SAAJ The Securities Analysts Association of Japan

29 July 2022

Mr. Emmanuel Faber
Chair
International Sustainability Standards Board

Re: Exposure Draft "IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information"

Dear Mr. Faber:

The Sustainability Reporting Committee (SRC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the Exposure Draft "IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*" (Draft S1; after it comes into effect, S1) and "IFRS S2 *Climate-related Disclosures*" (Draft S2; after it comes into effect, S2) published by the International Sustainability Standards Board (ISSB) on 31 March 2022. This is the comment letter on Draft S1.

The SAAJ is a not-for-profit organization for professionals in the areas of investment and finance, offering education and certification programs in these fields. Its certified member analysts (holding the CMA designation) number around 28,000.

The SRC is a standing committee of the SAAJ established in March 2021. It is composed of eight members including equity and credit analysts, portfolio managers, public accountants, and academics.

The SAAJ sent questionnaire surveys regarding Draft S1 and Draft S2 to members of the SRC and CMAs; some 20 responded to the Draft S1 questionnaire survey. This comment letter is based on Draft S1 questionnaire results and the discussions among members of the SRC. Please see the attached questionnaire results.

General Comments

We welcome that the ISSB has published its first exposure drafts on IFRS Sustainability Disclosure Standards. We have advocated the urgent need on the part of analysts and investors for high quality, consistent, and comparable global sustainability disclosure standards. We appreciate the leadership of the IFRS Foundation and the ISSB in publishing the exposure drafts in such a short time in responding to this urgent need.

The disclosure framework for sustainability information is evolving. We hope that, in setting and amending IFRS Sustainability Disclosure Standards, the ISSB will be agile enough to capture this evolution while taking into account the stability of standards.

We basically agree with each of the proposals in Draft S1 as they meet our needs.

However, there are some concerns that requiring overly high disclosure standards would result in fewer entities being able to meet them, and would in turn prevent analysts and investors from obtaining the disclosure information they need.

For example, while we, as users, agree that an entity should consider certain disclosure standards such as the SASB Standards and the CDSB Framework application guidance when no applicable IFRS Sustainability Disclosure Standards exist, we are concerned about forcing an entity to consider such standards that have not gone through the ISSB's formal due process.

To address such concerns, we believe some improvements to Draft S1 are needed, and we discuss these suggested improvements in our comments on each question.

While we appreciate that the exposure drafts have been published in a short period of time thanks to the efforts of the IFRS Foundation and the ISSB, from the perspective of global consensus building we would like to mention that there was only one opportunity for consultation on the exposure drafts and that the consultation period is only 120 days. We hope that, in its future standard development process, the ISSB will consider the balance between the urgent need for sustainability-related disclosure standards and the consensus building that will form the basis of the global baseline. This would solidify the ISSB's legitimacy as a standard setter.

Question 1—Overall approach
The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it. Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value.

(a)	Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?
(b)	Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?
(c)	Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 *Climate-related Disclosures*? Why or why not? If not, what aspects of the proposals are unclear?
(d)	Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

We agree with the overall approach and objectives of Draft S1. Some 65.0% of respondents to **Q1** of our questionnaire answered that the overall approach and objectives of Draft S1 were appropriate and clear. The main reasons are as follows:

We highly appreciate that sustainability-related financial information is defined as part of an entity's general financial reporting and that the objective of disclosing sustainability-related financial information is defined as being useful to users to assess the entity's enterprise value. Since both IFRS Sustainability Disclosure Standards and IFRS Accounting Standards share the target audience, i.e. the primary users of an entity's general purpose financial reporting, it would be possible for the entity to provide combined financial and non-financial information useful for users to assess the entity's enterprise value.

We also appreciate the approach to identifying both significant sustainability-related risks and opportunities, and then disclosing information that is material to users' assessment of the entity's enterprise value. It would make the sustainability-related information more valuable to users to require associated opportunities to be disclosed in addition to risks.

The approach to presenting general requirements in S1, which is positioned in the same way as the *Conceptual Framework for Financial Reporting*, and proceeding with disclosure in accordance with thematic requirements in other Sustainability Disclosure Standards such as S2 is clear and beneficial to both users and preparers of sustainability-related financial information.

