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Mr Erkki Liikanen
IFRS Foundation
Columbus Building, 7 Westferry Circus
London, E14 4HD
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Dear Mr Erkki Liikanen

RE: IFRS Foundation Consultation Paper on Sustainability Reporting

The Japanese Institute of Certified Public Accountants (“we” and “our”) commends the ongoing efforts of the IFRS Foundation and appreciates the opportunity to comment on the *Consultation Paper on Sustainability Reporting* (the “Consultation Paper”).

Non-financial information has become increasingly important for capital markets, and further efforts are urged to help address issues surrounding sustainable development. With this understanding, we welcome and support the vision to move ahead with the development of consistent sustainability reporting standards and the proposal to establish a new standard-setting board for sustainability reporting within the IFRS Foundation.

Both in Japan and abroad, the practice of companies disclosing non-financial information has gained traction, and investors’ need for such information has been rising. We strongly hope that the IFRS Foundation, which has a wealth of expertise and experience in setting financial reporting standards, will work on the standard-setting for sustainability reporting; thereby contributing to formation of a high-quality and consistent framework that would serve the whole corporate reporting practice.

Among the proposals in the Consultation Paper, the points we consider particularly important are as follows:

1. Clarity and shared understanding the objective to set sustainability reporting standards that reflect the needs of capital market participants

In order for the initiative to be successful over the long term, it is imperative to clarify the

ultimate objective of sustainability reporting standards, and share common understanding of the objective among a broad range of key stakeholders. The objective should be clear as to how it is linked to the mission of the IFRS Foundation. In addition, the objective should be anchored to supporting capital market participants in their assessment of the mid to long-term value of companies and contributing to establishment of a sustainable value creation cycle in the global capital market.

2. Formulation of a strategic plan for achieving the objective

We believe it important to formulate a strategic plan aimed at accomplishing the objective of the initiative in the early stage. Given the rapid progress of policymaking for non-financial reporting, development of multiple frameworks¹ by private-sector initiatives, and changing practices of disclosure and use of non-financial information, we believe it is important for the IFRS Foundation to proceed with the initiative with clear scope and timeframe.

3. Need for global governance and diversity for the Sustainability Standards Board

In our view, consistent application of anticipated sustainability reporting standards on a global scale will contribute to development and sustainability of capital markets. Hence, we believe it important to design the governance structure of the Sustainability Standards Board (“SSB”) which can address the needs of global capital markets by leveraging the strength of the IFRS Foundation’s existing governance structure. Especially, it is essential to ensure that the SSB members are sufficiently diverse in terms of geographic and other factors. In this light, we believe the size of the SSB needs to be at least comparable to that of the IASB to ensure the diversity.

4. Continued efforts to achieve the mission pertaining to financial reporting

We believe that it is imperative for the IFRS Foundation to maintain its commitment to continuing working towards the realization of “a single set of high-quality global standards” in the area of financial reporting consistent with the call set forth in the G20 declaration. In our view, the IFRS Foundation’s initiatives on financial reporting should not be undermined by the establishment of the SSB, and thus any financial and human resources that have been secured for the existing initiatives related to financial reporting should not be sacrificed. Hence, we believe that the IFRS Foundation should seek a new and separate funding source for the SSB

¹ Including the initiative by the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) towards establishing the Value Reporting Foundation.

separate from that for the IASB, and the funds used for the SSB should be managed separately.

5. Need to ensure the reliability, credibility and assurability of information

In our view, it is important that reliability and credibility of sustainability information is ensured. Thus, in developing the standards, we believe that the IFRS Foundation needs to provide a mechanism that allows sustainability information to be reliable and credible.

We believe that external assurance is highly effective mean in ensuring the reliability. We therefore believe that a certain types of assurance services will also be provided to non-financial information in conjunction with the audit of financial statements. The SSB's standard-setting approach, therefore, should be designed in a manner to ensure the assurability of sustainability information.

The following comments are our responses to the questions raised in the Consultation Paper.

Question 1
Is there a need for a global set of internationally recognised sustainability reporting standards?
(a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting activities into this area?
(b) If not, what approach should be adopted?

Yes. We agree with the need for a set of internationally recognized sustainability reporting standards.

