

Investor Expectation toward Sustainability Reporting

---- whatever call the information, Company value is **one** ----

International Sustainability Standards Board



Develop global baseline of sustainability disclosure standards



Focus on meeting the information needs of investors



Companies to provide comprehensive sustainability information for the global capital markets



Facilitate the addition of requirements that are jurisdiction-specific or aimed at a broader group of stakeholders

Online workshop

CDSB Climate Disclosure Standards Board

IFRS – International Sustainability Standards Board

Introduction to the IFRS Technical Readiness Working Group (TRWG) prototypes

Participants: Matt Chapman, Hugh Shields, Katie Schmitz, Ravi Abeywardana, Yulia Feygina, Jamie Allen, Nori Yoshida, Shinya Tsujimoto, Meg Takarada, N. Suzuki, Tanaka Yoshihiro, Ravi Abeywardana, Yulia Feygina, Jamie Allen, 真中, amane fujimoto, Matt Chapman, Nori Yoshida, Shinya Tsujimoto, Marsha Vande Berg, meg takarada, Ravi Abeywardana, CDSB, Christine y Chow, Kuni, Wataru, Kenny, Tanaka Yoshihiro, Kobayashi, Noriaki, 真古布, 山崎英実, 熊谷 五郎, Mitsuhiko Hirota.

44th Digital Reporting Workshop

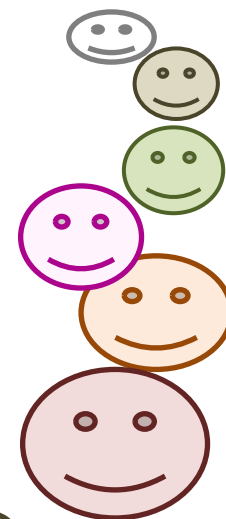
Date and time : 30th Nov 2021, 16:00-17:30 JST

Climate Related risks on the Financial Statements

We have been discussing disclosure related issues since 2014, mostly investors and 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, we have recently picked up the Sustainable / environment topics as agenda.

November 3rd, the IFRS Foundation announced the establishment of ISSB. At that time, the Management Commentary of IFRS still was calling response of exposure draft. The development of global sustainability reporting (SR) standards is important, and it is a good time to consider what kind of reporting investors require. New standards will describe information that does not belong to the financial statements(FS) but tells company value? SR or FS..... whatever call that information, company value is one, for investors.

However, this workshop made us realise so many issues, not only connectivity between SR and FS. Thank you very much for all speakers, we had a wonderful discussion.

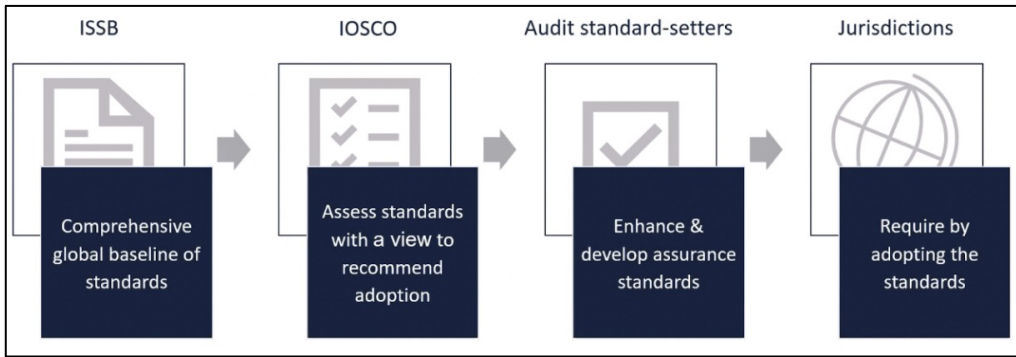


Discuss!

