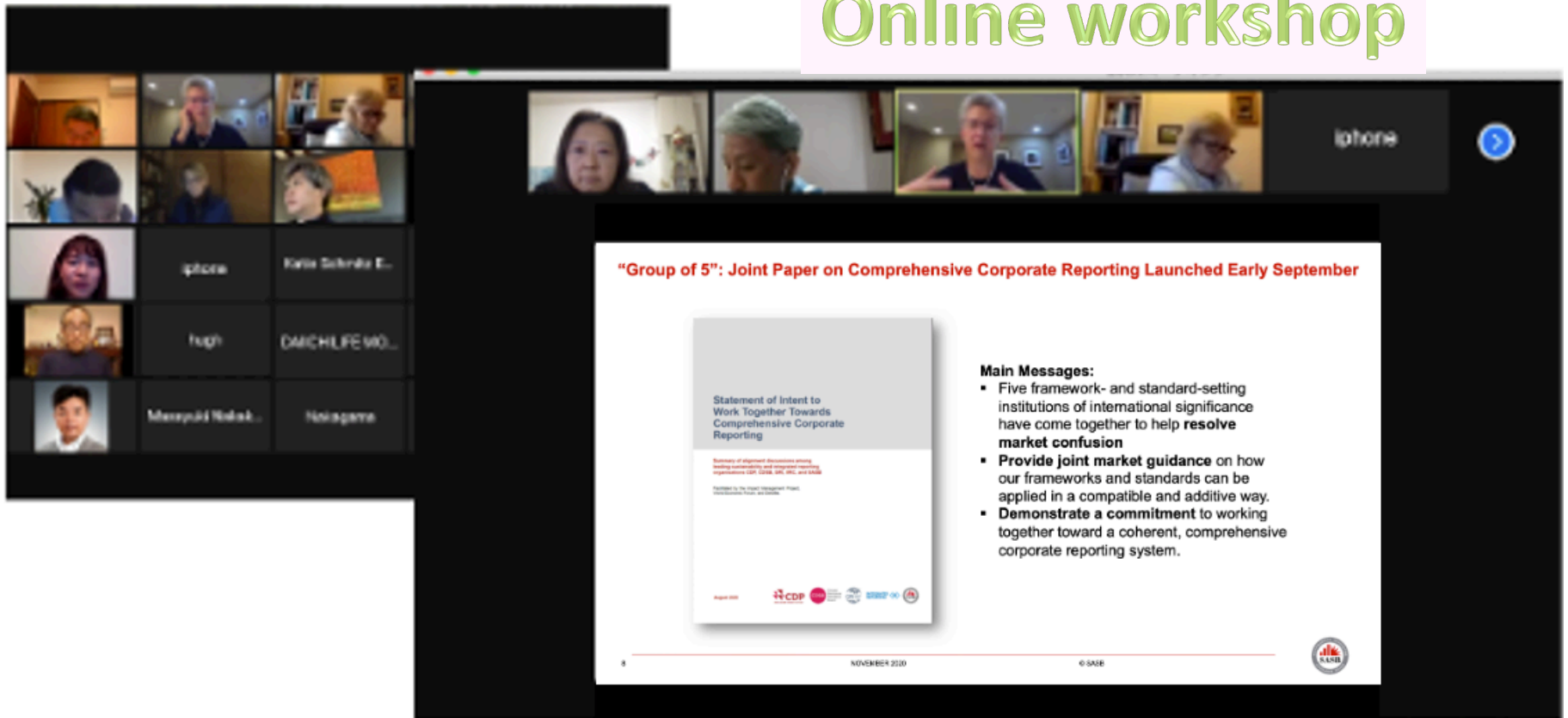


Towards Comprehensive Corporate Reporting


---- how the Standards should be for investors? ----

Online workshop



The screenshot shows a video conference interface. On the left is a grid of 12 participant thumbnails. The main area displays a presentation slide with the following content:

“Group of 5”: Joint Paper on Comprehensive Corporate Reporting Launched Early September



Main Messages:

- Five framework- and standard-setting institutions of international significance have come together to help **resolve market confusion**
- **Provide joint market guidance** on how our frameworks and standards can be applied in a compatible and additive way.
- **Demonstrate a commitment** to working together toward a coherent, comprehensive corporate reporting system.