Users' need for sustainability information is growing rapidly, and the practice of companies disclosing non-financial information has been prevailing. Many frameworks and guidelines for non-financial reporting have already been put in place globally. However, they are not sufficiently organized, and this might cause quality of non-financial information disclosure to vary significantly. We expect that formation of a high-quality and consistent framework for the disclosure of non-financial information will help resolve these issues and improve the quality of corporate information disclosure as a whole.

We believe, for the following reasons, that the IFRS Foundation should work on standard-setting to create a globally consistent framework for disclosure of non-financial information.

- Given that companies are faced with a growing need to communicate their corporate value in their corporate reporting from a mid to long-term perspective, it is essential that sustainability reporting is integrated with financial reporting to meet the needs of investors. In addition, addressing a change in needs of capital markets is consistent with the IFRS Foundation’s organizational mission: to develop standards that bring transparency, accountability and efficiency to financial markets around the world.
- The IFRS Foundation, which is subject to monitoring by a group of market regulators around the world, has gained a high reputation and credibility in global capital markets. We therefore believe that the IFRS Foundation’s initiatives to develop sustainability reporting standards will contribute to establishing a framework for the disclosure of non-financial information in the statutory annual reporting to investors.
- We expect that the IFRS Foundation could leverage its expertise and experience in the area of international standard-setting for financial reporting at the IASB. To date, the IFRS Foundation has worked “to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles” as defined in the objective section within its Constitution. This initiative played a role in providing decision useful information to investors, capital market participants and other users of financial information. The IFRS Foundation’s initiatives to develop sustainability reporting standards will be a driving force for the convergence of a large number of existing sustainability reporting standards and will also help improve the quality of the standards to be developed.

Question 2
Is the development of a sustainability standards board (SSB) to operate under the governance structure of the IFRS Foundation an appropriate approach to achieving further consistency and global comparability in sustainability reporting?

Yes. We believe, for the following reasons, development of the SSB separately from the IASB under the IFRS Foundation’s existing governance structure is the most effective and efficient approach to developing sustainability reporting standards that meet the needs of capital markets participants.

- Building a globally consistent sustainability reporting system only by coordinating initiatives of existing standard setters appears difficult.
- Financial information needs to be coherent with non-financial information, meaning that it is important that the IASB and the SSB work closely together under the IFRS Foundation.

- The IFRS Foundation needs a conference body apart from the IASB, which is dedicated to standard-setting for sustainability information disclosure so as to reflect broader expertise in sustainability reporting standards.
- The IFRS Foundation’s governance structure is key to ensuring independence, transparency and consistency of standard-setting, because it enables the development of standards by an independent standard-setting board with sufficient experts like the IASB.

We think that the name of the new board should preferably include the word “International” to gain recognition as an international standard-setting body (e.g., International Sustainability Standards Board).

Question 3
Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?

We agree with and support each requirement for success as proposed in paragraph 31 of the paper. In particular, we believe that the successful development of sustainability reporting standards requires agreement on the objective of the standard-setting, development of strategies, the governance embracing the notion of diversity, sufficient funding and efficient management of the funds. We provide details of our propositions as follows.

1. Objective of standard-setting and development of strategies

Clarifying and building consensus of objectives

For the initiative to be successful over the long term, we believe it is important to clearly define, at the initial stage, the ultimate objective of setting the sustainability standards. Corporate non-financial information is wide-ranging and diverse, and views are mixed as to its intended users and key principles. We therefore believe the future success of standard-setting depends on whether a common understanding is shared on foundational matters relevant to standard-setting.

In our view, the objective of sustainability reporting should be serving public interest of capital markets, and we believe it is necessary to clarify the connection between this objective and the mission of the IFRS Foundation. Taking this perspective into account, the IFRS Foundation’s objective of setting sustainability reporting standards could be articulated as “supporting

efficient and effective allocation of capital market resources from a long-term perspective by providing useful information for capital market participants in their assessment of mid to long-term valuation of companies, as well as, contributing to fostering a sustainable value creation cycle in society.”