	Who join the discussion?
Attendees (Japan) *attendees have joined this workshop as private,	17 Investors, 3 Investor(Analysts) organization, 5 sell-side analyst, 1 pension & insurance & bank, 6 Information providers/Researchers, 3 Company side (include Independent non - executive director, support service), 8 Auditor, 10 Regulator & Accounting setter & stock exchange, 1 other
Attendees (outside Japan)	3 Investors & its organization, 1 Information providers/Researchers, 2 Auditor, 5 standard setter & regulator

IFRS Foundation: the creation of the ISSB, the TRWG prototypes, and the consolidation of CDSB and VRF

ISSB was [declared](#) established on November 3 by the IFRS Foundation. At the same time, they published prototype Climate Disclosure standards and general disclosure requirements and also announced the consolidation of CDSB and VRF into the IFRS Foundation. The ISSB will be a “sister” to the IASB under the IFRS Foundation will develop a global baseline of sustainability disclosure standards focused on meeting the information needs of investors through the lens of how sustainability issues impact enterprise value; ISSB will have a due process, like IASB. The IFRS Technical Readiness Working Group (TRWG), a group created by the IFRS Trustees (including IASB, CDSB, TCFD, VRF and WEF – with IOSCO and IPSASB as observers), created 8 deliverables during a 6-month work programme. 2 of those deliverables were published: [a prototype climate and general disclosure requirements](#). The ISSB’s work is expected to commence as soon as the Chair and Vice-Chair(s) have been appointed and will begin with public consultations to inform the ISSB’s work plan and on proposals informed by the TRWG’s recommendations. The entire process will be overseen by the Trustee’s Due Process Oversight Committee. The establishment of ISSB was driven by market demand, following IFRS Foundation’s consultation on this last year and ~750 positive comment letters in response. It was also supported to start on climate change risk first. ISSB’s global, foundational baseline for sustainability-related financial disclosure will enable a “building block” approach to the creation of a comprehensive global reporting system, enabling jurisdictions around the world to add additional requirements that are jurisdiction-specific, and/or aimed at the needs of a broader group of stakeholders. There will be 14 ISSB directors, the majority of which to be full-time, and experience and regional diversity are also needed.

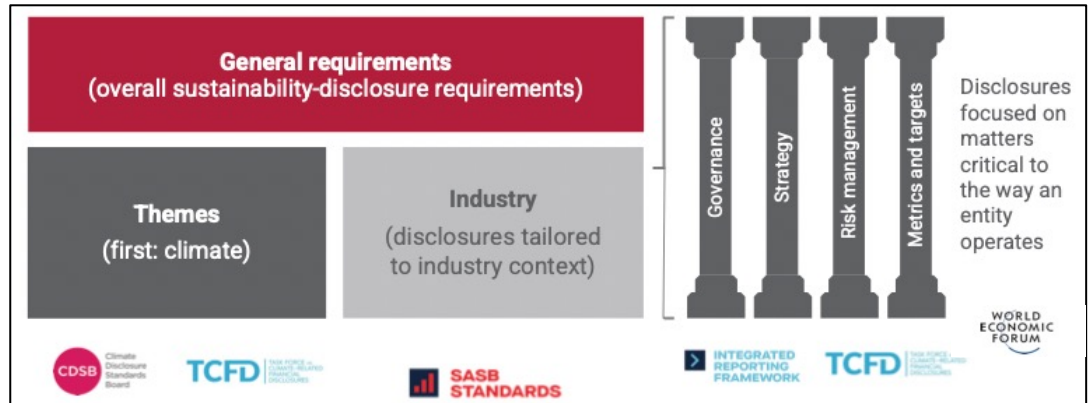


A multi-location model will be employed, with Frankfurt and Montreal hosting key functions. San Francisco and London will provide technical support. Discussions are underway regarding Asia Oceana offices. What we are paying attention to now is what happens to chairs and vice chairs. Next are the development and enhancement of Assurance standards, and lastly the requirements for the application of each Jurisdiction. It is GRI that must not be forgotten. GRI fits the multi-stakeholder model and double materiality as well as EU. ISSB focuses on global investors; development of interoperability between ISSB and GRI is important. The due process timeline for the full transition of SASB standards to ISSB has not yet been set.

CDSB Technical Working Group, IIRC Council, the SASB Standards Advisory Group, and the SASB Standards Investor Advisory Group will play advisory roles with the IFRS Foundation and ISSB.

Publication of prototype requirements

- Recommendations from Technical Readiness Working Group (TRWG) to ISSB
- ISSB to consider as part of initial work programme.



