

JICPA Sustainability Education Project

Discussion Paper

**Integrating Sustainability into
Professional Accountants' Competency**



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Forward

Sustainability has become a significant challenge shared across the world. More countries and regions have stepped up to this challenge by implementing political initiatives that prompt changes in behavior from both the environmental and social viewpoints. These countries and regions, including Japan, the U.S., Europe, China, and other Asian countries, are now putting their sustainability-related policies into a concrete shape. For instance, these include not only the policies intended for business entities but also those leveraging the mechanism of financial and capital markets called sustainable finance. We should be aware that we are now witnessing a critical turning point for industrial and financial policies globally.



Reflecting these drastic changes, disclosure, which connects business entities and investors, has become increasingly important. In November 2021, the International Financial Reporting Standards Foundation announced a plan to formulate disclosure standards for sustainability-related financial information. Alongside this move, the EU, the U.S., and Japan also have pushed forward with sustainability information disclosure within the corporate disclosure framework at an unprecedented pace. Human capital disclosure, in addition to climate change disclosure, is one of the key issues and is being considered in the policy development process in Japan. Achieving effective and efficient disclosure of sustainability information is essential to ensuring sustainable value creation by companies. Sustainability information was traditionally considered as non-financial information, but recently has been fundamentally repositioned as information that affects corporate value. This implies that the perception of sustainability information has changed dramatically.

Professional accountants, as the profession in auditing, accounting, and finance, have consistently pursued a mission to ensure the reliability of information and ultimately contribute to the sound development of the national economy. While the building of sustainable economies and societies is high on the agenda in countries around the world including Japan, the importance of sustainability information in business valuation has been rising. As such, professional accountants need to have broad and deep knowledge and understanding of the relationship between sustainability information and corporate value. In fact, they must develop their knowledge and understanding of sustainability as the profession who contribute to not only the development of capital markets but also to a broad

spectrum of society. We believe professional accountants need to transform themselves into ones that meet the needs of the times by integrating sustainability concepts into their skills and competencies developed through years of practice.

Based on the above awareness, the Japanese Institute of Certified Public Accountants (JICPA) has set up the Sustainability Education Study Project Team to comprehensively discuss education for professional accountants to develop skills and competencies in sustainability. The team has agreed on an outline of objectives and basic policies of, as well as an approach to, sustainability education, while obtaining suggestions from external experts. Such objectives, basic policy, and approach have been developed through a series of discussions, deep-diving into the reasons that professional accountants need to have subject matter expertise in sustainability, what kind of professional knowledge and understanding are required, and what an effective education approach would look like. I would like to express my heartfelt appreciation to those who participated in the project, including the project team members.

Going forward, as a hub for sustainability education for professional accountants, we are committed to developing a syllabus of our own and establishing a platform to enhance the level of their knowledge and understanding of sustainability.

In addition, the JICPA recently announced a new tagline: “Building trust, empowering our future.” In these unpredictable and uncertain times, the importance of trust in society is greater than ever. As professional accountants, we serve as professionals equipped with robust ethics, broad-ranging knowledge, as well as professional knowledge and understanding in such area as auditing, finance, accounting, tax works and consulting. For decades, by upholding accountability in society broadly while fulfilling our duty of accountability in our various roles, we have built trust in society. This new tagline demonstrates our unwavering commitment to strive to ensure the highest standard of accountability, working as professional partners with people around the world to build trust across all segments of society and thereby contributing greatly to the realization of a more secure, vibrant, and prosperous world and a brighter future. This project related to sustainability education is an integral part of such basic policies. Based on the conclusions reached by the Project Team, the JICPA will endeavor to further solidify the platform of human resources so that professional accountants can support sustainable value creation in capital markets.



Chairman and president, The Japanese Institute of Certified Public Accountants

Executive Summary

I Importance of Sustainability knowledge and understanding for Professional Accountants

In the face of environmental issues such as climate change, a transition to a sustainable economic and social model has become a key challenge. As the impact of sustainability challenges on corporate value is increasingly visible, the disclosure of sustainability information has seen marked progress. For instance, efforts to implement new regulations, as well as develop international standards on sustainability disclosure, primarily by the International Financial Reporting Standards (IFRS) Foundation, have accelerated. Against this background, professional accountants increasingly need to develop their professional knowledge and understanding of sustainability. In addition, the Japanese Institute of Certified Public Accountants (JICPA) should enhance sustainability education for professional accountants, who are members of the Institute, to support the development of their skills and competencies in sustainability. Thus, the JICPA set up the Sustainability Education Study Project Team to discuss a range of sustainability education-related topics, such as a policy, a preliminary draft syllabus, and a future operations structure for sustainability education.

Importance of professional accountants having knowledge and understanding of sustainability

The team identified the four reasons that professional accountants need to develop knowledge and understanding of sustainability: 1) Professional accountants need to grasp things from a holistic view because they act in the public interest, 2) Sustainability is important in financial statement audits, 3) Sustainability is positioned as a common language for dialogue between management and investors, and 4) Assurance engagements covering sustainability disclosure are now in greater demand from society. Professional accountants are called on to support the transition to sustainable business models and contribute to achieving high-quality sustainability disclosure that meets the needs of capital markets. More concretely, they need to achieve these goals by obtaining broad knowledge and understanding of sustainability and comprehensively upgrading their existing skills and competencies in accounting, finance, auditing, and management. It is important that these efforts help serve the public interest, including a smooth transition to and the development of a sustainable economy.

II Current Status and Issues Related to Sustainability Education for Professional Accountants

The JICPA, through the Management Research Committee, has conducted research and surveys on the environment and sustainability for nearly 30 years, having published research reports and other documents. We have also continued to hold symposiums and seminars, facilitating a series of

discussions from various perspectives. Further, audit firms have intensified their efforts to provide their partners and employees with learning opportunities, while accumulating knowledge and understanding of sustainability. Major audit firms have worked to develop and provide training programs on sustainability. Despite such progress in sustainability education, the Project Team has indicated the following challenges related to sustainability education for the accountancy profession:

(i) Actions taken individually: Toward a structured educational framework

There is no framework for organizing and structuring the knowledge and understanding of sustainability necessary for professional accountants. As a wider range of issues has come to be recognized in connection with sustainability, individual actions may not be sufficient enough to address all of them. We need to collaborate across the industry as a whole, including small- and medium-size practices.

(ii) Diverse interest in sustainability: Need to share knowledge and understanding with all professional accountants

As the degree of interest in sustainability varies widely from member to member, we need to share necessary knowledge and understanding broadly with members, irrespective of how much they are interested in sustainability issues.

(iii) Time constraints: Need for efficient provision of education and development for accountants specializing in sustainability

Given the urgent need to address the shortage of talent in audit practices and to ensure audit quality, the team identified the need to implement an efficient approach to sharing necessary knowledge and understanding under time constraints while at the same time accumulating advanced knowledge and expertise, with a focus on accountants specializing in sustainability.

III International Initiatives for Sustainability Education

As the practice of sustainability-related disclosure has become more widespread, professional accountancy organizations (PAOs) in other jurisdictions have also started to provide educational programs on sustainability. Some PAOs have commenced studies on structured curricula. The International Federation of Accountants and the PRI Academy have also made progress in the study of sustainability-related education programs.

Need for international collaboration

Sustainability reporting is also required to address to the needs of global capital markets, as with financial reporting. The development of global standards for sustainability disclosure has progressed, but further enhancement of internationally consistent practices for sustainability reporting would be beneficial.

Professional accountants have strong connections with each other globally through not only global networks but also other PAOs and private initiatives. Drawing on their global connections, professional accountants can also contribute robustly to a smooth and effective transition to a sustainable economy by collaborating with each other in the development and implementation of education standards, etc., thereby sharing knowledge and understanding of sustainability with professional accountants as well as accounting and audit firms across the world.

IV Skills and Competencies in Sustainability for Professional Accountants

The JICPA has established the Task Force for Reviewing Competence for Professional Accountants. The task force reviewed the professional competence required by professional accountants who can respond to changes in the environment surrounding them and keep contributing to society. We published the results of the review in a report in November 2021. The report has identified the following as key competence for professional accountants: (i) agility/proactive attitude toward learning, (ii) professional knowledge and technical competence, (iii) professional values, ethics, and attitude, (iv) professional skills, and (v) general education. In the report, the task force has put the spotlight on (i) agility/proactive attitude toward learning, in particular.

Increasing focus on sustainability in recent years is one of the most prominent examples of how rapidly the environment surrounding professional accountants has changed. Professional accountants need to tackle sustainability issues proactively and willingly, and garner the ability to anticipate changes and create new values. To achieve these goals, it is essential that professional accountants themselves identify the knowledge and skills for them and commit to learning. Seeking and thinking for oneself should be a prerequisite in the area of sustainability.

Skills and competencies in sustainability for professional accountants

Through the review and based on the primary reasons why knowledge and understanding of sustainability is required of professional accountants, we summarized the capabilities that professional accountants should have concerning sustainability as follows:

- (i) See the big picture of various sustainability issues and their social and economic impacts based on an integrated knowledge base.
- (ii) Understand the basic framework of the relationship between sustainability and corporate management as well as corporate value.
- (iii) Engage in intensive and constructive dialogue with management, directors, and investors regarding key sustainability trends and their impact on the industries and companies.
- (iv) Have the necessary knowledge and understanding of requirements for sustainability-related disclosure (e.g., regulations and standards).

- (v) Understand the purpose and basic framework of assurance engagements.

These abilities are required universally of all professional accountants, regardless of their duties and positions. However, we believe the extended skills and competencies for professional accountants vary by occupations, such as external auditor, professional accountants serving as independent director, and professional accountant in business.

