hereinafter referred to as the “CP”) published in September 2020.

The SAAJ is a not-for-profit organization for professionals in the areas of investment and finance. It offers education and certification programs in these areas. Its certified analysts number around 27,500.

General Comments

We welcome and support the proposal of the CP to establish a new standard-setting board for sustainability reporting. When investing in stocks and bonds, non-financial information, including sustainability, has become an increasingly important factor year by year. Investors and analysts in Japan cannot be indifferent to such a change. However, many reporting standards pertaining to sustainability and ESG have been advocated around the world, causing unnecessary confusion for both companies as well as investors and analysts.

The IFRS Foundation established IFRS Standards which are the most widely recognized international standards in the global capital market. Given this, we believe there is a high probability that the IFRS Foundation will be able to assert leadership in the area of sustainability reporting by leveraging its brand and reputation, thereby contributing to improving the quality of sustainability reporting standards as well as their

consistency and comparability.

While taking on the mantle of such leadership will be of great value and should not be avoided, it will undoubtedly be the greatest challenge facing the IFRS Foundation since its establishment and the risks entailed not small. We believe it important for the IFRS Foundation to maintain the high-quality of IFRS Standards as well as take leadership in the area of sustainability reporting. To that end, it is quite important that the development of sustainability reporting standards will not have a negative impact on human and financial resources related to the development of accounting standards.

To maintain the brand and reputation of the IFRS Foundation and IFRS Standards, which are generally accepted as the only global accounting standards, we believe it quite important for the IFRS Foundation to appropriately allocate and manage human and financial resources not only through self-discipline but also through monitoring/supervision of the IFRS Foundation Trustees by the Monitoring Board.

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?

Comments

1. We agree. Many reporting standards pertaining to ESG and sustainability have been advocated in the global market, and they are not necessarily consistent with each other. Consequently, investors and analysts cannot compare companies properly. On the other hand, there are many cases where sustainability reporting made by companies does not necessarily lead to effective communication with investors and analysts even though it is costly for companies to effect such reporting.
2. This does not necessarily mean that the quality of existing sustainability reporting standards is low. However, as a result of many competing reporting standards being advocated, currently available sustainability reporting cannot provide consistency and comparability as a whole, which has resulted in a very frustrating situation for both companies as well as investors and analysts. We hope that the current situation can be improved by developing a single set of globally recognized sustainability reporting standards.

3. Through the development of high-quality IFRS Standards by the IASB and the promotion of their dissemination by the IFRS Foundation, we believe that the IFRS Foundation enjoys a far higher level of recognition as well as reputation and credibility in the global capital market than any other existing standard-setter of sustainability reporting. In this sense, if the IFRS Foundation plays a leading role in setting international sustainability reporting standards, such reporting standards could probably gain higher international recognition than any other existing sustainability reporting standards. Consequently, if the sustainability reporting standards developed by the proposed Sustainability Standards Board (hereinafter referred to as the “SSB”) are accepted as the de-facto standards in this area, the above-mentioned chaotic situation surrounding sustainability reporting could probably improve significantly. Among the standard-setters of corporate reporting around the globe, we believe that the IFRS Foundation is the most legitimate organization to play such a role.
4. The development of sustainable reporting standards and that of accounting standards have something in common, but they basically require different skill sets. Therefore, the SSB should be newly established as a standard-setter independent of the IASB. Due to the limited human and financial resources of the IFRS Foundation, we are of the opinion that the IFRS Foundation should expand its standard-setting activities into the area of sustainability reporting standards on the premise that the requirements for success listed in paragraph 31 of the CP are met and that the IFRS Foundation establishes human and financial partnerships with existing standard-setters.

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?
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Comments

5. We agree. We strongly support the IFRS Foundation being deeply involved in setting sustainability reporting standards. Nevertheless, our greatest concern is that conflict in resource allocation may arise between the SSB and the IASB which carries out the fundamental mission of the IFRS Foundation. Such a conflict would result in the insufficient allocation of human and financial resources to the IASB, thereby hindering its activities.

6. However, the IFRS Foundation has a three-tiered governance structure in which the activities of the standard-setting boards (IASB and SSB) are overseen by the Trustees and activities of the Trustees are overseen by the Monitoring Board. This structure is a powerful platform to prevent any misallocation of resources by the Trustees.
7. We believe the most appropriate and effective approach is to establish and operate the SSB under the existing governance structure of the IFRS Foundation because it could prevent the Trustees from abusing their power of resource allocation and secure the independence and transparency of the two standard-setting boards.

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)?

