

9 August 2023

Mr. Emmanuel Faber
Chair
International Sustainability Standards Board

Re: Exposure Draft “Methodology for Enhancing the International Applicability of the SASB® Standards and SASB Standards Taxonomy Updates”

Dear Mr. Faber:

The Sustainability Reporting Committee (SRC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on the Exposure Draft “Methodology for Enhancing the International Applicability of the SASB® Standards and SASB Standards Taxonomy Updates” (hereinafter referred to as the “ED”) published by the International Sustainability Standards Board (ISSB) on 11 May 2023.

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 nine members including equity and credit analysts, portfolio managers, public accountants, and academics.

The SAAJ sent a questionnaire survey on the ED to members of the SRC and CMAs, of which some 26 responded. This comment letter is based on the ED 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 IFRS Sustainability Disclosure Standards – IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*¹. We have been advocating the urgent need on the part of analysts and

¹ In this comment letter and its attachment, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* published on 26 June 2023 are referred to as “S1” and “S2” respectively, and the exposure drafts of S1 and S2 published on 31 March 2022 are referred to as “Draft S1” and “Draft S2” respectively.

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 standards in such a short time, responding to this urgent need.

S1 requires an entity to refer to and consider the applicability of disclosure topics in the SASB Standards in addition to the IFRS Sustainability Disclosure Standards in identifying sustainability-related risks and opportunities. We therefore recognize that amendments to enhance the international applicability of the SASB Standards will need to be implemented by 1 January 2024, when S1 becomes effective. Thus, we understand that the proposals in the ED are a targeted and narrow-scope project to amend US-specific metrics in the SASB Standards to internationally applicable metrics within the limited timeframe.

Based on this premise, we basically agree with each of the proposals in the ED.

On the other hand, the ED also asks for any specific comments or suggestions for the ISSB to consider further enhancements to the SASB Standards. In this regard, we reiterate the three issues related to the SASB Standards that we advocated in our comment letter on Draft S2².

Below are our comments on each question.

Question 1—Methodology objective
<p>This Exposure Draft describes the proposed methodology to amend non-climate-related SASB Standards metrics to enhance their international applicability when they contain a jurisdiction-specific reference.</p> <p>(a) Are the scope of the intended enhancements and the objective of the proposed methodology stated clearly in paragraph 8? If not, why not?</p> <p>(b) Are the constraints of the objective as listed in paragraph 8 (preserving structure and intent, decision-usefulness and cost-effectiveness) appropriate? Why or why not?</p> <p>(c) Should any other objective(s) or constraint(s) be included in the proposed methodology? If so, what alternative or additional objective(s) or constraint(s) would you suggest? How would these add value to the proposed methodology?</p>

We agree with the proposed methodology objective and overall methodology. Some 76.9% of respondents to **Q1** of our questionnaire agreed with these proposals.

² SAAJ submitted its comment letters on Draft S1 and Draft S2 on 29 July 2022 as follows:
Draft S1 https://www.saa.or.jp/standards/sustainability/pdf/ikensho_220729s1en.pdf
Draft S2 https://www.saa.or.jp/standards/sustainability/pdf/ikensho_220729s2en.pdf

Paragraph 55 of S1 requires an entity to refer to and consider the applicability of the disclosure topics in the SASB Standards in addition to the IFRS Sustainability Disclosure Standards in identifying sustainability-related risks and opportunities. We understand that the proposals in the ED are a targeted and narrow-scope project to enhance the international applicability of the SASB Standards within the limited timeframe of 1 January 2024, when S1 becomes effective.

Based on this premise, we believe that the proposed objectives and methodology to amend US-specific metrics, which have been one of the issues, to internationally applicable metrics without substantially changing the structure or original intent of the content of the standards are appropriate.

On the other hand, as we argued in “Question 11 - Industry-specific requirements” in our comment letter on Draft S2, there are still issues to be addressed in the SASB Standards other than amending the US-specific metrics to internationally applicable metrics. We comment on this in Question 5.