However, we have some suggestions for improvement as follows:

Although there is an explanation of 'material' in paragraphs 56-62 of Draft S1, the explanation of 'significant' is only found in paragraph BC40 of the Basis for Conclusions on Draft S1. The explanation of 'significant' should also be clearly stated in the text of S1.

Although a reporting entity is required to identify material information about all the significant sustainability-related risks and opportunities, the identification methodology is not clear for topics other than climate-related disclosures as set in Draft S2. Additional illustrative guidance should be developed on the information identification process that could be used for other topics.

Question 2—Objective (paragraphs 1–7)
The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value. Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information. Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability-related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements. Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets. The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value.

(a)	Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?
(b)	Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

Please refer to our comments on Question 1.

Question 3—Scope (paragraphs 8–10)
Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures. The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction's GAAP (so with IFRS Accounting Standards or other GAAP). Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

We agree with the proposal that S1 could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP rather than only those prepared in accordance with IFRS Accounting Standards. Some 90.0% of respondents to **Q2** of our questionnaire agreed with this proposal.

Sustainability-related financial information required for users to assess an entity's enterprise value should have common characteristics regardless of the accounting standards with which the related financial statements comply. We believe that Draft S1 could provide a common disclosure framework as a global baseline. It would be beneficial to users if IFRS Sustainability Disclosure Standards are used in a wider range of countries and regions through making the standards applicable regardless of the accounting standards adopted.

However, some have commented that, if an entity's financial statements are prepared under accounting standards other than IFRS Accounting Standards, that fact should be disclosed because the different accounting standards used may undermine the connectivity between financial statements and sustainability-related financial information.

Question 4—Core content (paragraphs 11–35)

The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.

This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well-established work of the TCFD.

Governance

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be:

> to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

Strategy

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be:

> to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.

Risk management

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be:

> to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.

Metrics and targets

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be:

> to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities; these disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.
>
> (a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?
>
> (b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

We believe that the four core contents proposed in Draft S1: (i) Governance, (ii) Strategy, (iii) Risk management, and (iv) Metrics and targets, are clear and appropriate. Some 80.0% of respondents to **Q3** of our questionnaire answered that these four core contents are clear and appropriate.

The concept of the four core contents utilizes the framework of TCFD Recommendations which provide widely recognized concepts of (i) Governance, (ii) Strategy, (iii) Risk management, and (iv) Metrics and targets. This framework based on these four core contents is easy to understand for both preparers and users, and is the basis for enterprise value assessment, not limited to analysis of sustainability information. Therefore, we believe that this framework could be applied to all sustainability-related financial disclosures, including climate-related disclosures, which would be appropriate for a global baseline. The inclusion of opportunities in addition to risks in the disclosure requirements would make the disclosures more valuable to users.

However, we had the following suggestions for improvement.

The four core contents ((i) Governance, (ii) Strategy, (iii) Risk management, and (iv) Metrics and targets) and the six areas of content in the IFRS Practice Statement Exposure Draft *Management Commentary* (a. Business model, b. Strategy, c. Resources and relationships, d. Risks, e. External environment, f. Entity's financial performance and financial position) have similar keywords such as in (ii) Strategy and b. Strategy, (iii) Risk management and d. Risks. The relationship between them should be clarified to avoid confusion.

Question 5—Reporting entity (paragraphs 37–41)
The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements.

The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as: • its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain; • the assets it controls (such as a production facility that relies on scarce water resources); • investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and • sources of finance. The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate. (a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why? (b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why? (c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

We agree with the proposal in Draft S1 that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements. Some 75.0% of respondents to **Q4** of our questionnaire agreed with this proposal.

For consistency with financial statements, the scope of reporting entities for sustainability-related financial information and general purpose financial statements should be the same. However, the disclosure of value chain information should be improved as follows:

The definition of value chain in Draft S1 (Appendix A: Defined terms) includes the activities of the reporting entity itself, which is different from the normally recognized concept of value chain. It should be clarified that the definition of value chain includes the activities of the reporting entity itself, so that preparers and users do not misunderstand it as the normally recognized concept.