Comments

8. As detailed in the answer to Question 5, in the seven requirements for success in the CP, while working with regional initiatives to sustainability is listed, working with existing standard-setters is not. Regarding the standard-setting work for reporting, it is proposed to make active use of the resources of existing initiatives in addition to working with regional initiatives. In fact, achieving a sufficient level of funding and appropriate technical expertise would definitely require working with existing leading standard-setters. Therefore, working with existing standard-setters should be listed as one of the requirements for success.
9. Also, as explained in the answer to Question 2, given limited resources, we consider the greatest risk would be that the IFRS Foundation will not be able to be sufficiently engaged in the activities of both international accounting standard-setting and sustainability reporting standard-setting. To ensure the independence and transparency of the activities of both the IASB and the SSB, the SSB should be funded independently from the existing IASB. To be transparent and accountable to the contributors, the funds contributed to the activities of the IASB should not be diverted to those of the SSB.
10. It is important to achieve independent funding for the activities of the SSB. Contributors to the fund might expect influence comparable to the amount of their contributions. However, to secure the trust of stakeholders in terms of the independence and transparency of the SSB, the composition of SSB members

reflecting the amount of contribution should be strictly avoided.

11. In raising funds for the activities to set sustainability reporting standards, a wider range of funding sources should be developed than in raising funds for the activities to set accounting standards. In this regard, cooperation with the United Nations (which strongly promotes initiatives such as the PRI, Global Compact, and SDGs) should be considered.
12. We believe that in appointing SSB members the IFRS Foundation should focus not only on technical expertise but also on the diversity of the region they come from, the industries to which they belong, and other areas of expertise/specialization. In particular, it is important to ensure an overall balance that includes not only those who specialize in ESG areas but also the major participants in capital markets such as companies, investors, and analysts. As such, we believe that the number of SSB members should be similar to that of IASB members, considering that the diversity among current IASB members contributes to the development of high-quality standards.
13. When working in line with this proposal, it will be important for the SSB to coordinate with existing stakeholders, rather than prescribe from scratch as was the case of the IASB. This proposal may need to involve many different people who could potentially become Board members from existing initiatives around the globe and other stakeholders in the ESG area. As such, we are of the view that it is necessary to consider ways to reduce the financial burden on the SSB while ensuring diversity described in paragraph 12. In this regard, one way to mitigate such burden would be to make SSB members part-time.
14. On the other hand, partnership with CRD members such as standard-setters and the TCFD should be limited to recruiting SSB staff, who are responsible for the practical side of standard-setting. Inviting people to the SSB from existing standard-setting bodies might lead to potential conflicts of interest.
15. We believe that the IFRS Foundation should maintain its commitment to continue working towards realization of “a single set of high-quality global standards” set forth in the G20 statement. The new mission of the IFRS Foundation should be to develop a single set of high-quality international accounting standards and international sustainability reporting standards. It is important that when developing sustainability reporting standards, the IFRS Foundation should repeatedly emphasize its continuing commitment to the development of international accounting standards.

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?

Comments

16. We believe it is important for the IFRS Foundation to make use of the existing global network of stakeholders in order to develop high-quality and globally acceptable sustainability reporting standards. The network that the IFRS Foundation has built with capital market participants, including regulators and national accounting standard-setters, is an important factor when the IFRS Foundation develops, disseminates, and promotes high-quality and consistent sustainability reporting standards.
17. In order to make use of the existing IFRS Foundation network, it is imperative that the Foundation obtains sufficient support from a wide range of stakeholders regarding the development of standards for sustainability reporting. It is also important for the Foundation to use the existing network to take account of the opinions of global stakeholders, the circumstances of each jurisdiction, and the legal systems and practices in each region when it develops standards and reviews application issues once standards have been developed.

Question 5

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

Comments

18. We agree. The IFRS Foundation has established friendly relations with the leading standard-setters of sustainability reporting, such as the CRD, IIRC, and FSB, through the activities of the IASB. Currently, the IFRS Foundation does not have the specialized resources to rival these existing standard-setters. Given the severe financial constraint, it would be desirable that the SSB proceeds in its standard-setting by collaborating with these existing standard-setters, rather than competing with the Better Alignment Project and the TCFD.
19. Given the human resources and expertise required for sustainability reporting, the IFRS Foundation should partner with the five leading standard-setting members of

the CRD (CDP, CDSB, GRI, IIRC, and SASB) and ask them to dispatch technical staff to the SSB. This could enable the IFRS Foundation to secure the best specialized human resources in setting standards in this area. Furthermore, if the cost of the dispatched technical staff is shared between the IFRS Foundation and the partners, the financial burden on both of them could be reduced.