Question 2—Overall methodology
This Exposure Draft explains the proposed methodology to amend the SASB Standards metrics to enhance their international applicability when they contain jurisdiction-specific references. (a) Do you agree that the proposed methodology would enhance the international applicability of the SASB Standards metrics? If not, what alternative approach do you suggest and why?

Please refer to our comments on Question 1.

Question 3—Revision approaches
This Exposure Draft explains five revision approaches to enhance the international applicability of non-climate-related SASB Standards metrics. Every disclosure topic, metric and technical protocol amended using the methodology will apply these five revision approaches, either individually or in combination. The methodology begins with Revision Approach 1, which uses internationally recognised frameworks and guidance to define relevant terms of reference. (a) Do you agree that replacing jurisdiction-specific references with internationally recognised frameworks and guidance—if identified—should be the first course of action? If not, why not? (b) If Revision Approach 1 is not feasible, do you agree that using the remaining four revision approaches would enhance the international applicability of the SASB Standards? Why or why not? (c) Could the revised metrics resulting from any specific revision approaches or combination of approaches pose problems for the preparers applying them? Why or why not?

(d) Do you agree with the criteria for determining which of the proposed revision approaches applies in different circumstances? Why or why not? What changes to the criteria would you recommend and why?

We largely agree, but partly disagree with, the proposed revision approaches. Some 73.1% of respondents to **Q2** of our questionnaire agreed with this proposal.

Of the proposed hierarchy of Revision Approaches 1–5, Revision Approaches 1–3 make sense because they are in order of international comparability, which is one of the important factors for users.

On the other hand, as noted in paragraph A9 of the ED, even if the term 'generalised reference' in Revision Approach 2 is applied in the same way in each jurisdiction, its definition may differ between jurisdictions and, as a result, a combination of Revision Approaches 2 and 3 may need to be applied. Therefore, while the hierarchy of Revision Approaches 1–4 should be applied in principle, these approaches should be flexibly combined in actual revision arrangements. For example, Revision Approaches 2 and 3 could be integrated as a single approach. When publishing the results of amendments to the SASB Standards in accordance with these revision approaches, it should also be published which revision approaches have been applied.

We do not agree with Revision Approach 5 that introduces new metrics. The proposed revisions are a narrow-scope project to amend jurisdiction-specific references to internationally applicable references without substantially changing the structure or original intent of the content of the SASB Standards. Revisions that add new metrics should therefore be avoided. Nevertheless, if new metrics are to be introduced, the ISSB should ensure transparency in the process, for example by publishing another exposure draft.

Question 4—SASB Standards Taxonomy Update objective

This Exposure Draft describes the proposed approach to updating the SASB Standards Taxonomy to reflect amendments to the SASB Standards.

(a) Do you agree with the proposed methodology to update the SASB Standards Taxonomy to reflect changes to the SASB Standards? Why or why not? If you do not agree, what alternative approach would you recommend and why?

We have no comments on this question.

Question 5—Future SASB Standards refinements

This Exposure Draft focuses specifically on the first phase of narrow-scope work to amend the SASB Standards metrics in accordance with the proposed methodology to enhance their international applicability when they contain jurisdiction-specific references. In subsequent phases, the ISSB will consider further enhancements to the SASB Standards to improve their decision-usefulness, balance their cost-effectiveness for preparers and ensure their international relevance.

- (a) What other methods, considerations or specific amendments would be useful to guide the ISSB's future work of refining the SASB Standards to support the application of IFRS S1? Why would they be useful?
- (b) Do you have any specific comments or suggestions for the ISSB to consider in planning future enhancements to the SASB Standards?

In our comments on "Question 11 - Industry-based requirements" of Draft S2, we raised three issues with the industry-based disclosure requirements, which is based on the SASB Standards (see Appendix on page 7). Of these issues, the ED does not address: 1. explanation of the process and rules for selecting disclosure topics and metrics; and 3. industry classifications using SICS instead of GICS.