During the review, the team deliberated on the skills and competencies for those who are engaged in financial statement audit, or external auditors, based on what would be required universally of all professional accountants. In consideration of the duties of external auditors, we have identified four areas that particularly require skills and competencies in sustainability: (i) discussions with management, non-executive directors, audit committee members, and others, (ii) considerations during audit risk assessment and key audit matters (KAMs), (iii) involvement in “Other Information,” and (iv) interaction with assurance engagements for information other than financial statements and responses to assurance engagements needs. We summarized the abilities and specific actions required for each of these areas.

V. Future Direction of Sustainability Education

Based on the need for sustainability education and the skills and competencies in sustainability required of professional accountants, we summarized the objectives and basic policies for sustainability education for them as follows.

Objectives of sustainability education for professional accountants

Sustainability education for professional accountants is designed to help them contribute to achieving high-quality disclosure, resource allocation in capital markets from a long-term perspective, and the resultant sustainable development of society and the economy. To this end, they should develop their knowledge and understanding of diverse sustainability-related issues, interrelationship of sustainability with corporate management and corporate value, and sustainability disclosure and ensuring of the reliability. Based on such knowledge and understanding, they should engage in constructive dialogue and cooperate with companies and investors.

Basic policies on sustainability education

- (i) Predict change trends to support autonomous learning of professional accountants.
- (ii) Share fundamental sustainability knowledge and understanding, and acquire diverse expertise as a professional simultaneously.
- (iii) Collaborate and coordinate with initiatives related to sustainability education in Japan and

overseas.

Development of syllabus

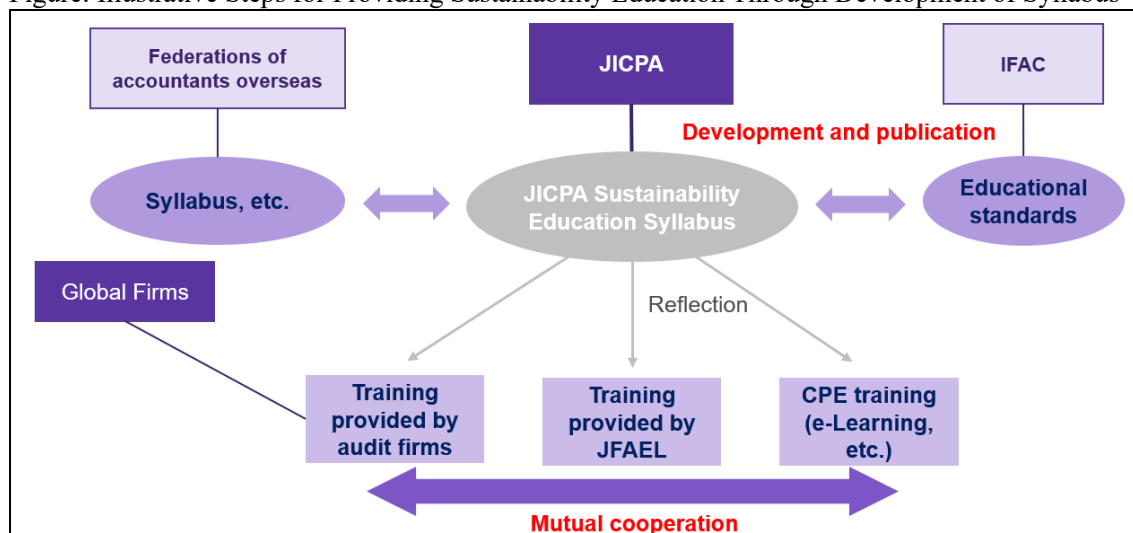
To provide sustainability education that meets the above objectives and basic policies, we believe it is appropriate to develop a syllabus on sustainability education for professional accountants. The syllabus on sustainability education is expected to serve as an overall picture of the sustainability themes that they should learn about and to provide certain guidelines for respective themes. Timely revisions will also be important to keep the syllabus relevant to the needs of the time.

Sustainability education according to the syllabus will be offered in diverse forms, including in-house training programs within audit firms, courses provided by the Japan Foundation for Accounting Education and Learning (JFAEL), and those from the JICPA. This approach will allow the industry as a whole to offer education programs that help professional accountants obtain fundamental knowledge and understanding of sustainability, while allowing each entity the flexibility to develop its own courses.

The syllabus will also serve as the starting point for international collaboration in sustainability education. We will therefore publish an English version of the syllabus to ensure consistency and coherence with related international initiatives.

Further, the syllabus is expected to help professional accountants grasp both the whole picture and details of the themes they are supposed to learn; it is also expected to serve as a compass in developing their learning plans.

Figure: Illustrative Steps for Providing Sustainability Education Through Development of Syllabus



The syllabus will be published by the end of fiscal 2022 following further discussions. The Project Team discussed what themes should be included in the syllabus and what their outlines should be like.

In the process of developing the syllabus, the priority themes and the estimated learning hours for each theme will be discussed.

Establishment of a Platform for Sustainability Education

During this review, we discussed the necessity of establishing an organizational platform for promoting initiatives related to sustainability education. Following the publication of this report, the JICPA should establish an approach to sustainability education for professional accountants and develop, update, and operate the syllabus on sustainability education. To ensure the effectiveness of these initiatives, we need to reflect them in the courses of the Practical Training Center for aspiring professional accountants and in Continuing Professional Education (CPE). It is also essential that we secure compatibility with the JICPA's related organizations. Moreover, it is important that we implement these initiatives harmoniously and collaboratively with related parties both in Japan and abroad.

List of Members of Sustainability Education Project Team and Syllabus Working Group

Sustainability Education Study Project Team

Head of the Team	Masahiko Tezuka	Chairman, JICPA
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Member	Tetsuo Kitagawa	Emeritus Professor at Aoyama Gakuin University Professor at Tokyo Metropolitan University
Member	Kiyotaka Kinugawa	Partner, Sustainability Disclosure Office, Ernst & Young ShinNihon LLC
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Member	Shinichi Takenaka	Climate Change/ESG Assurance Leader & Global Inbound Group (GIG) Leader, Deloitte Touche Tohmatsu LLC
Member	Sachiko Tsujino	Partner, Sustainable Value Head Office, KPMG AZSA LLC
Member	Mitsuo Tsuruta	Executive Board Member (Aspiring CPA development), the JICPA
Member	Yoshihiko Hamada	Partner, Gyosei & Co.
Member	Takako Fujimoto	Executive Board Member (Corporate Accounting and Disclosure), JICPA
Member	Takeshi Mizuguchi	President, Takasaki City University of Economics
Member	Yoichi Mori	Technical Director, JICPA
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Syllabus Working Group

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*As of May 31, 2022

*The members are listed in Japanese alphabetical order.

I Importance of Sustainability Knowledge and Understanding for Professional Accountants

1. Background of the study

Environmental challenges such as climate change and biodiversity losses are pressing issues. Also, human rights issues have been receiving increasing attention internationally. In such circumstances, transitioning to a sustainable economic and social model is the biggest task globally.

In fact, countries around the world have joined forces to solve climate change, a global-scale environmental issue. With the Paris Agreement adopted in 2015, the international community has agreed to achieve the long-term goals of limiting the average global temperature increase to well below 2 degrees Celsius preindustrial level with an aim to limit the increase even further to 1.5 degrees Celsius and also achieve a balance between emissions by anthropogenic sources and removals by sinks of greenhouse gases (hereafter, the “GHG”) in the second half of this century. To meet these goals, countries around the world have set their own targets to achieve carbon neutrality, or net zero GHG emissions. In October 2020, Japan also declared that it would aim to achieve carbon neutrality, reducing its total GHG emissions to net zero by 2050 and ultimately realizing decarbonization. In the EU, the European Commission has announced its commitment to the “European Green Deal” as its top priority policy, thereby aiming to reduce GHG emissions to net zero by 2050. It has also announced a plan to make investments totaling about one trillion euros within the next decade.

In tandem with such global and regional political movements, initiatives in capital markets have also accelerated. ESG investments which incorporate Environment (E), Society (S), and Governance (G) into investment behaviors and shareholder activism have been growing and spreading, especially among global institutional investors. Also, following the enactment of the Paris Agreement, “divestment,” or withdrawal of investments or loans from companies and businesses dependent heavily on fossil fuels such as coal, has been expanding rapidly. Also, companies have increasingly recognized sustainability as a critical component their management agendas. In fact, Japan’s Corporate Governance Code was revised in 2021 in a manner to step up responses to sustainability issues. As the impact of climate change and other sustainability issues on corporate value has become more visible, the importance of disclosure is increasing. While demands from institutional investors for enhanced disclosure have been growing year by year, companies have also moved forward with various disclosure initiatives, through integrated reports, sustainability reports, and other documents. In addition, the volume of bond issuance aimed at financing environmental and social initiatives (e.g., green bonds, social bonds, and sustainability bonds) has been surging both in Japan and abroad these days. This highlights the importance of ensuring the reliability of disclosures on the uses of funds and their environmental and social impacts.

Moves toward implementing new systems and developing standards in relation to sustainability disclosure have also accelerated. In the EU, the European Commission proposed the Corporate Sustainability Reporting Directive in April 2021, and initiatives to set related standards and introduce assurance engagements in the bloc have progressed rapidly. Also, in the U.S., the Securities and Exchange Commission published draft disclosure rules in March 2022, which are aimed at enhancing and standardizing climate-related disclosures, including assurance engagements on information about GHG emissions. For standard development, the International Financial Reporting Standards (hereinafter, “IFRS”) Foundation, which is responsible for setting international financial reporting standards, announced the establishment of the International Sustainability Standards Board (hereinafter, the “ISSB”) in November 2021. One of the ISSB’s roles is to set the disclosure standards for sustainability-related financial information to assess sustainability-related risks and opportunities. Subsequently, in March 2022, the ISSB published two Exposure Drafts: “General Requirements for Disclosure of Sustainability-related Financial Information” and “Climate-related Disclosures” (hereinafter, the “ISSB standards”).