We understand that there is a concern that it is difficult for an entity to obtain information on its value chains with a high degree of accuracy, because it includes information on entities that are not itself or its subsidiaries. In particular, information on the value chain of entities such as associates and joint ventures would be more difficult to obtain. However, if material, this information is necessary for users. Therefore, we propose the ISSB clarify that estimates can also be used and that additional illustrative guidance be developed in order to facilitate the disclosure of material information on value chains.

Question 6—Connected information (paragraphs 42–44)
The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements. (a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not? (b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

We agree with the proposal in Draft S1 regarding connected information. Some 60.0% of respondents to **Q5** of our questionnaire agreed with this proposal.

Connectivity is important in understanding sustainability-related financial information. Information on (1) the connectivity among various sustainability-related risks and opportunities, and (2) the connectivity between this information and the information in the financial statements is essential for analyzing and assessing an entity. Users will benefit from this connected information because it will make it easier for users to identify an entity's sustainability-related financial information that is connected to its financial statements.

In this regard, the connectivity examples in paragraph 44 of Draft S1 and paragraph BC57 are useful for both preparers and users to better understand what connectivity is. On the other hand, there is no clear requirement in Draft S1 regarding the connectivity between sustainability-related financial information and financial statements. We believe this should be clearly stipulated as a requirement in

S1. As paragraph 22 (b) of Draft S2 stipulates a requirement that encourages an entity to consider the connectivity between the two, we propose that a similar requirement be clearly stipulated in S1.

In addition, there were some other suggestions: some commented that not only connectivity examples of risks but also those between risks and profit opportunities should be stated in S1; and others commented that S1 should include examples of how connectivity can change over the short, medium, and long term.

Question 7—Fair presentation (paragraphs 45–55)
The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation. To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies. To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard.

(a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not? (b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

We agree with the proposal regarding the fair presentation of Draft S1 with some reservations. Only 55.0% of respondents to **Q6** of our questionnaire, slightly more than a majority, agreed with this proposal.

The reason why only 55.0% of respondents agreed was that quite a few were concerned that forcing preparers to consider specific disclosure standards, such as the SASB Standards and the CDSB Framework application guidance, that have not gone through the ISSB's formal due process would effectively mean the ISSB is violating its own standard-setting due process.

On the other hand, those who agree with the proposal emphasized that the SASB Standards and the CDSB Framework application guidance are widely recognized. Many commented that if preparers take them into account in identifying significant sustainability-related risks and opportunities to disclose sustainability-related financial information on topics for which no applicable IFRS Sustainability Disclosure Standards exist, comparability is expected to be improved, which will enhance the value of information for users.

Therefore, with respect to certain disclosure standards, such as the SASB Standards and the CDSB Framework application guidance, we suggest that the wording be changed from "an entity shall consider" to "an entity is encouraged to consider."

Question 8—Materiality (paragraphs 56–62)
The Exposure Draft defines material information in alignment with the definition in IASB's *Conceptual Framework for General Purpose Financial Reporting* and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'.

However, the materiality judgements will vary because the nature of sustainability-related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value.

Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1.

The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction.

(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

(b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?

(c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?

(d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

We agree with the proposal in Draft S1 regarding materiality. Some 80.0% of respondents to **Q7** of our questionnaire agreed with this proposal.

We appreciate that the definition of materiality is consistent with IASB's *Conceptual Framework for General Purpose Financial Reporting* and IAS 1, focusing on the primary users of general purpose financial reporting.

However, materiality judgement may be applied differently to sustainability-related financial information and to information related to financial statements. In particular, the materiality of sustainability-related financial information may change over time due to its long time horizon. Additional illustrative guidance on materiality assessment should be developed taking the time horizon into account so that more useful disclosure information can be prepared.

Question 9—Frequency of reporting (paragraphs 66–71)
The Exposure Draft proposes that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements. Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

We agree with the proposal in Draft S1 regarding frequency of reporting. Only 50.0% of respondents to **Q8** of our questionnaire agreed with this proposal.

