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International Sustainability Standards Board  
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## Comments on ISSB Request for Information “Consultation on Agenda Priorities”

The Japanese Institute of Certified Public Accountants (hereinafter the “JICPA,” “we,” “our,” and “us”) appreciates the ongoing efforts of the International Sustainability Standards Board (“ISSB”) and welcomes the opportunity to comment on the ISSB Request for Information *Consultation on Agenda Priorities* (the “RFI”).

### **1. Project Priorities**

We believe both Foundational Works and New Projects are important.

#### (1) Foundational Works: Development of Guidance Focused on Areas of a High Practical Need

Supporting the implementation of IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information*, and IFRS S2, *Climate-related Disclosure*, is essential to achieve smooth introduction of the ISSB standards into disclosure practices and to meet the needs of information users. However, it is unclear from the RFI what specific issues the ISSB intends to work on for the purpose of supporting entities’ implementation of the standards. As the ISSB has already incorporated guides on some important issues into the Accompanying Guidance in IFRS S1 and IFRS S2, we hope that the ISSB will publish a more detailed plan

describing the future development of additional guidance.

We recommend that the ISSB focuses the guidance development on those areas of high practical need considering the finite resources. For example, especially from the perspective of enhancing assurability of sustainability disclosure, there is a comparatively high need for guidance on assessing and making judgments required to apply IFRS S1 and IFRS S2. It includes the processes for identifying risks and opportunities and determining material information, including the involvement of those charged with governance, as well as the processes from climate scenario analysis via resilience assessment to financial impact assessment.

Considering that many organizations, including the JICPA, are pursuing capacity-building initiatives, we strongly expect the ISSB to focus on developing disclosure standards (including guidance) while actively leveraging other organizations' resources and acting solely as a catalyst for capacity-building initiatives.

## (2) New Projects: Establishing a Global Baseline for Comprehensive Sustainability Disclosures

The ISSB's mission is to establish a global baseline on sustainability standards. From this perspective, we strongly expect the ISSB to work expeditiously to develop sustainability standards other than climate. In particular, the impact envisaged by applying the European Corporate Sustainability Reporting Directive ("CSRD") will be significant for global companies. We recognize that many multinational companies are seriously considering disclosures under the European Sustainability Reporting Standards ("ESRS"), given that the CSRD will apply to non-EU companies from the year 2028 report. To achieve globally consistent sustainability disclosures for capital markets, we believe it is fundamentally important that the ISSB clarify the structure and basic elements of the global baseline as soon as possible and show how to achieve interoperability with the ESRS.

In addition, while IFRS S2 provides detailed requirements for climate change, no specific disclosure elements or metrics have been provided for other environmental and social topics. Although there are initiatives to enhance further international applicability of the Sustainability Accounting Standards Board ("SASB") standards, prolonged substantial reliance on references to the SASB standards, which were originally developed for use by U.S. companies, may lead to imbalance between

climate change and other sustainability-related topics. From the perspective of achieving the comprehensive sustainability disclosure required by the capital markets, we recommend that the ISSB promptly establish high-level disclosure requirements for sustainability-related topics other than climate change.

## **2. New Sustainability Theme-related Projects**

All four new project proposals are important from a sustainability disclosure perspective. However, the Human Capital project is particularly important if we prioritize among the three thematic projects.

Human capital is fundamental to creating value for all businesses and has significant social impacts. Like climate change, it is strongly connected to financial information and the area where the ISSB is more likely to develop a decision-useful disclosure standard for financial capital providers. There is a particular need to develop a standard for human capital disclosure in Japan, where the Financial Instruments and Exchange Act has introduced a disclosure requirement for human capital in Annual Securities Reports for the year ended March 31, 2023.

Biodiversity, Ecosystems, and Ecosystem Services (“BEES”) have been treated as a global sustainability crisis alongside climate change, and the Taskforce on Natural-related Financial Disclosure (“TNFD”) and other organizations have been discussing disclosure frameworks. We expect the ISSB to establish a relevant standard. However, the proposed project widely covers biodiversity and other individually critical topics, such as water, pollution, and a circular economy. It is questionable whether capturing all of these issues within the BEES framework is appropriate.