Also, in Japan, the Working Group on Corporate Disclosure of the Financial System Council at the Financial Services Agency has held a series of discussions about how sustainability information should be disclosed within Annual Securities Reports. Further, the Financial Accounting Standards Foundation has decided to establish the Sustainability Standards Board of Japan.

Given the growing importance of sustainability in Japan and abroad, the Japanese Institute of Certified Public Accountants (hereinafter, the “JICPA”, “we”, or “us”) has recognized that professional accountants increasingly need to develop their knowledge and understanding of sustainability. In addition, the JICPA, which assists them acquiring professional skills and competencies, needs to enhance sustainability education in cooperation with audit firms, accounting firms, and related organizations both in Japan and abroad. To this end, the JICPA has set up Sustainability Education Study Project Team (hereinafter, the “Project Team”) and held a total of four Project Team meetings and two working group meetings to discuss policies concerning sustainability education for professional accountants, a preliminary draft syllabus, and an operations structure of the education in the future. The objective of this report is to summarize the results of these reviews and present guidelines on development of the structure and plans for sustainability education.

2. Mission of professional accountants and sustainability

The mission of professional accountants in Japan is as set forth in Article 1 (Mission of Certified Public Accountants) of the Certified Public Accountants Act. Professional accountants need to ensure matters such as the fair business activities of companies and to protect investors and creditors by ensuring the reliability of financial information, thereby contributing to the sound development of the

national economy. They are positioned also as gatekeepers for capital markets, and thus assume a catalytic role for sustainable value creation in capital markets by ensuring the reliability of information.

Article 1 of the Certified Public Accountants Act

The mission of certified public accountants, as professionals on auditing and accounting, is to ensure matters such as the fair business activities of companies, etc. and the protection of investors and creditors by ensuring the reliability of financial documents and any other information concerning finance from an independent standpoint, thereby contributing to the sound development of the national economy

First, the Article stipulates that the ultimate mission of Certified Public Accountants (hereafter, “CPAs”), the term used for professional accountants in Japan, is to “contribute to the sound development of the national economy.” We can therefore conclude that professional accountants’ contributing to sustainable development precisely embodies the purport of the Certified Public Accountants Act.

Second, sustainability-related information was traditionally distinguished from financial information and was considered as non-financial information. However, sustainability-related information, and in particular, sustainability-related risks and opportunities, is increasingly recognized as a leading financial indicator of corporate value because of its growing impact on financials. In the ISSB standards, the ISSB has identified the following core aspects to disclose sustainability-related financial information that affects corporate value over the short, medium, and long term: (a) governance, (b) strategy, (c) risk management, (d) metrics and targets. We believe that professional accountants’ contribution to ensuring the reliability of sustainability-related financial information is in line with the needs of the times and will ultimately lead them to fulfill their mission.

3. Importance of professional accountants having knowledge and understanding of sustainability

Through this review, the Project Team had deep discussions on why professional accountants need knowledge and understanding of sustainability. Here are some of the opinions exchanged among the Project Team members.

Opinions presented during discussions among the Project Team members

Need to see things from a holistic view: As professional accountants act in the public interest

- Professional accountants need to have the knowledge and understanding to see things from a

holistic view as they are acting in the public interest.

- While management teams' knowledge and understanding of sustainability are growing, professional accountants should be aware of the social movements and global trends through which sustainability has gathered increasing attention.
- It is critical that the accountancy profession present the attitude that they contribute to achieve a sustainable society.

Importance of sustainability in financial statement audit

- Understanding the impacts of climate change on financials is nothing more or less than understanding the risk of material misstatements in the financial statements. Underestimating sustainability and transition risks over the medium to long term could ultimately lead to deteriorate audit quality. Climate-related risks have become one of the risk factors to be considered in identifying and assessing of risks of material misstatements in financial statements. The implication is that that without knowledge and understanding of sustainability, professional accountants might not be able to perform financial statement audits properly.
- Sustainability issues are also closely connected with key audit matters (KAMs). Environmental issues are also relevant to regional rules and regulations, and thus, could affect business continuity and resilience.

Common language used in dialogue between management and investors

- Recently, it has become increasingly difficult to view the overall picture of corporate activities with accounting and financial information alone. In fact, sustainability information and other information outside of financial statements has become more important. Mastering the common language of sustainability information provides a baseline for proper dialogue with companies and investors in capital markets.
- We are now in an era in which we have to see overall business conditions rather than just accounting numbers. Gaining knowledge and understanding of sustainability is essential for professional accountants.
- In financial statement audit, external auditors are called on to hold high-level discussions on sustainability with management team members. It is important that external auditors accurately understand what sustainability issues companies have and how they are trying to resolve these issues.
- External auditors need to earn the trust of top management. Sustainability issues are on the agenda at every board of directors' meeting recently, suggesting that companies have put emphasis on sustainability. As such, professional accountants cannot earn the trust of top management if they are unfamiliar with sustainability. It is important that professional accountants can discuss sustainability issues with top management, non-executive directors,

audit committee members, or *kansayaku*, from a broad point of view.

- Sustainability issues are now high on the management agenda. It is imperative that, in financial statement audit, professional accountants understand management strategies and business risks from the same vantage point as that of management.

Social demand for providing assurance engagements

- As long-term corporate value reflecting sustainability has become increasingly important in securities markets, demands with respect to assurance engagements are growing, with a view to ensuring the reliability of information.
- The accountancy profession needs to undertake assurance engagements constructively to fulfill their role in society.

The members uniformly suggest that professional accountants should fulfill the roles required of them by clearly recognizing the magnitude of sustainability and developing their knowledge and understanding of sustainability. Through this review, the Project Team has concluded that for professional accountants, who share the ultimate mission stipulated in the Certified Public Accountants Act of contributing to the sound development of the national economy, the importance of having knowledge and understanding of sustainability has been growing, irrespective of their positions, such as external auditor, professional accountant serving as independent director, and professional accountant in business.

As external auditor

As stated above, sustainability information has become increasingly important in corporate disclosure for investors. Institutional investors are voicing their concerns about the potential impacts of companies' climate change-related risks on their financial statements. At the same time, more investors have expressly requested external auditors to intensify their audit activities, including audit reporting, especially on companies that are facing a material transition risk related to climate change. As a response to these requests, the International Federation of Accountants (hereinafter, the "IFAC") published a statement, in September 2021, requesting professional accountants around the world to pay more attention to opportunities and risks related to climate change.¹ External auditors need to understand sustainability-related financial risks and opportunities, and also the interest in and concerns related sustainability harbored by capital market participants, the users of corporate disclosure.

As professional accountant serving as independent director

¹ Corporate Reporting: Climate Change Information and the 2021 Reporting Cycle (IFAC September 7, 2021)
<https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/corporate-reporting-climate-change-information-and-2021-reporting-cycle>

In recent years, many professional accountants have been appointed to the position of non-executive director, audit committee member, or *kansayaku* (hereinafter collectively referred as “independent director”). Professional accountants serving as independent director are expected to play a role in corporate governance and to supervise corporate management. In line with the growing importance of sustainability in corporate management and corporate value, professional accountants serving as independent directors, who are responsible for supervising corporate governance, are called on to fulfill their expected roles in relation to corporate policies, risk responses, and disclosure.

As professional accountant in business

The number of professional accountants serving as Chief Financial Officer or engaged in tasks such as accounting and finance, corporate planning, investor relations, and internal audit has been increasing. In view of promoting and supporting disclosure, management decisions, and monitoring related to sustainability, the roles of professional accountants in business have become more critical than ever. They need to enhance their skills and competencies in sustainability, building on their existing expertise in financial reporting and corporate finance. This is especially necessary for addressing many challenges, such as collecting and analyzing the information of both an entire corporate group and its value chains, assessing financial impacts, implementing disclosure enhanced connectivity between financial reporting and sustainability information, and establishing relevant internal controls.

We explained the importance of having knowledge and understanding of sustainability for professional accountants in terms of its attributes. Professional accountants as a whole need to support companies in their transition to a sustainable business model and contribute to achieving high-quality sustainability disclosure that addresses the needs of capital markets. In order to realize these goals, they need to obtain broad knowledge and understanding of sustainability and comprehensively upgrade their existing skills and competencies in accounting, finance, auditing, and management. It is important that these efforts ultimately help serve the public interest, which includes a smooth transition to and the development of a sustainable economy.

II Current Status and Issues Related to Sustainability Education for Professional Accountants

This chapter summarizes initiatives for sharing knowledge and understanding of sustainability with professional accountants and then discusses challenges related to sustainability education.

1. The JICPA's initiatives

(1) Research activities related to sustainability

The JICPA has continued to pursue research and surveys on the environment and sustainability, through the Management Research Committee, for nearly 30 years.

The JICPA set up the Environmental Auditing Subcommittee in 1993 and the Environmental Auditing Technical Committee in 1999, and then continued to work on research and surveys of disclosure and assurance engagements related to sustainability while reorganizing the structure of technical committees. From 2015 to 2019, the JICPA conducted research through the following two technical committees: the Sustainability Information Technical Committee and the Sustainability Assurance Technical Committee.

Subsequently, in July 2021, following deliberations by the Accounting System Committee, the JICPA set up the Corporate Disclosure Committee, a committee with three subcommittees under it: the Green Bonds Assurance Technical Committee, the Sustainability Technical Committee, and the Non-Financial Information Disclosure Technical Committee, and thus has continued to conduct research and surveys on sustainability. The JICPA has published many research reports and other documents on the results and findings of such research and surveys for nearly 30 years through these working groups and technical committees.