However, there was no objection to the proposal that the sustainability-related financial disclosures shall be for the same reporting period as the financial statements. Given the importance of the connectivity between financial statements and sustainability-related financial information, we fully agree with this proposal.

The relatively low agreement was due to the following concerns about the proposal that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements:

If an entity is required to report hard-to-obtain sustainability-related financial information at the same time as the related financial statements, the entity might be forced to opt for delaying to report the financial statements instead. Furthermore, we are concerned that, due to serious time constraints, an entity might be reluctant to disclose the sustainability-related financial information with its own in-depth analysis, which would be very useful to users to assess the entity's enterprise value.

In addition, we observe local laws or regulations in some jurisdictions require different reporting timing for sustainability-related financial disclosures and related financial statements, which may make an entity unable to report them at the same time.

However, given the importance of the connectivity between related financial statements and sustainability-related financial information, we agree the two reports should, in principle, be disclosed at the same time. Promotion of digitalization would be an important tool in achieving the simultaneous disclosure of the two reports.

On the other hand, we recommend the ISSB to consider the case where the simultaneous disclosure of both is practically impossible due to local laws or regulations. In this case, an entity should be permitted not to report the sustainability-related financial information and related financial statements at the same time, while it is required to disclose the reason why it cannot to do so and the background.

Question 10—Location of information (paragraphs 72–78)
The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—i.e. as part of the same package of reporting that is targeted at investors and other providers of financial capital. However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting. The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information. Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements. The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication. (a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

(b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?

(c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross- referenced? Why or why not?

(d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

We agree with the proposal in Draft S1 regarding location of information. Some 85.0% of respondents to **Q9** of our questionnaire agreed with this proposal.

Disclosure of sustainability-related financial information as part of a package of general-purpose financial reporting will clarify its relationship to related financial statements, contributing to users' better understanding.

However, the terms for cross-references should be clarified. Paragraph 75 stipulates "Information required by an IFRS Sustainability Disclosure Standard can be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced". It is not clear what "the same terms" means in the context above. We believe the ISSB should explain what it means in detail.

We also believe that S1 should identify the core report and include the minimum disclosure requirements in the core report. Otherwise, we are concerned that cross-references could be used without any principles, making it impossible for users to understand significant sustainability-related risks and opportunities in the core report.

In addition, the explanation of cross-references in both S1 and the IFRS Practice Statement Exposure Draft *Management Commentary* should also be aligned.

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)
The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable—i.e. the comparatives would be restated to reflect the better estimate. The Exposure Draft also includes a proposed requirement that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible. (a) Have these general features been adapted appropriately into the proposals? If not, what should be changed? (b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives? (c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

We agree with the proposal in Draft S1 regarding comparative information, sources of estimation and outcome uncertainty, and errors. Some 75.0% of respondents to **Q10** of our questionnaire agreed with this proposal.

When an entity has material updated estimates and/or prior period errors in metrics and others, we believe updated comparative information should be restated, even if the treatment for estimates and errors under S1 differs from that under IFRS Accounting Standards. Restating comparative information would improve both confirmatory and predictive value for users.

We are concerned that it might obscure connectivity between the sustainability-related financial disclosures and financial statements if underlying assumptions and data are inconsistent with each other.

However, when comparative information is restated, it should be required to include a description of the restatement as well as the content and reason/background for clarification.

Some commented that some companies may not disclose the information because it is impracticable. Such a case should be addressed.

Question 12—Statement of compliance (paragraphs 91-92)
The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements. The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards. Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

We agree with the proposal regarding the statement of compliance of Draft S1 with some reservations. Only 55.0% of respondents to **Q11** of our questionnaire, slightly more than a majority, agreed with this proposal.

The relatively low percentage of agreement was because, while all agreed that a statement of compliance was necessary, many felt that the proposal of an explicit and unqualified statement that it has complied with all of these requirements was too stringent.

Therefore, we propose to apply the principle of comply or explain to all requirements in the standards, similar to the approach proposed in the IFRS Practice Statement Exposure Draft *Management Commentary*, and to make a statement of compliance if all of the requirements in applicable IFRS Sustainability Disclosure Standards are met, and if not, to be required to explain why not. This would facilitate international adoption as a global baseline, and would also facilitate audit and assurance if the extent of an entity's statement of compliance (whether it is fully or partially compliant) is disclosed.