4 NOVEMBER 2020 © SASB

IFRS Digital Reporting Workshop 19

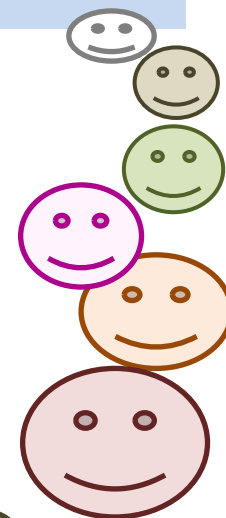
Date and time : 18th Nov 2020, 16:00-18:00 JST

How non-financial reporting should be.

We have been discussing disclosure related issues since 2014, mostly with investors and related market participants in Japan, and inviting foreign friends. Discussion themes are chosen from IFRS or Corporate Governance issues and responding public consultation of IASB or other organisations. Since we responded EU consultation Fitness Check in 2018, recently we are also picking up the Sustainable / environment topics as agenda.

SASB and other corporate reporting organisations (CDP, CDSB, GRI and IIRC) issued a report entitled "Statement of Intent to Work Together Towards Comprehensive Corporate Reporting" in September. They have been discussing this issue for long, what kind of reporting model is needed for the non-financial part, so-called ESG information? For evaluating the company, the financial and non-financial parts should be consistent, so now the IFRS foundation started to move for this issue.

This is the discussion about those latest topics above. We discussed what we should know and how non-financial reporting should be.

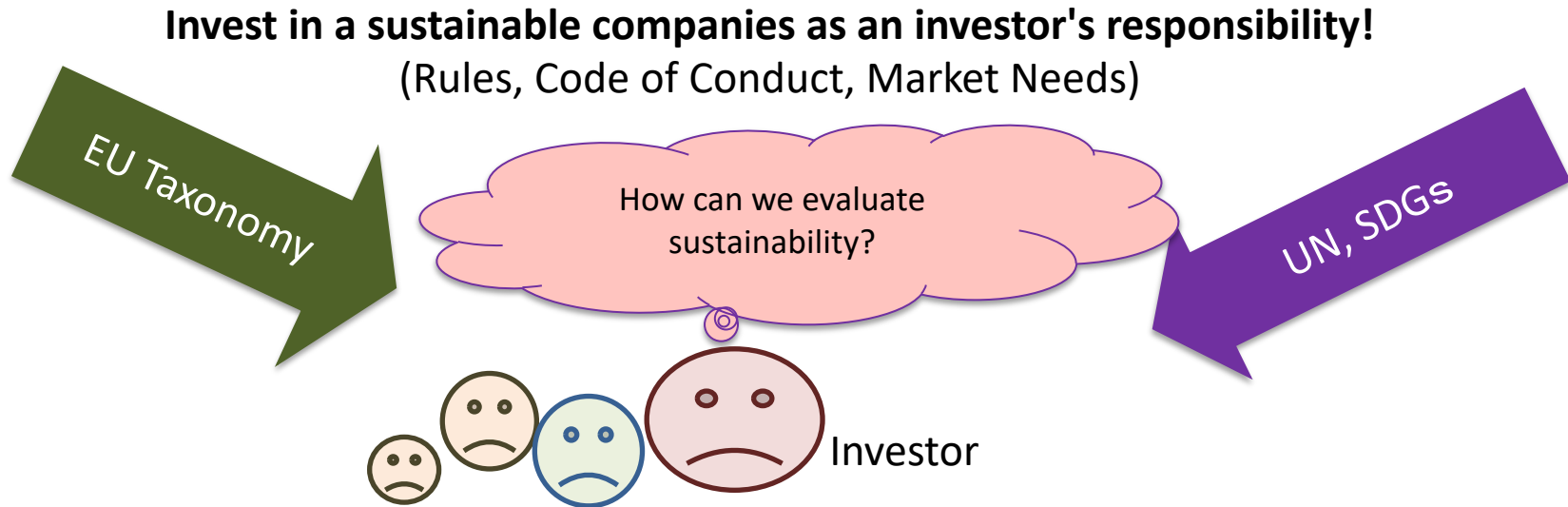


Discuss!

	Who join the discussion?
Attendees (Japan) *attendees have joined this workshop as private,	19 Investors, 7 Investor(Analysts) organization & sell-side analyst, 9 pension & insurance & bank, 7 Information providers/Researchers, 3 Company side (include Independent non - executive director , support service), 7 Auditor, 8 Regulator, Accounting setter & stock exchange, other 1
Attendees (outside Japan)	4 Investors (London) 1 CPA 1 Regulator 1 academic

Why disclosure of sustainability became important?

- Year by year, sustainability has become important for company.