(2) Publication of Corporate Disclosure and Governance Special Committee Report

The JICPA considers it important to enhance the value of corporate disclosure for information users by increasing its usefulness and reliability and to connect corporate disclosure with sustainable value creation through its organic connection with corporate governance. Based on this view, the JICPA established the Corporate Disclosure and Governance Special Committee in September 2019 and published “Key Issues in Enhancing Usefulness and Trust in Corporate Disclosure – Supporting sustainable value creation cycle through interaction between disclosure and governance,” issued by the Special Committee, in May 2021.

The report highlights the need to raise awareness and develop the capabilities of professional accountants as one of the challenges in enhancing trust in audit and assurance engagements. The report also refers to the need for professional accountants to enhance their comprehensive

capabilities in relation to corporate management and the need to review the ways of educating them and formulate policies regarding their expertise from a medium- to long-term perspective. The comprehensive capabilities mentioned above span a wide range, from overall corporate finance, management strategies, risk management, performance evaluation, and corporate governance to sustainability.

(3) Holding of symposiums and seminars

The JICPA has continued to hold symposiums and seminars with the aim of sharing the results of these research activities broadly with participants. At these symposiums and seminars, participants and speakers including not only professional accountants, the members of JICPA, but also company representatives, investors, and those participating from abroad, have had many lively discussions. Since 2007, the JICPA has also continued to hold symposiums on climate change-related disclosure. In addition, at the 40th JICPA annual conference held in 2019, we had a panel discussion titled “Learning Climate Change – Capital Markets in Transition and Information Disclosure –” and shared disclosure examples based on the recommendations of the Task Force on Climate-related Financial Disclosures (hereinafter, the “TCFD”) with professional accountants.

Most recently, in the context of the IFRS Foundation’s moves toward setting related standards and growing demand for the disclosure of climate change-related information globally, the JICPA held a two-day webinar titled “Disclosure of Climate Change-related Information and its Reliability,” gathering a total of more than 1,200 participants in March 2022. In tandem with this seminar, the JICPA posted on its website a series of special lectures by experts on climate change.

(4) Other initiatives

In addition to conducting research activities and holding symposiums and seminars, the JICPA has been engaged in the following activities so as to share sustainability education and related knowledge and understanding:

- Education at the Practical Training Center for aspiring professional accountants (name of the class: Dialogue Between Companies and Investors and Integrated Reporting)
- Timely dissemination of information related to international trends in sustainability disclosure (Global Sustainability Insights)
- Contribution of articles to the official journal (Accounting & Audit Journal)
 - *Fact-Finding Report on Assurance of Non-Financial Information Disclosure* (November 2021)
 - *International Trend of Sustainability Disclosure – Part 1: TCFD Recommendations*

(January 2022)

- *International Trend of Sustainability Disclosure – Part 2: Establishment of ISSB by IFRS Foundation* (February 2022)
- The JICPA issued a policy statement based on collaboration with an international initiative (Accounting for Sustainability: A4S).

2. Initiatives of audit firms

In the process of this review, the Project Team hold interviews with audit firms with the aim of understanding how they have worked on sustainability education.

Through these interviews, the Project Team confirmed that audit firms have also strengthened efforts to provide learning opportunities to their partners and employees, while accumulating knowledge and understanding of sustainability. Major audit firms have worked to develop and hold training programs on sustainability. They also have been developing training programs on a global network level; some of them have used external training programs in collaboration with international sustainability initiatives and the use of educational institutions. Training programs are becoming increasingly diverse, with the range of programs encompassing not only overviews of integrated reporting and sustainability but also those specialized in topics such as climate change and human capital.

In addition, audit firms have emphasized advocacy activities to encourage their employees to take the training programs, as these programs are offered on a voluntary basis. In fact, some firms have implemented measures to encourage their partners and employees engaged in audit to sign up for training programs related to sustainability.

3. Issues

Both the JICPA and audit firms have endeavored to provide sustainability-related learning opportunities, but there are significant challenges.

Actions taken individually: Toward a structured educational framework

- As stated above, audit firms are also increasingly aware of the importance of sustainability education. In fact, they themselves have begun to provide programs targeted at their partners and employees and need to continue with these efforts. However, these efforts lack connection among respective entities, such as the JICPA and audit firms. As such, the industry as a whole needs to organize the sustainability-related knowledge and understanding necessary for professional accountants and put in place a structured framework, which does not exist at the moment.
- Also, while the scope of sustainability issues is extensive and is expanding further, there may be a limit to such individual efforts because the cost of offering sustainability education could rise.

There are fewer resources for ensuring learning opportunities for those not belonging to major audit firms such as those in small- and medium-size practices, sole proprietors, professional accountants serving as independent directors, and professional accountants in business. This suggests that the industry as a whole should work together to satisfy sustainability education needs.

- Further, the Project Team indicated that the lack of a structured framework for sustainability education had made it difficult for learners to select appropriate courses and systematically accumulate knowledge and understanding.

Diverse interest in sustainability: Need to share knowledge and understanding with all professional accountants

- In recent years, while professional accountants' interest in sustainability topics has been increasing, the degrees of interest vary widely from person to person. These variances might be reflecting the degree of sustainability-related risks of the audited companies or sectors that partners and employees are engaged with. It is important, however, for them to share necessary knowledge and understanding irrespective of how interested they are in sustainability.

Time constraints: Need for efficient provision of education and development of accountants specializing in sustainability.

- While sharing knowledge and understanding of sustainability has become increasingly important, we need to implement measures to address the shortage of talent in audit practices and to ensure audit quality. Under such circumstances, the challenge is how many hours the professional accountants can spend on acquiring knowledge and understanding of sustainability. The Project Team has identified the need for an efficient approach to sharing knowledge and understanding under time constraints while at the same time enabling specialized accountants to accumulate advanced expertise in sustainability.

III International Initiatives for Sustainability Education

1. Initiatives by PAOs overseas

As sustainability-related disclosure practices have evolved, the Professional Accountancy Organizations (PAOs) abroad also have started to provide educational programs on sustainability. Some PAOs have begun to study the feasibility of introducing structured curricula. The Project Team has focused especially on the American Institute of Certified Public Accountants (AICPA) and the Institute of Chartered Accountants in England and Wales (ICAEW), and has conducted desktop surveys on and interviews with these two institutes on the current status of the sustainability education they provide. The results are as summarized below.

AICPA

[Current status]

The AICPA has begun to offer guidance and online programs on sustainability in collaboration with the Chartered Institute of Management Accountants (CIMA). For instance, in 2021, the AICPA published guidance on review engagements on sustainability information titled “Attestation Engagements on Sustainability Information Guide²” and has started to provide “Sustainability Assurance Engagements³,” a fee-based seven-hour online program for professional accountants to learn about assurance engagements on sustainability information.

[Future policies]

The AICPA is currently preparing basic sustainability courses and is going to publish them during the second half of 2022. The institute also has been organizing related case studies with the help of Fordham University.

ICAEW

[Current status]

Since more than a decade ago, the ICAEW has included sustainability content related to each subject in its exams. In addition, the institute has begun to offer sustainability related online programs in a tie-up with the Climate Disclosure Standards Board (CDSB). In 2021, the institute started to offer a course named “ESG and climate reporting for accountants”⁴ on TCFD Knowledge Hub.⁵

² <https://www.aicpa.org/cpe-learning/publication/attestation-engagements-on-sustainability-information-guide-including-greenhouse-gas-emissions-information>

³ <https://www.aicpa.org/cpe-learning/course/sustainability-assurance-engagements>

⁴ Open the following link to see details of online courses.

<https://www.tcfidhub.org/online-courses/>

⁵ <https://www.tcfidhub.org/>

[Future policies]

The institute is currently considering developing structured education materials on sustainability. The ICAEW plans to offer efficient learning programs that have no overlaps with the content provided by other institutes such as the CDSB and the Cambridge Institute for Sustainability Leadership.

2. Other international initiatives

Organizations other than PAOs have also considered offering sustainability-related education and training programs. The Project Team investigated the status of sustainability education, through desktop surveys and interviews, provided by Principles of Responsible Investment (PRI), the IFAC, and the Value Reporting Foundation (VRF), with which the IFRS Foundation plans to merge. The results are as summarized below.

IFAC

The International Accounting Education Standards Board (IAESB) of the IFAC has published International Education Standards (IES). In February 2022, the International Panel on Accountancy Education (IPAE) started discussions on sustainability education. At present, the IPAE compares the content of the IES and the education targets of the Fundamentals of Sustainability Accounting (FSA) Credential (described later) provided by the Sustainability Accounting Standards Board (SASB), and studies the elements essential to sustainability education.

PRI

The PRI, which the United Nations supports, has established an educational institution named the PRI Academy. Since 2014, the PRI has provided an online training program on practical responsible investments for a fee.⁶ The program consists of the following three courses: Entry Level Course, Basic Course, and Advanced Course, serving a wide spectrum of learners, from beginners to those experienced in responsible investments. The PRI also provides training programs targeted at trustees. Each course takes a few hours to about 15 hours to complete, educating learners on ESG challenges and methods of ESG analyses. Those who have completed the course receive a certification of completion and a digital badge. The institution also provides courses in Japanese.⁷

VRF

SASB offers a qualification called the FSA Credential.⁸

The FSA Credential consists of curricula which help students develop a better understanding of sustainability information, while referring to the SASB standards. Learners can learn principles and

⁶ <https://priacademy.org/>

⁷ <https://priacademy.org/pages/jp-curriculum>

⁸ <https://fsa.sasb.org/credential/>

standards at Level 1 and the application and analysis of sustainability information at Level 2. Learners can obtain the qualification by passing both the Level 1 and 2 exams.