In addition, when applying the relief when prohibited by local laws or regulations, the requirement to disclose an explanation as to the reason/background why the information cannot be disclosed should be added.

Question 13—Effective date (Appendix B)
The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard. (a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others. (b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

We agree with the proposal in Draft S1 regarding effective date. Some 95.0% of respondents to **Q12** of our questionnaire agreed with this proposal.

While it is desirable for users to have comparative information, a higher priority should be given to begin disclosures as soon as possible, even if it is just a year earlier. The effective date of Draft S1 should not be delayed in order to collect and organize comparative information.

Question 14—Global baseline
IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards. Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

In our questionnaire survey, we received the following comments:

- The lack of a clear definition of the global baseline appears to be causing confusion. Unlike IFRS Accounting Standards, IFRS Sustainability Disclosure Standards, as a global baseline, will allow each country and region to add its own requirements. The application of the 'global baseline' concept should be clarified, such as what kind of additional requirements could be accepted for the statement of compliance.

- In Draft S2, the industry-based requirements based on the SASB Standards have a high granularity, and although revised from the SASB Standards, some of the proposed metrics do not appear internationally applicable. We are concerned that there would be some countries/jurisdictions where it is difficult to apply Draft S2. If so, it would be difficult for all the requirements of IFRS Sustainability Disclosure Standards to be accepted internationally as a global baseline. We address our detailed comment to this issue in Question 11 ー Industry-based requirements, in our comment letter on Draft S2.

Question 15—Digital reporting
The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S2 Climate-related Disclosures Standards are the sources for the Taxonomy. It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation. Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

In our questionnaire survey, we received the following comments:

- Digitization should be strongly promoted not only in sustainability-related financial reporting but also in all financial reports, as it expands the scope of comparability, benefitting users.

- As for digital reporting, cross-reference and audit/assurance are likely to be critical. The ISSB should work with related standard-setters such as the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB).

Question 16—Costs, benefits and likely effects
The ISSB is committed to ensuring that implementing the Exposure Draft proposals appropriately balances costs and benefits. (a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals? (b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

In our questionnaire survey, we received the following comments:

- The SASB has been developing its standards with cost-effectiveness at the forefront. Following this approach, the ISSB should confirm if there are any dubious requirements with regard to cost-effectiveness through a transparent process not only in the development of Draft S1 and Draft S2, but also in their post-implementation review.

Question 17—Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

In our questionnaire survey, we received the following comments:

- Draft S1 consists of two parts: (1) content that forms the basis for the disclosures of an entity's sustainability-related financial information (Objective, Scope, and Core content), and (2) general features that stipulate the fundamental qualitative characteristics of sustainability-related financial disclosures. The former requires an entity to identify sustainability-related financial information other than climate-related and disclose it if material, which could be very time consuming in the absence of relevant disclosure standards. We are seriously concerned that this may be a factor to delay the effective date of Draft S2, which addresses more urgent needs. In order to avoid such a concern, we propose to divide the development process of Draft S1 into two stages and encourage the ISSB to finalize the latter, general features first so as to facilitate Draft S2 becoming effective as early as possible.

- Ensuring the adequacy of sustainability-related financial information is critical for users. In this regard, it will be necessary to introduce audit and assurance mechanisms for disclosed information in the future. Therefore, when developing standards, the perspective of audit and assurance should be included with an awareness of the possibility of future introduction.

- The legitimacy of IFRS Accounting Standards has been built on the IASB's rigorous compliance with its due process. We hope that the ISSB will also comply with its due process and ensure transparency in setting IFRS Sustainability Disclosure Standards.
- The disclosure framework for sustainability information is evolving. We hope that, in developing and amending IFRS Sustainability Disclosure Standards, the ISSB will be agile enough to capture this evolution while taking into account the stability of standards.
- While we appreciate that the exposure drafts have been published in a short time thanks to the efforts of the IFRS Foundation and the ISSB, from the perspective of global consensus building we would like to mention that there was only one opportunity for consultation on the exposure drafts and that the consultation period is only 120 days. On 3 November 2022, a prototype of the climate and general disclosure requirements developed by the Technical Readiness Working Group (TRWG) was published. If public consultation on the prototype had been held and the results reflected in these exposure drafts, they would have been more inclusive, and contributed more to global consensus building. We hope that, in its future standard development process, the ISSB will consider the balance between the urgent need for sustainability-related disclosure standards and the consensus building that will form the basis of the global baseline. This would solidify the ISSB's legitimacy as a standard setter.