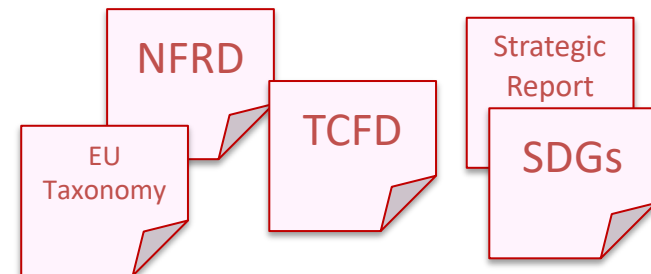


- It is not possible to understand from financial statements and regulatory disclosure of each country.

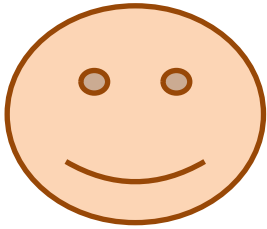
Various disclosure framework were born from private sectors.

SASB
IIRC
CDP
GRI
CDSB

At the same time, disclosure frames and standards will be developed in each country / region.



What is SASB? What is “the dynamic materiality”?



SASB was born as independent standards setter, in US California.

SASB’s disclosure framework that is intended to be read by investors. 77 sectorial frames. It contains non-financial information that should be explained to investors in connection with the financial impact that a company might affect its sustainability.

The standards are created by listening to the opinions of investors. It also provides the way of the cost-effectively to disclose for companies. Everything is put on the public consultation.

What is important is that investors have spread SASB by asking companies "Please disclose following it."

SASB is also grateful that there are regulators who can support them now.

SASB Governance and Oversight

Governance structure safeguards the independence and integrity of standard-setting

SASB FOUNDATION BOARD OF DIRECTORS

Standards Oversight Committee (SOC)

Oversight of due process of standard-setting activities

Governance & Nominating Committee

Nominates members for appointment to the Sustainability Accounting Standards Board by SASB Foundation Directors



THE SUSTAINABILITY ACCOUNTING STANDARDS BOARD

Advisory Groups or ad hoc Advisory Committees (external advisors) who provide input on practical and technical issues

What should we do, if there is no applicable sector frame for a new business?

Customise the closest one

Is the same content sometimes material or not, depending on the business?
Also, even if the same content as material, the realisation timing may differ depending on the business ...

Yes, there is such cases. But it is important to write about financially material.

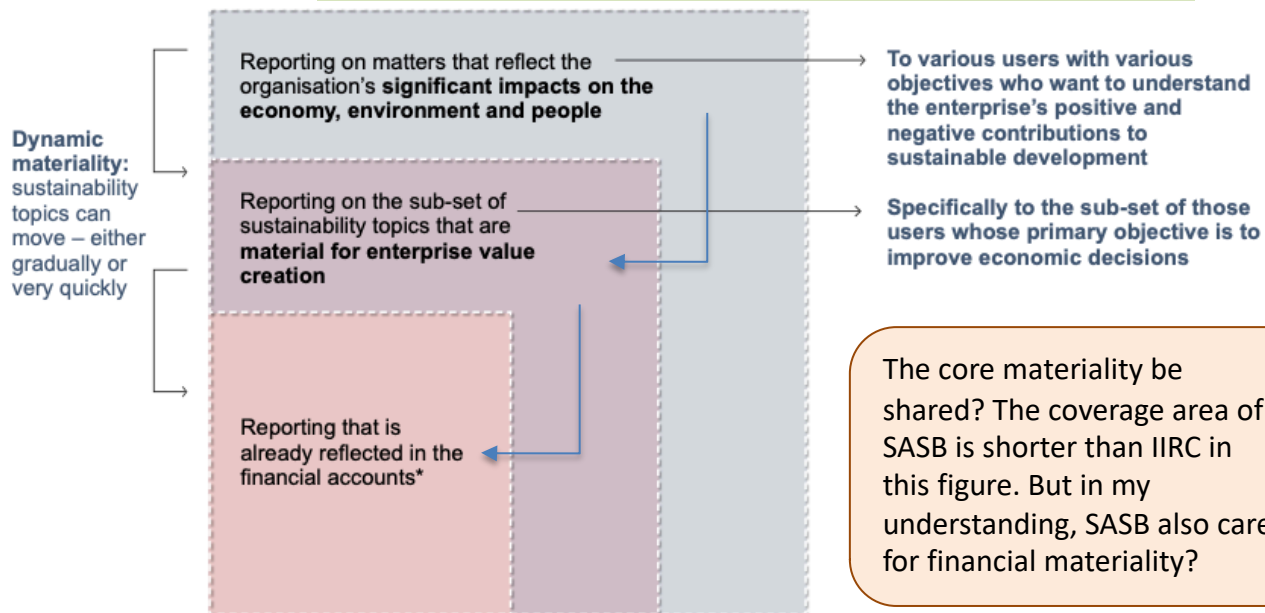
Statement of Intent to Work Together Towards Comprehensive Corporate Reporting

- Group of 5 (IIRC, SASB, GRI, CDP, CDSB) stand up together, for solving this situation.