In June 2021, the SASB and the International Integrated Reporting Council (IIRC) merged into a unified organization, the VRF. Moreover, it has been officially announced that the VRF will be merged into the IFRS Foundation by June 2022.⁹

3. Need for international collaboration

(1) Global needs related to sustainability reporting

Professional accountants need to address global capital markets' needs in sustainability reporting, as they do with financial reporting. While many listed companies have voluntarily worked to promote integrated reporting and sustainability reporting, they emphasize providing information to institutional investors and research agencies in Europe and the U.S. As the development of global standards is currently in its infancy, the need for internationally consistent sustainability reporting practices will grow further.

(2) International network of audit firms and accounting firms

Major audit firms that are members of global networks will need to act consistently with the programs provided within the network. To ensure audit firms can respond smoothly to sustainability education needs, it is critical that education programs for professional accountants in Japan and those developed overseas or globally be constructed under a consistent framework.

(3) Global collaborations built on existing collaborative relationships

One of the advantages of professional accountants is that they have strong connections with each other globally through not only accounting firms but also the PAOs and private initiatives.

Also, in the context of sustainability, professional accountants have historically collaborated with each other, through international networks including the IFAC and Accounting for Sustainability (A4S), contributing to a variety of activities, including the initiatives of the PAOs, education to market participants, and development of disclosure standards. Drawing on their global connections, professional accountants can also contribute robustly to a smooth and effective transition to a sustainable economy by collaborating in development and implementation of education standards and other rules, thereby sharing knowledge and understanding of sustainability with professional accountants, accounting firms, and audit firms across the world.

⁹ <https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/>

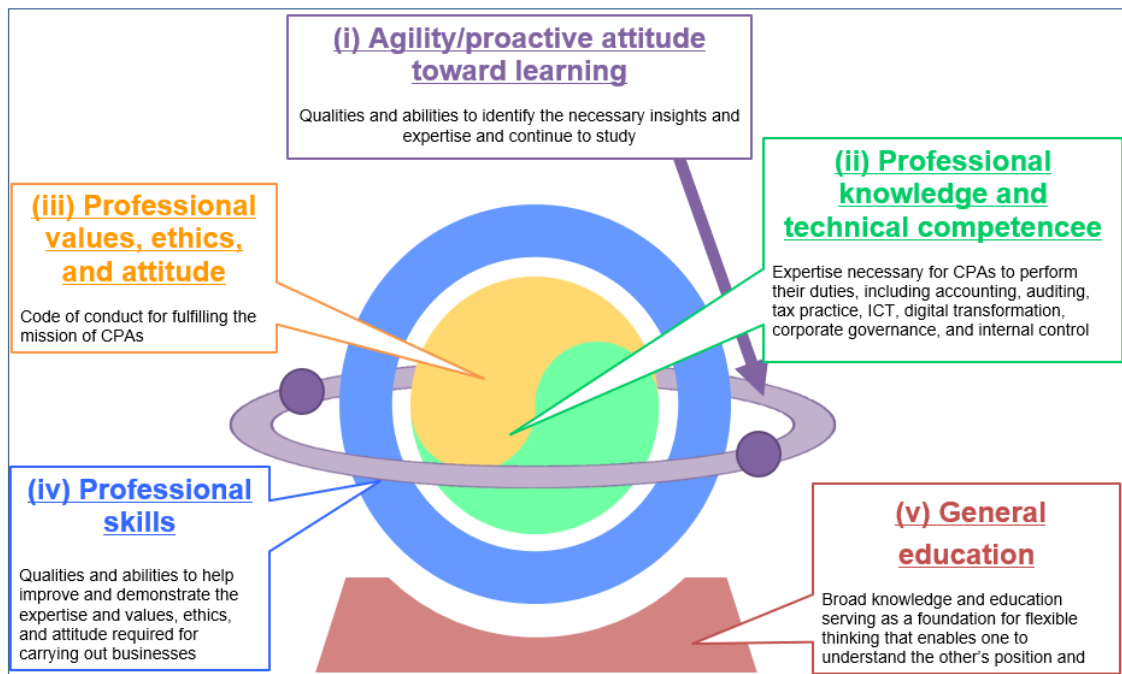
IV. Skills and Competencies in Sustainability for Professional Accountants

This chapter reviews the skills and competencies in sustainability for professional accountants. The starting point for the review is the professional competence specified by the JICPA Task Force for Review of Competence for Professional Accountants.

1. Competence required of professional accountants and sustainability

The JICPA established the Task Force for Review of Competence for Professional Accountants. As part of the task force, we reviewed the competence for professional accountants who can respond to changes in the environment and contribute to society continuously. We published the results in the Report on Competence for Professional Accountants (hereinafter referred to as the “Professional Competence TF Report”) in November 2021. The Professional Competence TF Report focuses particularly on the point when “a professional accountant meets the requirements of a fully qualified professional accountant” and identifies five areas of professional competence for professional accountants with a view to a long career: (i) agility/proactive attitude toward learning, (ii) professional knowledge and technical competence, (iii) professional values, ethics, and attitude, (iv) professional skills, and (v) general education (see Chart 1).

Figure 1. Mutual relationship between professional competence required of professional accountants



Source: Page 1 in the Professional Competence TF Report

All of the above five areas are important for the skills and competencies in sustainability for

professional accountants. Each factor should be incorporated in a well-balanced manner when designing sustainability education. In the review by the Project Team, we discussed especially the relationship between the skills and competencies in sustainability and “(i) agility/proactive attitude toward learning.”

The Professional Competence TF Report stresses the necessity of agility/proactive attitude toward learning: “For professional accountants to contribute to society continuously in a rapidly changing society and technology, where the future is difficult to predict, they should be sensitive to changes and be able to predict and respond in advance to events that may occur, or respond immediately to those events that have occurred.” It also states that “in addition, they should be able to understand changes and their inherent nature and generate new value by creating work that has never been done before.” Furthermore, as professional competence necessary to have such capabilities, the report concludes that “to achieve the above goal, professional accountants should identify the necessary knowledge and skills as well as continue to study. As professionals who continue to adapt to changes and bring value to society, they should be willing to continue learning, regardless of their age or experience.” The report also mentions that the goal is for professional accountants to have reached the following states regarding their change agility and attitudes to continue learning.

- Be interested in social trends, collecting information and data, and using them in one’s duties
- Be able to logically explain, with evidence, the implications of social movements, especially how they may affect one’s duties.
- Be self-directed and willing to learn. Especially be able to formulate and implement a practical learning plan based on one’s future career options.

Source: Page 21 in the Professional Competence TF Report

Here, the area of sustainability is the most prominent and representative example of the rapid environmental changes mentioned in the Professional Competence TF Report. Professional accountants need to tackle sustainability issues in a forward-looking and proactive manner, as well as to anticipate changes to create new value. To achieve this goal, professional accountants themselves must identify the necessary knowledge and capabilities and work with an attitude of continuous learning. Even in sustainability, self-discipline should be a prerequisite. On the other hand, the area of sustainability is changing so rapidly and widely, both globally and domestically, that it is necessary to provide guidance to learners on scope and areas.

2. Skills and competencies in sustainability required of professional accountants

Based on the recognition of the necessity of skills and competencies in sustainability discussed in

Chapter I, this review summarized the capabilities that professional accountants should have about sustainability as follows:

- (i) See the big picture of various sustainability issues and their social and economic impacts based on an integrated knowledge base.

As the profession acting in the public interest, professional accountants should have integrated knowledge and understanding about sustainability issues arising from global environmental and social challenges. It is also essential for them to be able to grasp the big picture of how various sustainability issues may affect modern society and the economy.

- (ii) Understand the basic framework of the relationship between sustainability and corporate management as well as corporate value.

It is essential to delve deeper into the big picture of sustainability to understand the basic framework of how sustainability issues can affect a company's external environment, risks, and opportunities. In addition, knowing best practices for corporate management policies, strategies, and governance responses to sustainability is vital to understanding the interrelationship between sustainability, corporate management, and corporate value. Also, understanding what interests (expectations and concerns) various stakeholders such as shareholders, investors, consumers, employees, local communities, and governments have concerning a company about sustainability can help them consider the impact of sustainability-related risks and opportunities on corporate value.

- (iii) Engage in intensive and constructive dialogue with management, directors, and investors regarding key sustainability trends and their impact on the industry as a whole and companies.

As sustainability has become a key management issue, professional accountants should be able to engage in intensive and constructive dialogue with management, non-executive directors, and investors regarding the impact (risks and opportunities) of sustainability on corporate management and corporate value. Understanding the status of international agreements on such matters as climate change and biodiversity, regulatory and other policies, key trends in various private initiatives, and their impacts on the industry as a whole and business will help make the dialogue meaningful for both parties.

- (iv) Have the necessary knowledge and understanding about requirements for sustainability disclosure (regulations and standards).

Given the increasing importance of sustainability disclosure, professional accountants should

have knowledge and understanding of the status of requirements in regulations and standards for disclosure of sustainability information. It is important to understand not only disclosure standards of sustainability information but also requirements for descriptive information (management commentary) and its relevance to financial reporting standards. It is also necessary to understand the interrelationship between global and domestic standards and their relationship with widely adopted standards and guidelines developed by private sector initiatives and company-specific indicators.

(v) Understand the purpose and basic framework of assurance engagements.

Considering the increasing demand to ensure the reliability of sustainability information, it is critical to understand the meaning of assurance engagements with respect to information other than financial statements, including sustainability information, for ensuring the reliability of such information, as well as its limitations. In addition, professional accountants need to have the knowledge and understanding of the basic framework of assurance engagements in the International Standard for Assurance Engagement (ISAE) established by the International Audit and Assurance Standards Board (IAASB).¹⁰ Examples of practices in sustainability assurance engagements can help us understand practice trends.