We recognize the feasibility challenge of pursuing multiple projects simultaneously on various topics with finite resources. It is more practical to develop principle-based standards that include high-level requirements in a specific time and add necessary granular requirements by drilling down the high-level requirements. In our view, this approach is a better strategy than developing standards consisting of more granular requirements over a more extended time from the perspective of establishing a global baseline for a wide range of sustainability topics. In addition, we hope the ISSB articulates a medium- to long-term vision and strategy that communicates the timeframe, scope, and granularity of standard-setting with its stakeholders as the ISSB is developing the global baseline.

### **3. Integration in Reporting**

Integration in Reporting is fundamental for enhancing the usefulness of corporate reporting, including sustainability disclosures, and achieving the ultimate goal of corporate reporting to support better decision-making in the capital markets. We strongly recommend that the IFRS Foundation places a high priority on this project. While IFRS S1 and IFRS S2 contain many specific requirements to enhance the interconnectivity of disclosure information, a more structured guideline for connective disclosure is needed to drive integrated reporting.

The disclosure requirements for the core contents of strategy, governance, and risk management included in IFRS S1 focus on the sustainability-related aspects. Entities are expected to disclose comprehensive information regarding companies' overall strategy, governance, and risk management in their annual reports and report on their sustainability aspects in combination with this wider information to meet the disclosure objective of being useful for user decision-making. As an international standards-setter for corporate disclosure, the Foundation should provide a framework of fundamental concepts, principles, and disclosure elements in corporate annual reporting, not limited to sustainability information, and make corporate disclosure meet the disclosure objective. We recommend that the IFRS Foundation establish its whole picture of corporate disclosure based on the Integrated Reporting Framework by reflecting the results of the discussion and feedback received in the Exposure Draft of IFRS Practice Statement 1, *Management Commentary*, and by ensuring consistency, including terminology, with IFRS S1 and IFRS S2.

Yours faithfully,

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The Japanese Institute of Certified Public Accountants

## Responses to consultation questions

### **Question 1—Strategic direction and balance of the ISSB’s activities**

Paragraphs 18–22 and Table 1 provide an overview of activities within the scope of the ISSB’s work.

- (a) From highest to lowest priority, how would you rank the following activities?
  - (i) beginning new research and standard-setting projects
  - (ii) supporting the implementation of ISSB Standards IFRS S1 and IFRS S2
  - (iii) researching targeted enhancements to the ISSB Standards
  - (iv) enhancing the Sustainability Accounting Standards Board (SASB) Standards
- (b) Please explain the reasons for your ranking order and specify the types of work the ISSB should prioritise within each activity.
- (c) Should any other activities be included within the scope of the ISSB’s work? If so, please describe these activities and explain why they are necessary.

We will respond to questions (a) and (b) as follows:

#### High priority projects

##### **(i) Beginning new research and standard-setting**

The mission of the International Sustainability Standards Board (“ISSB”) is to establish a global baseline on sustainability standards. In this regard, we strongly recommend that the ISSB works expeditiously to develop sustainability standards other than climate.

The impact of the Corporate Sustainability Reporting Directive (“CSRD”) on global companies is significant, and we recognize that not a few multinational companies are seriously considering disclosure in accordance with the European Sustainability Reporting Standards (“ESRS”), taking into account the application of the CSRD to non-EU companies from 2028. It is important to clarify the structure and basic elements of the baseline for sustainability standards as soon as possible and to show the way toward achieving interoperability with the ESRS for ensuring globally consistent sustainability disclosures for capital markets.

In addition, while IFRS S2 provides detailed requirements for climate change, no specific disclosure elements or metrics have been provided for other environmental and social topics. Although there are initiatives to enhance further international

applicability of the Sustainability Accounting Standards Board (“SASB”) standards, prolonged substantial reliance on references to the SASB standards, which were originally developed for use by U.S. companies, may lead to imbalance between climate change and other sustainability-related topics. From the perspective of achieving the comprehensive sustainability disclosure required by the capital markets, we recommend that the ISSB promptly establish high-level disclosure requirements for sustainability-related topics other than climate.

**(ii) Supporting the implementation of the ISSB standards (IFRS S1 and IFRS S2)**

The supporting implementation of IFRS S1 and IFRS S2 is essential to achieve smooth introduction of the ISSB standards into disclosure practices and to meet the needs of information users. However, it is unclear in the Request for Information (“RFI”) what specific works the ISSB intends to support in implementing the standards. As the ISSB has included critical guidance as the Accompanying Guidance in IFRS S1 and IFRS S2, we hope that the ISSB releases a more detailed plan to clarify future guidance developments.