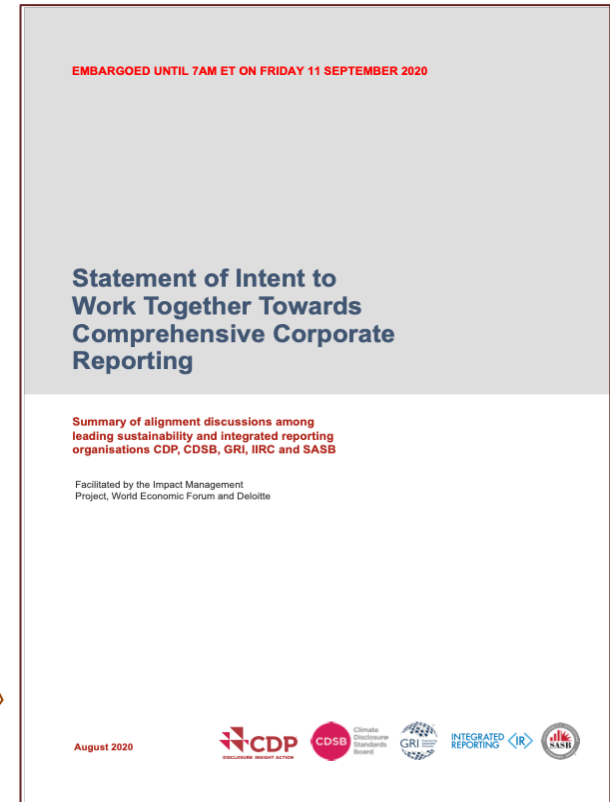
It shows the relationship between the areas covered by each other's frames

Figure 1. Dynamic materiality¹¹

▼ This demonstrates the concept of nested, dynamic materiality. (The relationship between materiality of each frame.)



* Including assumptions and cash flow projections
 ** Reflects the scope of the CDP survey, insofar as it functions de facto as a disclosure standard for climate, water and forests, as well as the scope of CDP's data platform



SASB also considers financial materiality. However, in some markets, when it comes to accounting materiality, people may think of a very short time horizon. One year or so. So there is something to be careful of when we use this word. We think of corporate value as a longer time horizon, 5 or 10 years.

What IFRS foundation trying to do

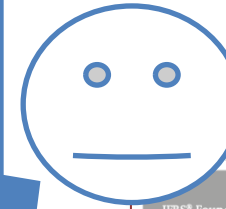
Information disruption crisis, should the IFRS Foundation save it?

IFRS Foundation asked whether they should establish a new Sustainability Standards Board.

Q1 asked “Is there a need for a global set of internationally recognised sustainability reporting standards?, if yes, should the IFRS Foundation play a role in this area?”. And said “Wide range of voluntary frameworks and standards are in use and that preparers are faced multiple standards, metrics or frameworks with limited effectiveness, and an ever-increasing cost. Delays to global coherence, on climate-related disclosures, will increase the threat of fragmentation and consequently cause difficulties in engaging capital markets to smooth the transition to a low-carbon economy“. Q2 is 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?”, Q3 asked additional requirement for it such as governance, expertise, separate funding.

Q4 is “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?”. Q5 is “How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?”. And Q6 is “How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?”.

Q7, Q8 are questions such as climate-related disclosure should be developed first, then Q9 describes how to target the criteria to be developed, which will be important when SSB works with existing organisations and regulations in the future. While there are multiple ideas of materiality that have been discussed in non-financial so far (Group of 5 dynamic materiality and EU double materiality, etc). In this consultation proposed that SSB will have single materiality witch is same as financial statements. Lastly Q10 asked the needs for assurances. (Q11 asked other opinions)



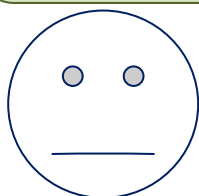
IFRS Expert



The IFRS Foundation has no experience in sustainability reporting. But it has relationships with governments and regulators around the world. It may be easier to align with financial reports. However, few countries require sustainability reports mandatory.