Regardless of the duties and occupations of professional accountants, they should all have the above skills and competencies as professionals in accounting and auditing. On the other hand, the skills and competencies that need to be more developed will differ depending on their positions, such as external auditor, professional accountant serving as independent director, or professional accountant in business.

3. Capabilities required of external auditors regarding sustainability

Based on the skills and competencies required of professional accountants mentioned above, this review examined the skills and competencies required of those engaged in auditing financial statements (external auditors). In consideration of the duties of external auditors, we identified four areas that particularly require their skills and competencies in sustainability: (i) discussions with management, non-executive directors, audit committee members, and others, (ii) considerations during audit risk assessment and KAMs, (iii) involvement in “Other Information,” and (iv) interaction with assurance engagements for information other than financial statements and responses to assurance engagements needs. We summarized the abilities and specific responses required for each of these areas as follows.

¹⁰ To understand assurance engagements, the Assurance Engagement Practice Note 3000 “Practice Note on Assurance Engagement Other Than Audit and Reviews” published by the JICPA and research reports on the conceptual framework of assurance engagements are also helpful.

- (i) Have in-depth discussion with management, non-executive directors and audit committee members on key topics on sustainability.
- Understand environmental changes, including domestic and international policy trends related to sustainability associated with the audited company and consider their impact on the company's business model.
 - Understand the company's governance approach to sustainability and identify gaps between best practices.
 - Assess consistency between the overall strategy and decarbonization policies as well as plans of the company.
- (ii) Identify and understand risks and opportunities related to the sustainability of the audited company and reflect them in the risk assessment in the financial statement audit.
- Identify and understand material sustainability issues for the audited company.
 - Understand sustainability-related risks (assessment of transition and physical risks of climate change based on the TCFD recommendations) and assess their impact on financial reporting.
 - Seek advice from experts in specific sustainability areas as needed.
- (iii) Evaluate Other Information, and for material differences from the financial reporting and knowledge acquired during the audit, in particular.
- Understand requirements for sustainability reporting in Other Information (e.g., sustainability information that should be included as narrative information in an Annual Securities Report).
- (iv) Understand the basic framework of assurance engagements and have discussions with practitioners who perform assurance engagements.
- Understand the basic structure and approach of ISAE3000 and the Assurance Engagement Practice Note.
 - Understand the key issues and risks identified in assurance engagements and reflect them in audit responses.

V. Future Direction of Sustainability Education

Based on the review in Chapters I through IV, this chapter presents the objectives and policies of sustainability education for professional accountants, syllabus development, and a fundamental approach to education through strong collaboration with stakeholders.

1. Objectives and policies of sustainability education for professional accountants

Based on the necessity of sustainability education and the skills and competencies in sustainability required of professional accountants, we summarized the objectives and basic policies of sustainability education for professional accountants as follows.

(1) Objectives of sustainability education

Sustainability education for professional accountants is designed to help them contribute to the promoting high-quality disclosure, resource allocation in capital markets from a long-term perspective, and the sustainable development of society and the economy. More concretely, professional accountants contribute to these goals by developing their knowledge and understanding of various sustainability-related issues, the interrelationship between sustainability and corporate management as well as corporate values, and disclosure and ensuring the reliability of information disclosed, as well as through constructive dialogue and cooperation with companies and investors.

(2) Basic policies on sustainability education

(i) Predict the trend of change to support autonomous learning of professional accountants.

In light of the rapidly changing needs related to sustainability, professional accountants need to tackle sustainability issues in a positive and proactive manner, as well as to be able to anticipate changes to create new value. The JICPA will grasp the broad and rapidly changing sustainability trends to show its members areas for learning and support autonomous learning.

(ii) Share fundamental sustainability knowledge and understanding and acquire diverse expertise simultaneously for the profession.

Given the importance of sustainability in corporate management, corporate value, and disclosure, all members of professional accountants must have fundamental knowledge and understanding of sustainability. On the other hand, areas requiring a more advanced level of expertise including assurance engagements for sustainability reporting require an environment where they can obtain necessary skills and competencies in their fields and positions and develop diverse sustainability expertise. We will design sustainability education which enables the industry as a whole to share fundamental knowledge and

understanding, and to acquire diverse expertise.

- (iii) Collaborate and coordinate with initiatives related to sustainability education in Japan and overseas.

As described in Chapter III, we understood the situation where globally consistent development is required for sustainability-related disclosure and for ensuring the reliability of the disclosure, as well as the characteristics of audit firms and accounting firms as a member of global networks. Given this situation, we will coordinate globally on a fundamental approach to education and its content, building on the international collaborative relationship among PAOs to share sustainability knowledge and understanding among professional accountants, accounting firms, and audit firms around the world.

In Japan, we will also collaborate with audit firms that provide sustainability education to professional accountants and entities that provide sustainability education to capital market participants including companies and investors.

2. Development of syllabus

In order to achieve sustainability education that meets the above objectives and basic policies, we concluded in this review that it is appropriate to develop a syllabus on sustainability education for professional accountants. The syllabus on sustainability education is expected to serve as an overall picture of the sustainability themes that professional accountants should learn and to provide specific guidelines for individual themes. In addition, given the rapidly evolving nature of the areas of sustainability, the industry as a whole should predict trends and update the syllabus promptly to ensure that the syllabus meets the needs of the times.

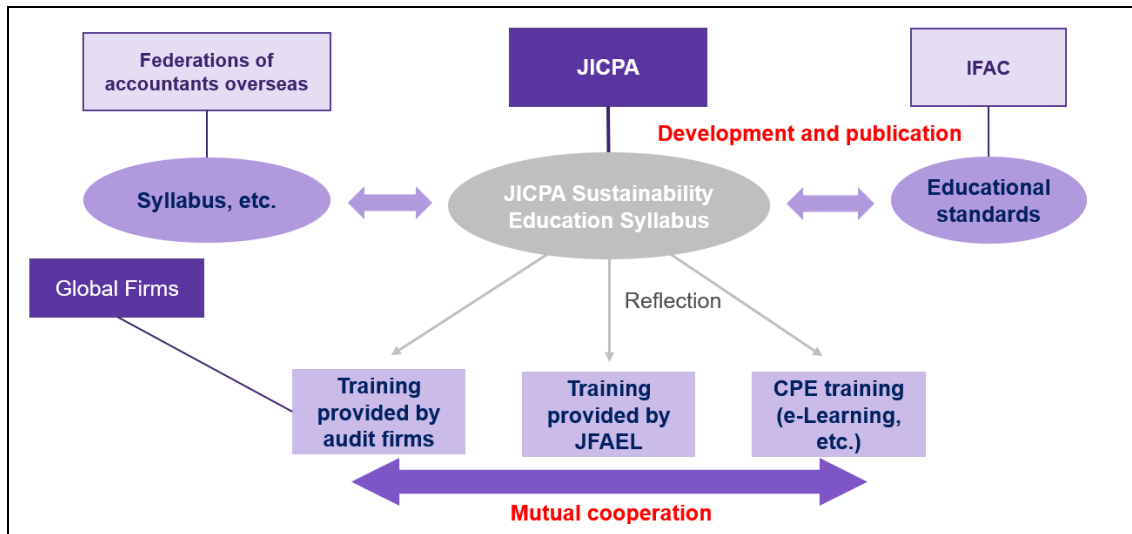
Based on the syllabus, sustainability education will be provided in various forms, including internal training for audit firms, courses offered by the Japan Foundation for Accounting Education and Learning (JFAEL), and those offered by the JICPA. This approach will make it possible to provide a consistent industry-wide program for acquiring fundamental knowledge and understanding while allowing each entity the flexibility to develop its own courses.

The syllabus will also serve as a starting point for international collaboration on sustainability education. The syllabus will be available in English and Japanese to ensure consistency with the international education standards in IFAC and syllabi of other PAOs. This will facilitate consistency between training programs developed by global accounting firms and in Japan.

This syllabus is expected to serve as a compass for professional accountants, who will be the main learners, to grasp the overall picture and details of the target sustainability themes and to plan and

learn them.

Figure 2: Image of Developing Sustainability Education through Syllabus Development



This syllabus will consist of two sections: the Foundation Section and Applied Section (see Appendix). The Foundation Section will include content for acquiring skills and competencies in sustainability that all professional accountants should learn. The Applied Section will be developed for those performing assurance engagements covering sustainability information. However, it will also be developed with consideration for those not performing assurance engagements but who want advanced knowledge and understanding of sustainability.

Chapter IV reviewed the capabilities especially required of external auditors and those required of all professional accountants. They are divided into themes for all professional accountants (e.g., key topics by industry) and for external auditors (e.g., KAMs and involvement in Other Information). We will review education for professional accountants serving as independent directors and professional accountants in business in the future. The content of the education corresponding for each type of professional accountant will be reflected in the syllabus “Consideration in Auditing and Other Services.” We will also consider charting the relationship between the necessary capabilities and each theme and the content in the syllabus.

We will develop the syllabus with a view to publishing it by the end of FY2022 after further review. The Project Team also reviewed the outline of themes and content to be included in the syllabus, mainly focusing on the Foundation Section. The details are presented in the Appendix. In the future development of the syllabus, we will review the themes to be prioritized in the Foundation Section and the number of hours required for each theme. Based on this review, the syllabus will be structured in order that professional accountants can efficiently learn the priority themes in a limited amount of time, and it will provide content to develop necessary skills and competencies in sustainability for

each professional accountant.