Sincerely yours,

George Iguchi

George Iguchi
Chair
Sustainability Reporting Committee

Attachment: Questionnaire Results on Draft S1

The SAAJ sent questionnaire surveys regarding Draft S1 and Draft S2 to members of the SRC and CMAs; some 20 responded to the Draft S1 questionnaire survey.

Q1: Overall approach / Objective

Draft S1 sets out the overall approach as follows:

(1) It sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it.

(2) An entity shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value.

(3) Draft S1 shall be applied together with other IFRS Sustainability Disclosure Standards, including Draft S2 ('thematic disclosure requirements' and 'industry disclosure requirements').

(4) An entity shall identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard.

Do you think that the proposed overall approach and objectives in Draft S1 are appropriate and clear? **Question 1 and 2 in Draft S1**

(a) Yes	13	65.0%
(b) No	3	15.0%
(c) Neither "Yes" nor "No"	4	20.0%
Total	20	100.0%

Q2: Scope

Draft S1 proposes that the IFRS Sustainability Disclosure Standards be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP, rather than only those prepared in accordance with IFRS Accounting Standards.

Do you agree with this proposal? **Question 3 in Draft S1**

(a) Yes	18	90.0%
(b) No	0	0.0%
(c) Neither "Yes" nor "No"	2	10.0%
Total	20	100.0%

Q3: Core content

Draft S1 proposes that entities disclose information that enables primary users to assess enterprise value. Based on the TCFD recommendations, Draft S1 defines the four core contents, namely (i) Governance, (ii) Strategy, (iii) Risk management, and (iv) Metrics and targets, and then sets out disclosure objectives and requirements for each respectively. (Note: The four core contents will be applied in the future development of IFRS Disclosure Standards for themes other than climate-related ones [biodiversity, human rights, etc.])

Do you think that these core contents are clear and appropriate? **Question 4 in Draft S1**

(a) Yes	16	80.0%
(b) No	1	5.0%
(c) Neither "Yes" nor "No"	3	15.0%
Total	20	100.0%

Q4: Reporting entity

Regarding reporting entities, Draft S1 proposes as follows:

(1) An entity shall provide its sustainability-related financial information for the same reporting entity as the related financial statements.

(2) An entity shall disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain.

(3) An entity shall disclose its sustainability-related financial information for users to identify its related financial statements.

Do you agree with these proposals? **Question 5 in Draft S1**

(a) Yes	15	75.0%
(b) No	1	5.0%
(c) Neither "Yes" nor "No"	4	20.0%
Total	20	100.0%

Q5: Connected information

Draft S1 proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between:

(1) various sustainability-related risks and opportunities; and

(2) sustainability-related risks and opportunities, and information in general purpose financial reporting, including the financial statements.

Do you think that these proposals are clear and appropriate? **Question 6 in Draft S1**

(a) Yes	12	60.0%
(b) No	5	25.0%
(c) Neither "Yes" nor "No"	3	15.0%
Total	20	100.0%

Q6: Fair presentation

Draft S1 proposes that a complete set of sustainability-related financial disclosures be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. To identify sustainability-related risks and opportunities, the entity shall apply related IFRS Sustainability Disclosure Standards (IFRS S2 *Climate-related Disclosures*, etc.). In addition, if related IFRS Sustainability Disclosure Standards do not exist, the entity shall consider the disclosure topics in the SASB Standards, the CDSB Framework application guidance, the related pronouncements of other standard-setting bodies, and other related resources.