In **Q3** of our questionnaire, some 96.2% of respondents agreed that we should continue to propose to the ISSB to explain the process and rules for selecting disclosure topics and metrics and to achieve a global consensus on industry classifications.

As the ISSB plans further enhancements to the SASB Standards in the future, we expect that industry-based disclosures with thematic standards, such as S2 to be revised and S3 to be developed, will move from illustrative guidance, such as S2 published on 26 June 2023, to mandatory disclosure requirements.

In this regard, we would like to propose that the ISSB resolve the three issues related to industry-based disclosures, while we believe that it is not easy for the ISSB to do so in the form of refinements of the SASB Standards. The ISSB should complete the proposed narrow-scope project to enhance the international applicability of the SASB Standards and then start a new project to develop the ISSB-specific industry-based disclosure requirements. This new project would enable the ISSB to address the issues more substantively and thereby move towards the development of industry-based disclosure requirements from a truly global perspective.

Based on this perspective, we would like to reiterate three issues related to industry-based disclosures as follows:

1. In the industry-based disclosure requirements of the ISSB Standards (including S2 to be revised. The same applies below), the process and rules for selecting disclosure topics and

metrics should be explained so that users and preparers can understand the relevance of each disclosure topic and metric. That is, the specific evidence that was used as references in developing the standards and where each disclosure topic affects sales, expenses, assets/liabilities and others should be described.

2. In the industry-based disclosure requirements of the ISSB Standards, the relevance of each disclosure topic and metric not only for US companies but also for non-US companies should be verified.
3. The industry classifications in the industry-based disclosure requirements of the ISSB Standards should be developed based on GICS, which is widely and globally used, instead of SICS.

In addition, there were the following suggestions:

- (1) From an efficiency perspective, it is not desirable for the ISSB to develop standards to address the above issues 1–3, using the same process as the SASB Standards. Therefore, the ISSB should only develop global baselines for matters that are easy to agree on, such as disclosure topics, and leave some metrics to each jurisdiction.
- (2) A periodic review system should be established to maintain the relevance of disclosure topics and other relevant issues.

Sincerely yours,



George Iguchi

Chair

Sustainability Reporting Committee

Appendix: SAAJ's comments on Draft S2 submitted on 29 July 2022

The following are extracts from our comments on “Question 11—Industry-based requirements” of Draft S2:

Industry-based requirements have the benefit of increasing comparability for users, while they are also useful for preparers in identifying significant climate-related risks and opportunities.

Having said that, we recognize the following issues regarding Appendix B Industry-based disclosure requirements, which is based on the SASB Standards:

1. Appendix B has been developed by extracting disclosure topics and metrics related to the dimension of Environment from the SASB Standards. The SASB Standards include research papers for respective industry standards, which describe the specific evidence that was used as references in developing the standards and where each disclosure topic affects sales, expenses, assets/liabilities and others. However, Draft S2 does not explain the process and rules for selecting such disclosure topics and metrics. We are concerned that both users and preparers may not understand the importance of each disclosure topic and metric.
2. Although revised from the SASB Standards, several proposed metrics appear not to be internationally applicable. In addition, each metric needs to be developed separately for internationally applicable metrics and those that should be left to each jurisdiction, in accordance with the approach set forth in paragraph BC132.
3. We understand that SICS used in industry classifications are well suited for setting sustainability-related standards, but they are not as widely and globally used as GICS are. As a result, entities are often at a loss to determine which industry classifications to apply to their business segments, which may cause a risk that appropriate disclosures will not be undertaken. Users may also not be able to efficiently use the industry-based disclosure requirements because the proposed industry classifications differ from the ones they normally use for their current portfolio management.

Attachment: Questionnaire Results on the ED

The SAAJ sent a questionnaire survey on the ED to members of the SRC and CMAs, of which some 26 responded.

Q1: Methodology objective / Overall methodology

The IFRS Foundation is responsible for the stewardship of the SASB Standards, including the maintenance and enhancement of the standards.

S1, to be published in June 2023, will require an entity to refer to and consider the applicability of the disclosure topics in the SASB Standards in identifying and disclosing sustainability-related risks and opportunities.