Figure 3: Themes and Contents of Syllabus on Sustainability Education (Foundation Section)

Theme	Contents
A. Introduction to Sustainability	<ol style="list-style-type: none"> 1. Historical context of sustainability issues 2. Relationship between sustainability and corporate value, materiality and stakeholder concept 3. Sustainability and capital markets/investor behavior 4. Roles expected of professional accountants
B. Sustainability Thematic Topics	<ol style="list-style-type: none"> 1. Climate change 2. Human capital, diversity, and human rights 3. Other sustainability themes (overview) 4. Key topics by industry
C. Governance and Risk Management	<ol style="list-style-type: none"> 1. Reflecting sustainability in corporate governance (overview) 2. Reflecting sustainability in management and risk management (overview)
D. Disclosure and Assurance Engagements	<ol style="list-style-type: none"> 1. Sustainability disclosure and integrated reporting 2. Climate-related disclosure (basic) 3. Ensuring the reliability of sustainability information and assurance engagements
E. Consideration in Audit and Other Services	<ol style="list-style-type: none"> 1. Points to consider in auditing financial statements 2. Points to consider for professional accountants serving as independent directors 3. Points to consider for professional accountants in business

Professional development for professional accountants consists of Initial Professional Development (IPD), such as the CPA examinations, practical training, work experience, and final CPA assessment, and Continuing Professional Development (CPD) after registration as a CPA. Syllabus-oriented education on sustainability must be effectively delivered in each phase of these professional development programs. With IPD, it is desirable to add courses related to sustainability that fall under the Foundation Section in practical training or to reflect them in the content of existing related courses. The Project Team also indicated that it is necessary to consider how sustainability themes should be reflected in the examination system for CPAs in the future.

With CPD, sustainability should be added as a training field under the Continuing Professional Education System (CPE). We should also promote collaboration with training programs provided by audit firms and others (see Chart 4) and provide educational training programs such as e-learning at the JICPA. The Project Team also indicated the need to establish mandatory CPE credits concerning sustainability in the future.

Chart 4: Example of Linkage between Syllabus and Training Programs Provided by Audit Firms

Syllabus Structure Plan	
↙	Foundation Section↙
<p>Examples of training programs provided by audit firms</p> <p>Climate change risks and disclosure</p> <ul style="list-style-type: none"> · Background of climate change risks. · Impact on corporate value. · Disclosure requirements under ISSB standards or others. 	<p>A. Introduction to Sustainability↙</p> <ol style="list-style-type: none"> 1. Historical context of sustainability issues↙ 2. Relationship between sustainability and corporate value, <u>materiality and stakeholder concept</u>↙ 3. Sustainability and capital markets/investor behavior↙ 4. Roles expected of professional accountants↙
	<p>B. Sustainability Thematic Topics↙</p> <ol style="list-style-type: none"> 1. <u>Climate change</u>↙ 2. Human capital, diversity, and human rights↙ 3. Other sustainability themes (overview)↙ 4. Key topics by industry↙
	<p>C. Governance and Risk Management↙</p> <ol style="list-style-type: none"> 1. Reflecting sustainability in corporate governance (overview)↙ 2. Reflecting sustainability in management and risk management (overview)↙
	<p>D. Disclosure and Assurance Engagements↙</p> <ol style="list-style-type: none"> 1. Sustainability disclosure and integrated reporting↙ 2. <u>Climate-related disclosure (basic)</u>↙ 3. Ensuring the reliability of sustainability information and assurance engagements↙
<p>E. Consideration in Audit and Other Services↙</p> <ol style="list-style-type: none"> 1. Points to consider in auditing financial statements↙ 2. Points to consider for professional accountants serving as independent directors↙ 3. Points to consider for professional accountants in business↙ 	
Others↙	↙

JICPA Sustainability Education Syllabus Responding to "B.1. Climate change" and "D.2. Climate-related disclosure (basic)"

3. Establishment of a platform for sustainability education

In this review, we discussed the necessity of establishing a platform as an organizational foundation for promoting initiatives related to sustainability education in the future. Following the publication of this report, the JICPA should develop, update, and operate a syllabus on sustainability education while establishing an approach to sustainability education for professional accountants. To ensure the effectiveness of these initiatives, we need to reflect them in the courses of the Practical Training Center and CPE courses. We also must secure compatibility with relevant organizations. Furthermore, we should promote such initiatives in coordination and collaboration with audit firms and accounting firms, domestic corporate and investor organizations, the JFAEL, relevant ministries and agencies, and IFAC and PAOs in other countries.

From this perspective, we will aim to develop a platform for planning, operation, and external collaboration with respect to sustainability education for professional accountants in the future. As with the Project Team, the platform operation should include a structure that can widely reflect the needs of the capital market and society, with the participation of outside experts in this field as well as professional accountants. In this review, it was indicated that we need to raise the level of sustainability knowledge and understanding of professional accountants as a whole and develop accountants highly specializing in sustainability to meet social demands for assurance engagements. We will also discuss establishing a network of accountants specializing in sustainability and other initiatives described in the Applied Section.

End of Report

Appendix: Preliminary Draft Syllabus for Sustainability Education

	Foundation Section	Additional Themes in Applied Section (mainly for personnel responsible for assurance engagements)
A. Introduction to Sustainability	<ol style="list-style-type: none"> 1. Historical context of sustainability issues 2. Relationship between sustainability and corporate value, materiality and stakeholder concept 3. Sustainability and capital markets/investor behavior 4. Roles expected of professional accountants 	
B. Sustainability Thematic Topics	<ol style="list-style-type: none"> 1. Climate change 2. Human capital, diversity, and human rights 3. Other sustainability themes (overview) 4. Key topics by industry 	<ol style="list-style-type: none"> 1. Other sustainability themes (details)
C. Governance and Risk Management	<ol style="list-style-type: none"> 1. Reflecting sustainability in corporate governance (overview) 2. Reflecting sustainability in management and risk management (overview) 	<ol style="list-style-type: none"> 1. Reflecting sustainability in governance, management and risk management (details) 2. KPI measurement and monitoring and data governance
D. Disclosure and Assurance Engagements	<ol style="list-style-type: none"> 1. Sustainability disclosure and integrated reporting 2. Climate-related disclosure (basic) 3. Ensuring the reliability of sustainability information and assurance engagements 	<ol style="list-style-type: none"> 1. Sustainability disclosure practices and issues (advanced examples) 2. Climate-related disclosure (applied) 3. Individual issues regarding assurance engagements of sustainability information 4. Ensuring reliability in sustainable finance
E. Consideration in Audit and Other Services	<ol style="list-style-type: none"> 1. Points to consider in auditing financial statements 2. Points to consider for professional accountants serving as independent directors 3. Points to consider for professional accountants in business 	
Others		<ol style="list-style-type: none"> 1. Digital transformation

[Content and Purpose of Each Factor]**A. Introduction to Sustainability****Foundation Section 1: Historical context of sustainability issues**

Sustainability issues, including environmental issues such as climate change and social issues such as human rights, are urgent issues that must be addressed globally. Companies and organizations need to resolve these issues seriously. The purpose of this section is to provide a basic understanding of the importance of these sustainability issues. Understand the sustainability factors and how they are integral to advancing economic activities. Understand the Historical Context in which sustainability issues have been considered, referring to the “Limits of Growth” issued by the Club of Rome in 1972, the “Rio Declaration on Environment and Development” at the Earth Summit in 1992, and the Sustainable Development Goals (SDGs) adopted by the UN in 2015.

Foundation Section 2: Relationship between sustainability and corporate value, materiality and stakeholder concept

As sustainability-related factors can be risks and opportunities for a company, the company’s response to sustainability can also affect its corporate value. Understand that sustainability factors that may have a significant impact on the company’s business must be recognized as material issues for the company and reflected in its business model and strategy. Understand that the concept of materiality is prerequisite for identifying material issues and there are multiple concepts of materiality, such as “single materiality,” “double materiality,” and “dynamic materiality.”

As stakeholders surrounding companies, such as shareholders and investors, business partners, consumers, employees, local communities, and the government, have started to pay attention to sustainability, understand that communication on sustainability policies and their implementation is required in dialogue with stakeholders.

Foundation Section 3: Sustainability and capital markets/investor behavior

The launch of the PRI in 2006 was one of the catalysts for the proliferation of sustainable investment (called ESG investment by the PRI). In addition, policies related to sustainable finance aimed at expanding investment and loans to sustainability-related businesses have been formulated, mainly in the EU. In Japan, the Financial Services Agency and other organizations are also considering such policies (such as revision of the Stewardship Code and review by the Sustainable Finance Expert Panel). Understand this background and how investors use sustainability information (engagement, evaluations by rating, etc.)

Understand the challenges in collecting sustainability-related information (e.g., lack of sufficiency and comparability), as well as the expansion of the use of assessments by ESG assessment organizations, which investigates and analyze such information and provide information to institutional investors and

other parties, and the challenges involved.

Foundation Section 4: Roles expected of professional accountants

Consider the sustainability-related roles expected of professional accountants in various positions, such as external auditor, independent director, professional accountant in business, and professional accountant engaged in consulting work. For example, external auditors are expected to have the ability to have in-depth discussions with management and non-executive directors on key topics related to sustainability, to understand the sustainability risks and opportunities of audited companies, and to reflect them in the risk assessment in the financial statement audit.

B. Sustainability Thematic Topics

Foundation Section 1: Climate change

Based on the scientific facts of climate change, understand the business environment surrounding companies in connection with climate change, including international efforts on climate change such as the Paris Agreement, the 2050 Decarbonization Declaration by the Japanese government and policies based on it, and efforts in major countries. Understand that the impacts of climate change on companies affect both risks and opportunities and that those risks can be broadly divided into physical risks and transition risks.

Learn that climate-related information is being disclosed internationally ahead of other sustainability themes, that the TCFD recommendations are widely used as a framework for disclosure, and that the ISSB is also developing sustainability-related disclosure standards including climate change.

Foundation Section 2: Human capital, diversity, and human rights

Understand trends and key issues related to people such as human capital, diversity, and human rights inside and outside Japan. Understand how these people-related themes affect corporate value, referring to the Human Resources Version of the Ito Review¹¹ released by the Ministry of Economy, Trade and Industry.