Need for an effective medium-term strategic plan

In our view, there is strong demand that the development of standards for non-financial information will progress with speed. To meet such demand, we believe that there should be an effective strategic plan with its scope and timeframe clearly defined. We understand and agree that the robust due process constitutes a basis for the credibility of the IFRS Foundation. However, developing a new set of standards from scratch by applying the similar process may not progress as promptly as expected by stakeholders, even when focusing solely on climate change related issues. At the same time, as described later in this letter, stakeholders desire a consistent framework covering a broad range of non-financial information. Taking such conflicting demands into account, we think that the Foundation may want to work out a provisional framework based on existing standards (see response to Question 5).

2. SSB's governance

Continuity of existing governance structure

In our view, the current three-tier governance structure of the IFRS Foundation is appropriate and has worked effectively. We believe that the current monitoring system of the IASB by the IFRS Foundation Trustees and the IFRS Foundation Monitoring Board consisting of capital market authorities has helped ensure transparency and credibility of the IASB. Therefore, assuming that the notion of single materiality is adopted at the onset, we agree that maintaining the current governance framework is a requirement for the future success.

Diversity of SSB members

We believe it important that a new set of sustainability reporting standards should be applied consistently across jurisdictions, because it would promote sustained development of global capital markets. From such a viewpoint, we believe that the key to success of the initiative is building a standard-setting consensus with diversified members represented to the SSB. In our view, the diversity of the members should be ensured in terms of geographical region, industry expertise and technical focus. Accordingly, we think that the number of SSB members should be at least comparable to that of the IASB members.

3. Resource management

Securing funding source and implementing efficient management

Setting standards for sustainability reporting is a new undertaking of the IFRS Foundation, covering wide-ranging subjects. It is therefore important to secure sufficient human and financial resources with a view to achieving high-quality standard setting by making use of expertise and experience accumulated so far, while reflecting the needs of related parties.

On top of that, efficient management of resource should be equally important. We believe that seeking to leverage what has been achieved by existing initiatives, rather than building everything from scratch will allow the IFRS Foundation to develop the standards efficiently while ensuring continuity with the past experiences. It is also desirable to consider ways to reduce the financial burden of the SSB while ensuring the diversity of the SSB members. One way to do so is building a mechanism for the SSB members to serve as a part-time member.

Continued pursuit of mission of the IFRS Foundation in financial reporting

We believe the IFRS foundation should maintain its commitment to continue working towards the realization of “a single set of high-quality global standards” set forth in the G20 declaration.

The IFRS Foundation’s initiatives on financial reporting should not be undermined by the establishment of the SSB, and thus any financial and human resources that have been secured for the existing initiatives related to financial reporting should not be sacrificed. Instead, we believe that the IFRS Foundation should seek a new and separate funding source for the SSB separate from that for the IASB, and the funds used for the SSB should be separately managed.

Question 4

Could the IFRS Foundation use its relationships with stakeholders to aid the adoption and consistent application of SSB standards globally? If so, under what conditions?

Yes.

We strongly expect the IFRS Foundation to proactively use its existing relationship with stakeholders. We believe it important to reflect views of stakeholders, including preparers, users and assurance providers. To do so, we think that the IFRS Foundation may seek advice from advisory groups such as the IASB’s Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF).

When leveraging the existing network of the IFRS Foundation, it is imperative that the IFRS

Foundation obtain sufficient support from a wide range of stakeholders interested in the development of sustainability reporting standards. In leveraging the existing network, the IFRS Foundation should seek to understand views of global stakeholders, the circumstances of each jurisdiction, related standard-setting initiatives given their legal systems and practices in respective regions as well as implementation challenges.

Question 5

How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?

We believe that the SSB' standards should be built upon existing standards and experiences so far, so that it can ensure the continuity with practices accumulated in the past. We believe that development of the sustainability reporting standards from scratch is far too inefficient, and risks further complicating the current situation where diverse set of sustainability reporting standards are already in place. We therefore believe that, for the IFRS Foundation to proceed with further considerations, what should be done in the first place includes seeking collaboration with existing standard setters; sorting out the relationship with, and assigning roles of, existing standards; and clarifying objectives of standard-setting by the SSB and prospective users.