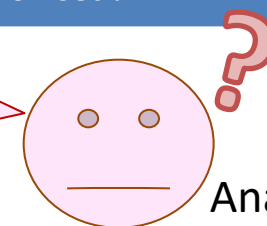
One strong standard? Or harmonisation?

Whether the IFRS Foundation should play a role, is strongly YES. The IFRS Foundation's governance system and relations with overseas are strong. Also, the consistency of financial and non-financial information is expected. The current situation is a nightmare for companies. "Don't let the best be the enemy of the good." We can make the situation better....



The question is, how can we respect what other organisations have done and the legacy? Would it work if we said, "We've developed a new standard, please use it"? I don't think so. Because there are already other initiatives, and they are a little different from each other. How can it be harmonised?

A strong single standard or a complementary relationship of multiple frameworks? For investors or for multi-stakeholders? Even only considering this point, how could we say that a single standard would be enough??



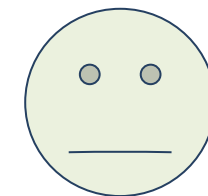
Analyst

SASB



Not whether IFRS foundation does it or not, it is important "how" to do it. How to design a process, how to engage with investors and businesses....
In fact, to be honest, investors don't really engage with accounting standards. Companies and investors will not support unless they are a proposal that makes sense to spend time and money.

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By the way, if SASB would be decided today, when we could use the standard? We still have several accounting standards in Japan ... I think it's okay to have about five non-financial standards. ..



Principle base? Or sector evidence based?

Principle-based does not solve market problems.

We need metrics that can be applied to global companies. If the IFRS Foundation created the SSB, and if it adopted principle-based again, people again seek other solutions.

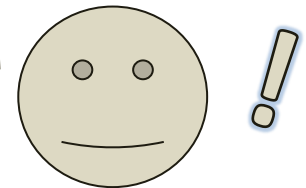


I agree, but IFRS is principle-based, but it's not the only so. We have also introduced rules to make it easier to operate for disclosure requirements.

I think the issue that we need to discuss is "Sector based". This is what we need to discuss carefully.

I support the idea of an SSB under the IFRS Foundation, but now realise how difficult it will be to get this right all the other 'stakeholders'. Sector standards not only risk getting stuck in the 'sector analyst' silo but also perhaps cater much for what preparers want to make their lives easier – they too are focused on comparatives with peers, which is a narrow view.

Wider comparisons between sectors were important to investors. So is the functional issue – surely emissions from offices in the tech sector are the same as emissions from offices in the oil and gas sector. From the perspective of a long-term investment fund eg for pensions, being able to judge companies on common standards for their behaviour on pollution, human rights and governance (a classic cross-sectoral issue) is a key aim.



The IFRS Foundation has no experience in sustainability reporting. But it has relationships with governments and regulators around the world. It may be easier to align with financial reports. However, few countries require sustainability reports.



But non-financial information may need to be reviewed earlier cycle than finance, consensus will be tough if more people are involved. Funding is also critical matter. When developing standard, should new SSB listen to the opinions of the adopting / funding countries? or the opinions of investors ?



Instead of our conclusion...

Comments after discussion

■ Why sustainability should be measurable?

Even in Japan, many companies have supported TCFD disclosure, joined the consortium, and have begun actual disclosure. However, reflecting climate change risk in financial statements as intended initially has not been very successful. For example, physical risks due to increased typhoons and floods, which are thought to be due to the effects of climate change, and businesses where fuel costs are expected to rise and profitability is expected to deteriorate due to carbon tax, should be reflected in the financial statements. It is because the probability cannot be determined.

Therefore, in the financial industry, climate change risk in the portfolio is now represented using emissions and KPIs with emissions as parameters. The strategy is to curb climate change risk by shifting asset from sectors which has high carbon intensity or high physical risk scoring to sectors which has low those numbers..

However, this analysis does not allow us to take a closer look at each company, and above all, it is not the risk itself. If the IFRS Foundation works non-financial information, will it provide measurable metrics that can be expressed risk of each company?

There is one more thing that IFRS foundation is expected from the market. Now, in some countries and regions, there is a movement to define "sustainability" for each industry, influenced by their own industrial policies. Therefore, in future, there will be a gap that it can be said the sustainable in country A but not in country B. Someone needs to bridge them. That role is appropriate for the IFRS Foundation.

Given the different expectations and needs, it is still unclear what kind of sustainability report should be. But now, there is no doubt that this discussion must be brought together globally.

Discussion is to be continued....