IFRS Foundation: TRWG Climate and General Requirements Prototypes



Ravi Abeywardana, CDSB

The IFRS Technical Readiness Working Group (TRWG), created 8 deliverables, 2 of which were published: a prototype climate and general disclosure requirements. The prototypes can be viewed [here](#). The two prototypes developed by the TRWG build on and consolidate existing and market-tested materials for investor-focused sustainability reporting, including those of the organisations that make up the group.

General requirements prototype

It sets out a means of further extending what we may call the “TCFD model of reporting” beyond climate and to all significant sustainability risks and opportunities material to an entity’s investors to understand enterprise value. Following the same four pillars as in the Climate Prototype and TCFD Recommendations, the General Requirements Prototype provides requirements for disclosing all material sustainability-related financial information to be disclosed annually in a company’s general purpose financial report, which might be known to many as the mainstream or annual report; the same report that includes a company’s financial statements. Complementing these disclosure requirements, the prototype expands on the conceptual elements of materiality, connectivity and reporting boundaries as well as key characteristics of useful information. The General Requirements Prototype therefore provides companies with a standardised and practical basis on which to develop their reporting for investors across sustainability issues that pose a risk or an opportunity to a company’s enterprise value, and upon which more specific industry and thematic requirements, such as those of the Climate Prototype, can coherently and effectively build.

IFRS Foundation: International Sustainability Standards Board (ISSB)

1. General requirements prototype

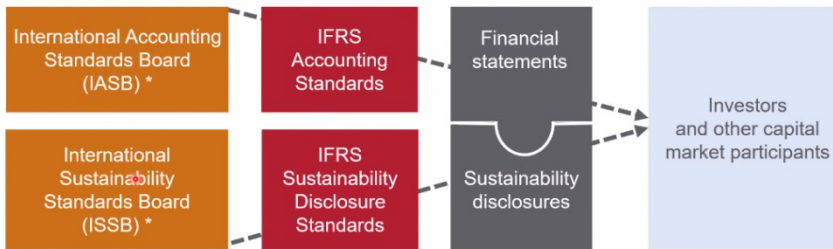
Objective
Develop a general requirements prototype to provide a basis for consideration as an exposure draft under the ISSB

Introduction	General features	Appendices
Foundation	Governance	A: Defined terms
Objective	Structure	B: Application guidance
Scope	Risk management	C: Guidance on implementing materiality
Application of conceptual elements	Metrics and targets	D: Qualitative characteristics of useful (sustainability-related financial) information
	Comparative information	
	Frequency of reporting	
	Reporting channel	
Materiality	Identifying related financial statements	
Reporting entity boundary	Using financial data and assumptions	
Connectivity	Fair presentation	
	Sources of estimation and outcome uncertainty	
	Errors	
	Statement of compliance	
	Effective date	

Inspired by IAS 1 Presentation of Financial Statements – overall requirements

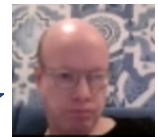
Connectivity between IASB & ISSB

Objective
To develop recommendations for a coherent relationship between IASB and ISSB + an overall set of information that meets the needs of primary users of general purpose financial reports



Climate Prototype. The consolidating of well-established reporting frameworks is particularly evident in the Climate Prototype, which follows the precedent set by the TCFD Recommendations to report on climate-related risks and opportunities. Structured around the same four pillars as the TCFD Recommendations, the Climate Prototype would ask companies to report on governance, strategy, risks management and metrics and targets. A key area where the TRWG’s Climate Prototype builds on the TCFD Recommendations is in requirements set out for reporting on metrics and targets. As well as integrating the seven cross-industry metrics offered by the TCFD in its 2021 Guidance on Metrics, Targets and Transition Plans as a requirement for all companies to follow, the Climate Prototype also integrates the climate-related industry metrics of the SASB Standards.

IFRS has no definition of Reporting boundary. If they are "same", then a documented definition is needed.



Importance of Principle base

1. Some principles of corporate reporting

1. Corporate reports must reflect economic reality and related risks.
2. Financial reports must communicate the financial consequences of trading activities including the consequences which arise from ESG effects.
3. Sustainability reports must communicate the ESG impacts of a company's activities through defined metrics.