In addition, we believe that the IFRS Foundation should avoid adopting a rules-based approach, and instead adopt a principles-based approach similar to IFRS standards when developing sustainability reporting standards. This will increase the possibility of enabling global dissemination and promotion, while allowing companies a certain degree of flexibility, similar to IFRS standards. However, in order to ensure consistent application, the IFRS Foundation may consider it necessary to work on implementation issues post issuance of standards.

Given the urgency of the initiative, the IFRS Foundation may decide to adopt part of existing frameworks and/or standards as transitional standards provided that a certain screening process is in place. In the short term, such collaborative work could focus on technical matters relevant to basic principles, essential elements of standards key terminologies; however in the long run, the IFRS Foundation might seek to consider more drastic option such as the integration of organizations.

Question 6

How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?
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We believe that the IFRS Foundation should adopt a principles-based approach similar to notion underlying the IFRS standards when developing sustainability reporting standards. This is to increase the possibility of enabling global dissemination and promotion, while allowing each jurisdiction a certain degree of flexibility similar to IFRS standards. We also believe that, in order to develop standards applicable universally across the globe, it is important to analyze the existing disclosure system, guidelines, and objectives and measures of initiatives in each jurisdiction.

Question 7

If the IFRS Foundation were to establish an SSB, should it initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting?
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We agree that climate change is the most urgent and critical issue in sustainability reporting matters. We understand that investors are keenly interested in information relevant to challenges of climate change, because it is an extremely important urgent, and significantly affects corporate values. Disclosure of climate change related information has a wealth of accumulated practices in the areas of non-financial information disclosure, and a relevant framework has been formulated by the Task Force on Climate-Related Financial Disclosure (TCFD) as its set of recommendations. Further, importance of climate change-related information is increasing in financial reporting as well, because the financial implication of climate change has become significant. As a guiding principle, we believe a priority should be given to the type of information that is in great demand from preparers and users and that poses practical challenges. In our view, climate change-related information falls under this priority category.

However, in order to realize the objective of setting the sustainability reporting standards (see response to Question 3), the SSB's activities per se should encompass a wide range of sustainability-related issues. Climate change is only one of many non-financial factors that affect corporate values over the medium-to long-term. We understand that investors request that other important non-financial factors that affect corporate value should be reported in a balanced manner so that they can reflect these factors in their economic decision-making. Also, companies' reporting practices are dedicated solely to climate change matters but cover a wide variety of factors, including human capital, natural capital and intellectual capital. It is therefore important to satisfy these needs. We strongly expect the IFRS Foundation to clarify the role and objective of the SSB within the IFRS Foundation and seek to foster a common understanding about the scope of subject matters to be addressed, such that the SSB could work on initiatives with an expected scope and speed.

Question 8

Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?

As responded to Question 7, we believe that sustainability reporting standards should cover all ESG factors, not just climate-related risks. We think it inappropriate to significantly delay initiatives for broader matters relevant to E (Environment) other than climate related issues. When developing standards relevant to other environmental matters, standard-setting should be carried out based on the study of respective characteristics of each factor and its effect on corporate values, although implications to climate change may be of importance.

Question 9

Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?
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Yes.

Prospective users

In light of the mission of the IFRS Foundation and the objective of setting sustainability reporting standards as expected (see response to Question 3), we support the proposal that the IFRS Foundation caters to providing useful sustainability information that is most relevant to investors and other market participants. If the primary audience of the sustainability reporting is extended beyond capital market participants, we think that the IFRS Foundation will need to radically reconfigure its mission and structure. The materiality and nature of necessary information could vary among stakeholders. If the scope of target users is set too broad, we are afraid that the IFRS Foundation may end up being unable to meet the needs of capital market participants. In consideration of the speed required to set sustainability reporting standards, it is imperative to clearly define the objective of standard-setting and prospective users.

Materiality

Given the prospective users as defined above, we believe the materiality concept should be designed such that it is ultimately linked to the corporate financial value. We are concerned that a double-materiality approach, which considers both materiality to a company and materiality to society as

two independent axes would increase the complexity of corporate reporting practices and could bring confusion to both preparers and users.