Do you agree with these proposals? **Question 7 in Draft S1**

(a) Yes	11	55.0%
(b) No	6	30.0%
(c) Neither "Yes" nor "No"	3	15.0%
Total	20	100.0%

Q7: Materiality

Draft S1 defines material information in alignment with the definition in IASB's *Conceptual Framework for General Purpose Financial Reporting* and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'. To ensure that only material information is disclosed, Draft S1 proposes as follows:

(1) Material sustainability-related financial information provides insights into factors that could reasonably be expected to influence primary users' assessments of an entity's enterprise value.

(2) The information can include information about sustainability-related risks and opportunities with low-probability and high-impact outcomes.

(3) No threshold for materiality is defined. An entity shall apply judgement to identify material sustainability-related financial information and reassess it at each reporting date to take account of changed circumstances and assumptions.

(4) An entity needs not provide specific disclosure if the information resulting from that disclosure is not material.

Do you agree with these proposals? **Question 8 in Draft S1**

(a) Yes	16	80.0%
(b) No	0	0.0%
(c) Neither "Yes" nor "No"	4	20.0%
Total	20	100.0%

Q8: Frequency of reporting

Draft S1 proposes that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements.

Do you agree with these proposals? **Question 9 in Draft S1**

(a) Yes	10	50.0%
(b) No	8	40.0%
(c) Neither "Yes" nor "No"	2	10.0%
Total	20	100.0%

Q9: Location of information

Draft S1 proposes regarding the location of information required by the IFRS Sustainability Disclosure Standards as follows:

(1) An entity shall disclose information required by IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting.

(2) An entity might disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators.

(3) Information required by an IFRS Sustainability Disclosure Standard can be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced.

Draft S1 also proposes that an entity avoid unnecessary duplication when IFRS Sustainability Disclosure Standards require the disclosure of common items of information (e.g. disclosures on governance).

Do you agree with these proposals? **Question 10 in Draft S1**

(a) Yes	17	85.0%
(b) No	0	0.0%
(c) Neither “Yes” nor “No”	3	15.0%
Total	20	100.0%

Q10: Comparative information, sources of estimation and outcome uncertainty, and errors

Draft S1 proposes that an entity correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed unless it is impracticable to do so, rather than requiring a change in estimate to be reported as part of the current period disclosures like IFRS Accounting Standards.

Draft S1 also proposes that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity’s financial statements to the extent possible.

Do you agree with these proposals? **Question 11 in Draft S1**

(a) Yes	15	75.0%
(b) No	2	10.0%
(c) Neither “Yes” nor “No”	3	15.0%
Total	20	100.0%

Q11: Statement of compliance

Draft S1 proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with all of the requirements of applicable IFRS Sustainability Disclosure Standards and include an explicit and unqualified statement that it has complied with all of these requirements.

The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

Do you agree with these proposals? **Question 12 in Draft S1**

(a) Yes	11	55.0%
(b) No	1	5.0%
(c) Neither “Yes” nor “No”	8	40.0%
Total	20	100.0%

Q12: Effective date

Draft S1 proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard.

Do you agree with this proposal? **Question 13 in Draft S1**

(a) Yes	19	95.0%
(b) No	0	0.0%
(c) Neither “Yes” nor “No”	1	5.0%
Total	20	100.0%

Q13: Global baseline

IFRS Sustainability Disclosure Standards are intended to provide a global baseline of requirements that can be applied in different jurisdictions, allowing regulators to supplement them with requirements that meet the needs of a wider range of other stakeholders in their jurisdictions, if necessary (with the EU in mind).

If there are any particular aspects of the proposals in Draft S1 that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner, please give them.

Question 14 in Draft S1

Q14: Digital reporting

Draft S1 does not include any provisions for digital reporting, but if you have any comments or suggestions relating to IFRS Sustainability Disclosures Taxonomy and digital reporting, please give them. **Question 15 in Draft S1**

Q15: Costs, benefits and likely effects

The ISSB is committed to ensuring that implementing Draft S1 proposals appropriately balances costs and benefits.

If you have any comments on this, please give them. **Question 16 in Draft S1**

Q16: Other comments

If you have any other comments not included in **Q1**-**Q15** above, please give them.

Question 17 in Draft S1