Management commentary(MC)

I was involved in writing a comment letter as a VRF board. This is a part of that comment. It is recommended that discussions on the revision of MC should be suspended until the ISSB is established. That may simplify the situation.

Corporate reporting landscape

We should focus more on "principles". You shouldn't fall into too much detail. And we need a "consistent framework for the interface between financial reporting and sustainability reporting", ideally we need a conceptual framework. However, even in IFRS, the conceptual framework is not always consistent with each standard. I don't know if ISSB needs a comprehensive conceptual framework right now, it would be good to make 10 high-level principles, instead.

The entity boundary and the reporting boundary are very interesting. Previously, companies were not required to make clear the boundary. Therefore, it was not known to what extent the reported Emissions were totaled. After that, the HK Stock Exchange announced its expectation about the boundary. I don't think that the legal boundary is enough. When looking at reporting, ICBC, for example, only reported the emissions of their HQ buildings. In other words, it was essential to know the Boundary of what was being accounted for in the data provided.



Investor from London

Regarding Katie and Ravi's comments. We should only write how Connectivity works. A rigorous due process can be difficult. Climate change is a very urgent issue for the planet, but IFRS15 takes 10 years and insurance takes 20 years. I don't think we have a lot of time on the due process right now. Need higher level guidance and principles.

Principles

- Corporate reporting must represent the risks associated with economic reality. But FS do not always reflect that, it just reflect the standard. Since FS do not completely represent the economic situation, there is a gap with market capital.
- Financial reporting includes results that result from ESG-like effects. Ultimately, non-financial and financial implications come together, but it's a matter of time horizon. For example, if there are oil and gas companies, when will government regulations affect them, and when will banks eventually impair them?
- Sustainability report need to communicate the impact of a company's activities on ESG through defined metrics.

Fifteen years ago, the principle was not a rule. Why it became like a rule now? If you have 5000 pages, that's not the principle.



2. The IASB Management Commentary

"While much of the recent focus has been on the IFRS Foundation's evaluation of the need to establish an International Sustainability Standards Board (ISSB), the Value Reporting Foundation believes the role of the IASB will acquire even greater strategic significance within an enhanced corporate reporting landscape, where the need for conceptual and practical connectivity between the IASB and the proposed ISSB will become critically important in achieving a cohesive and simplified corporate reporting system. We therefore believe it would be advantageous to all stakeholders to pause this process of revising the Management Commentary Practice Statement until the proposed ISSB has been established. This pause could be used to assess how the Management Commentary Practice Statement might be combined with the International Framework and the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD) to provide a robust conceptual basis for connecting the IASB and proposed ISSB. This would simplify the landscape and strengthen disclosure on certain key matters, for example on corporate governance and board oversight."

Extract from Value Reporting Foundation's comment letter

Investor comments

I've been working on engagement investments in small and mid-cap stocks in Japan. Recently, I tried to use SASB as part of impact management of portfolio companies. S&M-caps are often single businesses with unique characteristics. It is fair to evaluate the positive impact of those companies with issue-based approach and measure the risk with cross-industry approach such as SASB. But currently, the industry classification of SASB is relatively broad, and there are cases where small cap offering narrow range of niche products / services through unique business models do not fit with SASB's industry classification and common industry specific KPIs.

One of my investee companies that sells renovated houses is categorized in the real estate industry, but they do not have direct carpenters as their business model is based on outsourcing. The major KPIs in this industry such as Employee Health & Safety was not appropriate in materiality point of view. So, it took a while for us to agree with the management team on their ideal KPIs. I know that SASB's industry definition has evolved over time, so I would be grateful if you could continue to provide more detailed definition of business which would successfully capture the company specific nature of those small but growing companies.



Investor in Japan



Researcher

The Climate prototype imported about 500 pages of SASB materiality. In other words, it may be okay with the current SASB, but if it becomes a part of ISSB, if we do not put in a little principle-based idea, we may not be able to cope with it when the application becomes global?



