

31 July 2024

Secretariat of the Sustainability Standards Board of Japan
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Exposure Drafts of Sustainability Disclosure Standards

Dear Sir or Madam,

We write in response to an invitation for public comments on three Exposure Drafts issued by the Sustainability Standards Board (SSBJ) on 29 March 2024. We welcome the opportunity to provide comments.

The Asian Corporate Governance Association (ACGA) is a non-profit membership association founded in 1999. We conduct research on corporate governance and ESG in 12 markets in Asia-Pacific and advocate at the regulatory and corporate level across the region to improve standards and practices. ACGA is funded by a network of 100 organisations, of which 80% are institutional investors with more than US\$40 trillion in assets under management globally.

General comments

ACGA welcomes the development of globally consistent and comparable sustainability disclosure for listed companies based on the International Sustainability Standards Board (ISSB) standards. Alignment with ISSB standards will enable global investors to compare Japanese companies' sustainability initiatives and challenges with those of regional and international peers.

Japan has taken significant strides in sustainability reporting in recent years and ACGA recognises that it has been an early supporter of ISSB. These factors were incorporated into our recent CG Watch 2023 survey, where Japan rose to 2nd place in our rankings of 12 markets in the Asia-Pacific region.

We welcome the decision by SSBJ to substantially adopt the ISSB standards. As the SSBJ finalises its reporting standards we would however encourage even greater calibration, particularly in respect of the timing of sustainability reporting.

While we have not had the benefit of an English translation of the SSBJ exposure drafts to provide our response, we rely on the comparison chart published by SSBJ on 29 March, a recent note from ISSB, as well as discussions with investors and other stakeholders in Japan.

Under the current SSBJ proposals, entities may use a different reporting period for sustainability-related information in particular circumstances, notably where a company reports GHG emissions under the Japanese Act on Promotion of Global Warming Countermeasures. These companies can rely on the latest GHG emissions data that has been submitted to authorities under the disclosure requirements of the Act. However in practice, this could result in a gap of more than a year between the calculation period and the sustainability-related reporting period.

Global investors increasingly desire reliable, comparable and timely information on issuers' sustainability performance, strategy, risks and opportunities, and the impact this may have on the financial position and outlook of the company. Our concern is that investment decisions in respect of some issuers could be disadvantaged by a lag in reporting relevant sustainability information currently permitted under the SSBJ proposals.

ACGA encourages the SSBJ to synchronize the reporting timelines to provide global investors with the essential sustainability and financial information they require for sound decision-making.

ACGA has additional comments:

1. Requirement to consider SASB standards

We welcome SSBJ's references to the consideration of the SASB Standards as a source of guidance in preparing sustainability-related financial disclosures. ACGA supports the current language in the exposure drafts which requires that companies "shall" rather than "may" consider SASB Standards.

2. Climate-related risks and opportunities

ACGA notes that under IFRS S2, entities shall disclose information relevant to the cross-industry metric categories of climate-related transition risks. This is defined as the amount and percentage of assets or business activities vulnerable to climate-related transition risks. In the SSBJ draft, there is an alternative option of providing "information about the *magnitude*" of the assets or business activities which are vulnerable under these circumstances. ACGA questions whether this would give entities scope to offer information on a broad brush basis, rather than being qualitative. We would encourage mandatory disclosure of the amount and percentage of climate-vulnerable assets or business activities.

3. Resources and Relationships and Dependencies and Impacts

Two paragraphs have been omitted from IFRS S1 B4-B5, as reported by ISSB in its recent note. In the paragraphs, examples are given of resources and relationships an entity depends on and affects by its activities and outputs—both direct and indirect. ACGA agrees with ISSB that these descriptions are worth including as guidance as to what is relevant information under global standards and we would encourage their inclusion in the SSBJ standards.

4. Scope 2

The SSBJ drafts would allow issuers to disclose location-based Scope 2 GHG emissions and disclose information about contractual instruments or market-based emissions. ACGA takes the view that investors would benefit from as much information on Scope 2 as possible and would encourage disclosure of both location-based and market-based emissions, with information on contractual instruments.

5. Governance and disclosures

A specific objective of the IFRS S2 “is to enable users of general-purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities”. The adoption of ISSB standards will hopefully encourage companies to ensure data integrity with effective board oversight on reporting as well as sustainability related risks, opportunities and initiatives of the respective companies. We recommend the SSBJ Standards consider requiring companies to disclose material information on corporate engagement relating to climate policy. This includes climate-related positions, as well as direct engagements with governments and indirect engagements through industry groups, along with the governance of these initiatives.

ACGA thanks SSBJ for the opportunity to comment on the draft proposals. We would welcome any further opportunity to share our views as the drafts are finalized.

Yours faithfully,

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