Understand regulatory trends and voluntary disclosure in Japan concerning human capital and other related matters. Learn about disclosure systems related to human capital in the U.S., Europe, and other countries and disclosure items related to human capital in voluntary disclosure frameworks developed by SASB, Global Reporting Initiatives (GRI), and other organizations, while referring to disclosure

¹¹ In September 2020, the Ministry of Economy, Trade and Industry released the “Report of the Study Group on Sustainable Enhancement of Corporate Value and Human Capital: The Human Resources Version of the Ito Review.” After that, the ministry conducted a more in-depth review of the Human Resources Version of the Ito Review and released the “Report of the Study Group for Realization of Human Capital Management: The Human Resources Version of the Ito Review 2.0” in May 2022.

examples.

Foundation Section 3: Other sustainability themes (overview)

Understand that themes related to sustainability other than climate change and human capital include ESG-related topics such as biodiversity, water resources, circular economy, local communities, and corporate ethics. Grasp the outline of each theme and its relationship with business activities.

Review international trends related to the establishment of disclosure standards by the ISSB for sustainability disclosure including these themes and the overall picture of disclosure items in voluntary disclosure frameworks developed by SASB, GRI, and other organizations.

Foundation Section 4: Key topics by industry

* *For topics by industry, courses are provided by industry (or multiple industry groups). Participants are expected to select and take courses in industries that are highly relevant to their services.*

Understand that key sustainability themes vary according to the characteristics of each industry. Grasp the outline of key sustainability themes and investor perspectives (interests, concerns, expectations, etc.), background factors, policy-related trends, and their relationship to business for each major industry.

As reference information, review industry-specific disclosure topics and related indicators required in ISSB, SASB, and other standards.

Applied Section 1: Other sustainability themes (details)

Understand Japanese policies and practices and international trends in sustainability topics other than climate change and human capital, such as biodiversity, water resources, and the circular economy. Understand how each theme affects a company's business activities and its value.

Track the trends in the international development of disclosure standards for each theme including the ISSB's development of disclosure standards and the progress of the Taskforce on Nature-related Financial Disclosures (TNFD). Understand disclosure items in voluntary disclosure frameworks developed by SASB, GRI, and other organizations and refer to examples of disclosure.

C. Governance and Risk Management

Foundation Section 1: Reflecting sustainability in corporate governance (overview)

With the increasing importance of sustainability in corporate management, there is an increasing need to consider sustainability in both execution and supervision such as the formulation of management policies and governance systems. The Corporate Governance Code revised in 2021 also requires companies to address issues related to sustainability. Understand the governance processes concerning sustainability and the background and design of corporate governance requirements. Understand investors' expectations and concerns regarding the reflection of sustainability in corporate governance,

as factors related to sustainability have been added to the Guidelines for Investor and Company Engagement revised in 2021.

Foundation Section 2: Reflecting sustainability in management and risk management (overview)

Sustainability-related risks and opportunities are emerging and becoming increasingly important in corporate management. In addition to climate change and human capital, infectious diseases have also been highlighted as an important sustainability risk from the experience of the pandemic. Understand sustainability-related risks, their impact on corporate management, and the need to respond to them. As reflecting climate change factors in strategic decisions and risk management is also a prerequisite for sustainability-related financial disclosures, understand the outline of basic approaches such as resilience assessment, financial impact assessment, risk management processes (including integration into business risk management), and internal carbon pricing.

Applied Section 1: Reflecting sustainability in governance, management, and risk management (details)

Understand more about how to incorporate sustainability factors into governance, management, and risk management. Learn specific practices for identifying important corporate issues or incorporating sustainability factors into strategy formulation, risk management methods, and internal systems, using examples of the establishment of a sustainability committee and the introduction of executive compensation that incorporates sustainability indicators.

Applied Section 2: KPI measurement and monitoring, and data governance

To develop a sustainability strategy and promote risk management, we should establish and regularly monitor relevant Key Performance Indicators (KPIs). It is also necessary to develop a process for collecting various data related to sustainability and appropriately manage the data. Understand such data governance, KPI selection methods, and monitoring methods.

D. Disclosure and Assurance Engagements

Foundation Section 1: Sustainability disclosure and integrated reporting

Understand the current situation of sustainability disclosure and integrated reporting based on the history of the establishment of multiple voluntary ESG disclosure frameworks developed by GRI, the IIRC, and other organizations, as well as foreign regulations related to sustainability disclosure and the movement of ISSB establishment.

Especially in Japan, voluntary disclosure documents with various names have been published, including Integrated Reports referring to the Integrated Reporting Framework of the IIRC, as well as sustainability reports and ESG reports. Furthermore, the Financial Services Agency has released “Principles Regarding the Disclosure of Narrative Information”, which is principles-based guidance

for enhancing descriptive information in Annual Securities Reports and “Reference Casebooks of Good Practices on the Disclosure of Narrative Information.”

Understand the current situation where mandatory disclosure of sustainability-related information in Annual Securities Reports is being discussed and sustainability information disclosure such as climate change and human capital is enhanced.

Foundation Section 2: Climate-related disclosure (basic)

Understand climate-related information, which is the most widely disclosed among sustainability information, focusing on the four core elements (governance, strategy, risk management, and indicators and targets) as presented in the TCFD recommendations. Review examples of disclosures for each of these four elements and understand that some elements are relatively easy to disclose and others are relatively difficult (e.g., scenario analysis). Identify trends in the development of climate-related disclosure standards at the ISSB and trends in mandatory climate-related disclosures in Japan and other major countries.

For the calculation and reporting of GHG emissions, the GHG Protocol is widely used internationally. Based on the GHG Protocol, understand that there are three types of GHG emissions: direct emissions (Scope 1), indirect emissions (Scope 2), and value chain emissions (Scope 3).

Foundation Section 3: Ensuring the reliability of sustainability information and assurance engagements

Gain an overview of the standards to be referred to when assuring sustainability information. These standards include ISAE 3000 (assurance engagements other than audits or reviews of historical financial information) and ISAE 3410 (assurance engagements for GHG statements) published by the IAASB of the IFAC and the Assurance Engagement Practice Note published by the JICPA.

Learn about the status of assurance engagements for sustainability information in Japan and other countries (number of assurance engagements, level of assurance engagements, types of assurance engagements providers, etc.) As discussions on ensuring the reliability of sustainability information have become more active along with the expansion of sustainability disclosure, understand the content of such discussions and trends in formulating and revising standards.

Applied Section 1: Sustainability disclosure practices and issues (advanced examples)

Identify advanced examples of Japanese statutory and voluntarily sustainability disclosure. Understand issues and their solutions in sustainability disclosure, such as developing internal controls and data collection methods.

Understand that companies operating multiple businesses have specific disclosure challenges when

each business has different material sustainability themes.

Applied Section 2: Climate-related disclosure (applied)

Understand data collection and calculation methods for Scope 1, Scope 2, and Scope 3, respectively. In particular, since Scope 3 targets the entire value chain for measurement, learn about the challenges of collecting information and the solutions. Identify advanced examples of disclosure of GHG emissions that includes emissions targets and progress with achieving them.

Understand how scenario analysis is conducted as part of climate change risk management and how to select scenarios and conduct qualitative and quantitative analysis, by reviewing advanced examples.

Applied Section 3: Individual issues regarding assurance engagements of sustainability information

Assurance engagements for sustainability disclosure have been provided, referring to ISAE 3000, ISAE 3410, and “Non-Authoritative Guidance on Application of ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements” published by the IAASB in 2021. Amid the demand for greater sustainability disclosure and the need to ensure the reliability of such information, discussions are underway to formulate a new standard. Because of the different nature of sustainability information from financial reporting, there are specific issues of assurance engagements related to sustainability (level of assurance engagements, appropriateness of reporting standards, scope of reporting, etc.) In this section, understand these issues by referring to existing standards and guidance.

Applied Section 4: Ensuring reliability in sustainable finance

Understand the various policies and initiatives to accelerate the flow of financial resources to sustainable economic activities. For example, with regard to sustainability bonds, understand that the International Capital Markets Association (ICMA) has issued Green Bond Principles and Sustainability Linked Bond Principles, which are widely used internationally. Understand the situation in Japan, where the Financial Services Agency has convened an expert panel on sustainable finance to review and develop a framework to promote sustainable finance. Learn that international private sector efforts to expand sustainable finance include, for example, the Glasgow Financial Alliance for Net Zero (GFANZ), a federation of initiatives among banks, insurance companies, asset owners, investment managers, and other organizations established to move toward net-zero. Also, learn about the growing movement toward cross-business and cross-sector collaboration.

Understand that as sustainability becomes a focus of attention, it becomes essential to take measures against issues such as greenwashing (selling products as if they are green).

E. Consideration in Audit and Other Services**Foundation Section 1: Points to consider in auditing financial statements**

Sustainability factors also affect financial statement audits. For example, the withdrawal from a business to address a sustainability issue affects the valuation of the relevant fixed assets. Confirming that the financial statements are consistent with the narrative statements is also necessary. Understand the issues related to such services based on the Auditing Standards Committee Report 720 and issues related to KAMs by following examples.

Foundation Section 2: Points to consider for professional accountants serving as independent directors**Foundation Section 3: Points to consider for professional accountants in business****Others****Applied Section 1: Digital transformation**

Learn about the relationship between sustainability and digital information. Sustainability-related information includes financial information and various other information, including that related to climate change and human capital. Furthermore, it is necessary to collect information within the scope of consolidation and across the entire value chain.

Understand that digital transformation (DX) is beneficial because of such characteristics. Learn that XBRL compilation of sustainability information is being considered to make it easier for investors to compare and analyze sustainability information.