There are benchmarks provided by private initiatives like SASB. But they don't provide details or new information about the Holistic Values that SMEs can create. Even a rapidly expanding company, we must read the business manual in detail to know its risks. Here is the importance of engagement to identify where the company is in the total picture. A combination of reporting standards, metrics and corporate philosophy is essential. Investors require individual companies to have minimal comparable and data-defined metrics. SMEs often do not know how to measure, define data to be disclosed and need assistance. Requires a minimum of principle-based standards and thought-provoking metrics.. I hope we can contribute to some global effort.

I would like to point out two things. One is the importance of the relationship between corporate disclosure and FS. Many managers are concerned that regulators have recently begun to step up investor disclosure. We are beginning to ask for disclosure of what we are doing from an ESG perspective at the product level, not just at the Entity level. That's why I'm starting to pay attention to Ravi's Climate Prototype. Investors are also at risk of not only eliminating the risk of ESG, but also pursuing ourselves as a "green wash" without corporate disclosures with comparable metrics. That is why we must join this discussion.

The second point is scope 3. Even if the bank doesn't have the full transparency of the company, can keep the flow of funds down. So banks are in a good position to track and understand the supply chain. I hope we can contribute to some global effort.



Investor from London

We do not have much time ...

Encouraging disclosure of Scope 3 and requiring disclosure of Scope 3 are different. Anyway, the goal of the sustainability report is to change the behaviour of the companies, and in that respect, I agree that Scope 3 is a very important factor as well as actually important. But there is a very strong resistance to measuring, disclosure of Scope3. Because it is purely difficult in technicality. I am worried that it will make it difficult to adopt ISSB for many jurisdictions.



Analyst in Japan

GHG is important even if it's not sustainability reporting. This is not a matter of sustainability reporting, but a matter of sustainability itself.

There are two more points about connectivity. One thing to be aware of is that service providers have been working with good staff for the last few years. Markets can be created without standard setters and cannot be eliminated.

Finally, the existence of GRI. Many companies use GRI voluntarily. GRI has not joined ISSB. You should do something.

Another thing about digitization. XBRL type taxonomy is made in many places. However, in market solutions, big data and AI are emerging without using it. I suspect that XBRL-type taxonomy is already out of date with the demands of these new technologies.



Management comments will be a vital link between extra-financial data and financial data. When an investor evaluates a company, it must be a lot of things such as business model, strategy, governance, as well as employees and environment, other stakeholders, etc. If they are not connected to FS, it must be difficult to use evaluation.....

A London investor who couldn't come today sent us this comment. In this context, Ravi's Reporting Boundary, of course, means that the scope being developed by ISSB is connected to FS, that it is comfortable for investors.

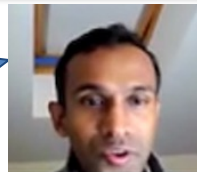


The scope of the ISSB on investor materiality, where material information includes information that provides insights into factors that could reasonably be expected to influence users' assessment of the entity's enterprise value. Material information, as per the General Requirements prototype, could include but is not limited to information about: (a) an entity's impacts on society and the environment, if those impacts could reasonably be expected to affect the entity's future cash flows; and (b) events considered to have a low likelihood but a high potential impact on the entity's future cash flows. The scope of materiality by the EU and GRI, is broader but both are interlinked via dynamic materiality.

3. What happens next

Bringing the corporate reporting landscape together requires the following:

- Focus on a principle-based approach
- A coherent framing of the interface between financial reporting and sustainability reporting
- Recognition that the real issue is not sustainability reporting but sustainability itself.
- Recognition that various private sector initiatives cannot be undone.
- Recognition that most companies are using GRI



Investor comments



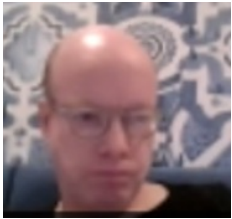
Investor from HongKong

Is China Raising their hands to be a Candidate for the Asia-Oceania host? What are your expectations for China?

There is a very strong consensus on the need for ISSB to reflect the opinions of market participants around the world, and China is a big market. Since we have heard from ACGA that China wants to create its own standards, the building block approach to standards setting and strengthening the interoperability becomes very important. I hope that investors will continue to speak out the information they need.