Since the SASB Standards require disclosure of some jurisdiction-specific references (particularly metrics based on US-specific laws and regulations), the ISSB has decided to consider amendments to the SASB Standards to enhance the international applicability of the standards.

The objective of the ED is to seek comments on the ISSB's proposed methodology for enhancing the international applicability of non-climate-related metrics in the SASB Standards¹.

The objective of the methodology proposed in the ED is to enhance the international applicability of the SASB Standards without substantially changing the structure or original intent of the content. That is, the ED focuses specifically on the first phase of narrow-scope work, and is not intended to change the metrics or other information to reflect materiality, relevance, etc. in each country or region.

The methodology is designed to ensure that the amendments preserve the decision-usefulness of the standards for users of general purpose financial reports, and that the amendments do not increase the costs of application for preparers.

Do you agree with the proposed methodology objective and overall methodology?

Question 1 and 2 in the ED

(a) Yes	20	76.9%
(b) No	2	7.7%
(c) Neither "Yes" nor "No"	4	15.4%
Total	26	100.0%

¹ When S2 is published in June 2023, the ISSB plans to release an update to the corresponding SASB Standards to align the climate-related industry-specific disclosures in the SASB Standards with the content in S2. Therefore, climate-related metrics are outside the scope of the ED for comment.

Q2: Revision approaches

The ED proposes that, in descending order of preference, amendments to the SASB Standards metrics would be made by the following Revision Approaches²:

1. substituting available internationally applicable references for standards, definitions or calculation methods to replace jurisdiction-specific references;
2. providing more generalised references for standards, definitions or calculation processes to replace jurisdiction-specific references;
3. adopting generalised jurisdictional references to enable preparers to use applicable jurisdictional laws, regulations, methodologies or guidance to replace jurisdiction-specific references;
4. removing—in a limited number of cases—disclosure metrics that are ill-adapted for international application or have no identified international equivalents outside specific jurisdictions; and
5. removing and replacing jurisdiction-specific metrics when a relevant replacement can be identified to preserve the disclosure topic's integrity—aligning with the intent of the original metric as much as possible based on research—to meet the needs of users of general purpose financial reports.

The above Revision Approaches 1–3 are also the order of international comparability, which is an important factor for analysts and investors as users.

Do you agree with these proposed revision approaches? **Question 3 in the ED**

(a) Yes	19	73.1%
(b) No	2	7.7%
(c) Neither “Yes” nor “No”	5	19.2%
Total	26	100.0%

² The Basis for Conclusions of Draft S2 presents the above Revision Approaches 1–3 as enhancing the international applicability of climate-related metrics (see paragraphs BC133 - BC142).

Q3: Future SASB Standards refinements

The ED focuses specifically on the first phase of narrow-scope work to amend the SASB Standards metrics in accordance with the proposed methodology to enhance their international applicability when they contain jurisdiction-specific references. In subsequent phases, the ISSB will consider further enhancements to the SASB Standards to improve their decision-usefulness, balance their cost-effectiveness for preparers and ensure their international relevance. That is, industry-based disclosures with thematic standards, including S2 to be published in June 2023 and S3 to be developed, are expected to move from illustrative guidance, such as S2, to mandatory disclosure requirements in the future.

In our comment letter on Draft S2 submitted on 29 July 2022, we raised three issues with the industry-based disclosure requirements, which is based on the SASB Standards (see page 7 of our comment letter on the ED).

Of these issues, the ED does not address: 1. explanation of the process and rules for selecting disclosure topics and metrics; and 3. industry classifications using SICS instead of GICS.

In “Question 5—Future SASB Standards refinements” of the ED, do you agree that we should continue to propose to the ISSB to explain the process and rules for selecting disclosure topics and metrics and to achieve a global consensus on industry classifications?

Question 5 in the ED

(a) Yes	25	96.2%
(b) No	0	0.0%
(c) Neither “Yes” nor “No”	1	3.8%
Total	26	100.0%