We believe that the materiality of information for corporate value should be assessed not only from a viewpoint of the impact on short-term financial performance but also from a viewpoint of creating medium- to long-term corporate value with a longer time horizon. Existing five organizations, which act as primary standard-setters for non-financial information (CDP, CDSB, GRI, IIRC and SASB), have presented the concept of dynamic materiality, which clearly demonstrates the seamless connection of materiality in the contexts of financial accounting, non-financial reporting for investors, and non-financial reporting for multiple stakeholders. We expect this concept provides a stepping-stone for future discussions. Also, an ‘outside-in’ approach to SDGs, which looks at the effect on corporate value based on insights into social needs and issues, provides a useful implication that helps locate the point of connection between long-term corporate value creation and sustainability. We hope that the IFRS Foundation will have an in-depth discussion on ‘viewpoint’ and ‘process’ in defining the materiality concept relevant to long-term corporate value.

Note that the development of standards assuming future changes to the criteria for materiality measurement (i.e., first adopting the single materiality concept and later shifting to the double materiality concept) could bring confusion to practitioners, and therefore, should be avoided.

Question 10

Should the sustainability information to be disclosed be auditable or subject to external assurance? If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision-useful?
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Yes.

Need for securing reliability and credibility

From the viewpoint of supporting users’ decision-making, it is highly important to ensure the reliability and credibility of the information provided by companies. In developing standards, it is imperative to ensure that sustainability information is reliable and credible. It is also necessary to clarify from why reliability and credibility is considered necessary, as well as what mechanism is needed to ensure the quality.

We believe the following factors are important to make sure reliability and credibility of information:

- Media of disclosed information is organized and connectivity between relevant information is ensured;

- A set of high-quality and consistent standards for preparation of information is in place;
- Information is made available through robust corporate governance and internal control; and
- Information is assured by a third party with sufficient expertise.

Ensuring assurability

We believe that external assurance is highly effective in ensuring the reliability of information. We therefore believe it is desirable in the future that assurance service will be provided to non-financial information in conjunction with the audit of financial statements. The SSB’s standard-setting approach, therefore, should be designed in a manner to ensure the assurability of sustainability information. The International Auditing and Assurance Standards Board (IAASB) has already worked out the criteria for providing assurance to non-financial information, such as ISAE3000, and is developing guidelines for assurance on *Extended External Reporting* (EER). From the assurability point of view, we strongly hope that the SSB and the IAASB work closely together.

Non-financial information includes the type of information that reflects not only past results but also the information that strongly reflects forward-looking information and the management’s perception and views. When preparing a structured report on non-financial information, it should be important to look into which aspects of the information need assurance by a third party based on the characteristics of respective information contained in the report. In our view, information in greater need of external assurance at this stage is information needing supporting evidences, such as KPIs and governance process information. We expect that the IFRS Foundation will identify the information categories for which the external assurance may be effective, and the scope of information for which the assurance service may well be provided based on discussions among key stakeholders.

Question 11
Stakeholders are welcome to raise any other comment or relevant matters for our consideration.

Comparability and relevance

In this Consultation Paper, we have noticed many statements highlighting importance of ‘comparability’ (whether information is sufficiently comparable). Although the paper does not necessarily make the definition of ‘comparability ‘ explicit, material sustainability information can differ depending on characteristics of companies.

In paragraph 45 of the Consultation Paper, it is noted that qualitative characteristics of the

Conceptual Framework for Financial Reporting could inform the qualitative characteristics useful in sustainability reporting, with which we agree. In the *Conceptual Framework for Financial Reporting*, comparability is stated as one of the enhancing qualitative characteristics that underpins the usefulness of financial information, and thus, relevance is considered as a higher-level concept. We expect that the IFRS Foundation will develop sustainability reporting standards based on the above recognition, bearing in mind not to undermine relevance or faithful representation by pursuing to achieve uniform comparability irrespective of the characteristics of companies.

It is assumed that the SSB specifies and defines metrics that companies should disclose. However, a uniform approach that requires all companies to disclose the same items could undermine the relevance of information. Although it is highly important to bring consistency to disclosure of indicators by companies, we expect that standard-setting will progress placing priority to providing information relevant to assess long-term corporate value.

Yours faithfully,

Takako Fujimoto

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The Japanese Institute of Certified Public Accountants