The technical point is that each board member from each country does not necessarily represent each country. All members represent the world. The first point in selecting board members is that even if a board comes out of China, it is not a representative of China. Secondly, I support the disclosure of a Chinese company, which uses GRI, and even though it is an unlisted company, it voluntarily applies IFRS and undergoes external audits. So it's very interesting what happens next, I don't know now



Compatible standards and global baseline approach

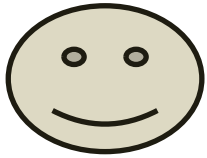


I agree with an investor from London that she needs a minimum of principle-based standards and thought-provoking metrics. I would like to emphasize the importance of principle. And the balance of additional guidelines is important. I think IFRS is too detailed now. I think principles and metrics are important

We can't spend 10 or 20 years on Due Process. Therefore, there is no time to spend for the division. We need to move forward. What we need to do here is to set a uniform standard in the market where we can evaluate their performance so that companies can truly be sustainable. Of course, fixing the division is one of the most important tasks.



What we expect for ISSB?

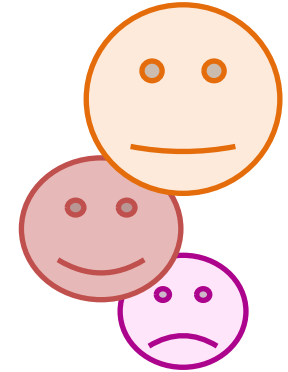


My question is what Japanese investors think. Japan seems to welcome and support ISSB, but is this a consensus that includes Japanese investors?

SAAJ (Security Analysts Association of Japan) has set up a committee on this sustainability reporting. We have already sent some comment letters to the IFRS Foundation. Basically we are in favour of the IFRS Foundation's approach. Of course, when discussing the details of the disclosure, some opposing opinions are also heard. But basically we want to support this approach and the joint efforts of these organisations. The sustainability reporting is, an agreement for everyone here, and should be linked to financial performance. I also basically agree with the principle-based approach. Sustainability shares a fairly wide range of challenges. That's why investors want to know about material issues and financial impact. Then there is the management policy. The details are difficult, but I expect everyone to agree on the basic approach, which I think is important.



Member of the committee about sustainability reporting of SAAJ



Investor in Japan

I think the standard is very important. There are currently two types of investors. One group uses ESG information and says they are investing in ESG, but they think that financial and non-financial values are different and don't think the two need to be linked. Another group believes ESG is linked to future financial value. The group believes ESG information should be linked to FS. But basically the investor's job is to maximize the value of the asset for the client. Therefore, if you use ESG information seriously, that information must always be linked to corporate value. What kind of information is needed is information that will be linked to future cash flow. I feel that many companies are now following their ESG activities. But some information is not linked to future cash flow. I don't think this makes sense. Such information sometimes misleads people into misunderstanding corporate value, and that increases volatility. So I think non-financial information that is not related to FS is rather dangerous for investors

Let's send response to the consultation!

Katie There is no single answer. In the diagram I introduced, there was an ISSB in the middle and a GRI outside, which I think represents an ecosystem of data, frameworks and standards setters. I think global standards setters should be built on a global baseline of sustainability-related disclosure. However, Interoperability with other standard setters and GRI is also essential. Investors are responsible for maximizing the value of their portfolio for their clients. They increasingly understand that this is not unrelated to a wide range of sustainability issues. Issues which may not be evidenced as effecting enterprise value *today* may be so in the future. We have to work developing interoperability within the ecosystem of standards and frameworks. We do not have time for further fragmentation.

Ravi CDSB's consolidation by the IFRSF is very exciting. Investors continue to be concerned about the quality of information about sustainability matters that influence enterprise value. The ISSB, under the IFRSF, investor focus should over time help to address this gap.

Hugh I agree that there is no Single Answer. But most important is the sustainability of this planet. This is the most important issue. Whatever disclosure a company follows, it must lead to the sustainability of the planet. I think this is a big goal. Another topic, the reason why IASB needs so many due processes, because it is a private sector indirectly dealing with public accountability. If all staff were to be under a super public organization such as the UN it would be faster.

Discussion is to be continued....