20. In the Better Alignment Project, the five leading partners appear to aim for double materiality/multi-stakeholders, while simultaneously they develop sustainability reporting standards related to corporate value creation as a subset of the whole project. ‘Sustainability reporting on corporate value creation’ focuses on single materiality as explained in the CP. Therefore, based on the established work of the five leading partners and with a view to connecting sustainability reporting standards with IFRS Standards, the IFRS Foundation could establish an ideal partnership with the five leading partners without competing with them by making the immediate activities of the SSB focus on the development of ‘sustainability reporting standards for corporate value creation.’
21. If the SSB mainly develops ‘sustainability reporting standards for corporate value creation’ and the five leading partners focus on the development of standards in other fields of the Better Alignment Project, high-quality and comprehensive sustainability reporting standards, including a wider range of ESG factors, could be developed more efficiently and at lower costs than the climate-first approach proposed in the CP. Moreover, if the SSB and the five leading partners work in their respective areas of expertise, such an approach could satisfy the needs of wider stakeholders sooner than the climate-first approach. Consequently, the brand and recognition of SSB standards in the capital market could be established earlier than via the climate-first approach proposed in the CP.
22. With our proposed approach, SSB standards could be developed as ‘comprehensive sustainability reporting standards for corporate value creation’ without competing with the projects of the five leading partners. Consequently, confusion surrounding sustainability reporting standards would be avoided and the objective of the CP to improve consistency and comparability also achieved.
23. Regarding climate-related information, the five leading partners have already begun incorporating the TCFD recommendations with high priority. In our proposed approach, the SSB will incorporate the established work of the five leading partners into SSB standards after coordinating with them. Therefore, the SSB’s approach could probably respond more quickly than the climate-first approach proposed in the

CP. It is also expected that better standards could be set by taking advantage of the relationship between the IASB and the TCFD.

24. What is important in our approach is that, as mentioned in paragraph 10, the SSB should avoid appointing its board members from the five leading partners as much as possible. This is a crucial issue to avoid potential conflicts of interest with the five leading partners in our approach and this issue should continue to be thoroughly reviewed.

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?

Comments

25. We believe that the development of sustainability reporting standards should be based on a principles-based approach, similar to IFRS Standards. This is to increase the possibility of global dissemination and promotion, while allowing companies a certain degree of flexibility, similar to IFRS Standards. However, in order to ensure consistent application after the individual standards are developed, it will be necessary to work on various issues related to application of the standards.

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?

Comments

26. As answered in Question 5, our proposed approach of working with the five leading partners could allow the SSB to develop broader sustainability reporting standards more efficiently, while simultaneously responding to an urgent need to develop climate-related financial disclosures.
27. If the SSB focuses on working with the five leading partners and developing ‘sustainability reporting standards for corporate value creation’ that focus on single materiality, climate-related financial disclosures would consequently be developed first even if the climate-first approach were not emphasized.

28. This is because an urgent need to develop climate-related information disclosures is shared by stakeholders and there is a platform provided by the TCFD recommendations that are establishing themselves as the de facto standards in this area.

Question 8

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

Comments

29. As answered in Question 7, in the approach of developing ‘sustainability reporting standards for corporate value creation’ in collaboration with the five leading partners, the SSB could take advantage of the resources and knowledge of these partners. Therefore, the SSB does not need to focus only on climate-related risks.
30. Developing standards based on the TCFD recommendations which are already the de facto standards would consequently give a high priority to responding to climate-related risks.
31. However, the TCFD recommendations have not achieved sufficiently high levels of consistency and comparability. Therefore, it is imperative to pursue higher levels of consistency and comparability when developing SSB standards based on the TCFD recommendations.

Question 9

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

Comments

32. The strength of the IFRS Foundation is its reputation and network as an accounting standard-setter in capital markets. To take full advantage of such strength, the SSB should focus on single materiality.
33. The partners of the IASB in the CRD (CDP, CDSB, GRI, IIRC, and SASB) are seeking double materiality/multi-stakeholders while paying due attention to sustainability information related to corporate value creation. These five standard-setting bodies could be either potential partners, or potential competitors, of the SSB.

34. If the SSB aims at establishing a partnership with the five standard-setting bodies, it should focus on single materiality to develop ‘sustainability reporting standards for corporate value creation’ and avoid competition with them. Competition with them is likely to aggravate the confusion without improving consistency and comparability in sustainability reporting.
35. In the field of sustainability reporting, ‘sustainability reporting standards for corporate value creation’ is an area closely related to financial reporting, in which the IFRS Foundation and the IASB have strength. It seems that the five standard-setting bodies also desire to partner with the IFRS Foundation in this area. Aiming at comprehensive corporate reporting that integrates financial and sustainability reporting should be the goal not only of the five standard-setting bodies but also of the IFRS Foundation and IASB.
36. Even if double materiality is ultimately achieved, it should be done in collaboration with the five leading partners. The IFRS Foundation should not aim at double materiality by itself. We strongly believe the IFRS Foundation should focus only on single materiality.

Question 10

Should the sustainability information to be disclosed be auditable or subject to external assurance?

If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision-useful?

Comments

37. We agree that in the future it may be desirable to make information pertaining sustainability subject to external assurance in order to ensure its reliability. However, in providing such assurance, there exist various conceptual and practical issues that need to be resolved. Sufficient discussion with related parties and the accumulation of business practices are needed.