We also recommend that the ISSB focuses the development of guidance on those areas of high practical need with finite resources. For example, from the perspective of providing assurance services, there is a comparatively high need for guidance on assessing and making judgments required to apply IFRS S1 and IFRS S2. It includes the processes for identifying risks and opportunities and determining material information, including the involvement of those charged with governance (“TCWG”) and the processes from climate scenario analysis via resilience assessment to financial impact assessment.

Considering many organizations, including the JICPA, are pursuing capacity-building initiatives. We strongly expect the ISSB to focus on developing disclosure standards, including guidance, while actively leveraging other organizations’ resources and acting solely as a catalyst for capacity-building initiatives.

Medium-priority projects

**(iii) Enhancing SASB standards**

We understand that the proposed amendment approach enhancing the international applicability of the SASB standards aims at generalizing jurisdictional-specific references of the SASB metrics by replacing them with internationally applicable

references. However, it does not intend to further enhance the global relevance of the disclosure topics and metrics of the SASB standards. Industry-specific sustainability-related financial disclosures should include disclosure topics and metrics requirements relevant to each industry's sustainability-related risks and opportunities globally.

A process of dialogue and consensus-building with a broad range of stakeholders is essential to reach an international consensus on such prescriptive industry-specific standards. Monitoring results on disclosure practices after the implementation of IFRS S1 and the SASB Standards that have enhanced international applicability will provide the basis for this process. The two years covered by this agenda consultation should be a period of monitoring and surveying industry-specific disclosure practices based on the enhanced SASB standards rather than a period of actively refining the SASB standards.

We propose the following approach concerning the ISSB's development of globally acceptable industry-specific standards.

- Conduct future work on industry-specific standards as a project to develop industry-specific IFRS Sustainability Disclosure Standards rather than as a refinement of the SASB standards. Although the SASB standards provide the basis for the industry-specific standards, it is important to promote an approach that emphasizes the development of new standards rather than the continuity of the SASB standards from the perspective of demonstrating the ISSB's commitment to developing standards that ensure global applicability.
- Comprehensively review the application of the SASB standards in each sector and industry, particularly the sectors and industries, as well as the disclosure topics and metrics identified for disclosure by the companies after a certain period following the issuance and implementation of IFRS S1.
- In addition, conduct basic research on the industry classifications in the ISSB's industry-specific disclosure standards and the granularity of the disclosure requirements.

#### Low priority projects

##### **(iv) Researching targeted enhancements to ISSB standards**

The ISSB has just issued IFRS S2, and even though the topic of just transition is important, it is premature to work on expanding IFRS S2. The just transition is also

an issue closely related to biodiversity and human rights, and the ISSB should consider this issue based on the discussions on these other sustainability-related topics.

**Question 2—Criteria for assessing sustainability reporting matters that could be added to the ISSB’s work plan**

Paragraphs 23–26 discuss the criteria the ISSB proposes to use when prioritising sustainability-related reporting issues that could be added to its work plan.

- (a) Do you think the ISSB has identified the appropriate criteria?
- (b) Should the ISSB consider any other criteria? If so what criteria and why?

(a) We agree with the proposed criteria.

(b) There are no specific criteria the ISSB should consider.

**Question 3—New research and standard-setting projects that could be added to the ISSB’s work plan**

Paragraphs 27–38 provide an overview of the ISSB’s approach to identifying sustainability-related research and standard-setting projects. Appendix A describes each of the proposed projects that could be added to the ISSB’s work plan.

- (a) Taking into account the ISSB’s limited capacity for new projects in its new two-year work plan, should the ISSB prioritise a single project in a concentrated effort to make significant progress on that, or should the ISSB work on more than one project and make more incremental progress on each of them?
  - (i) If a single project, which one should be prioritised? You may select from the four proposed projects in Appendix A or suggest another project.
  - (ii) If more than one project, which projects should be prioritised and what is the relative level of priority from highest to lowest priority? You may select from the four proposed projects in Appendix A or suggest another project (or projects).

(a) As we replied regarding question 1, we strongly recommend that the ISSB work expeditiously on developing non-climate sustainability standards. The ISSB will ultimately establish a global baseline for sustainability standards and the EU is developing comprehensive sustainability standards covering major sustainability



topics other than climate. It is critical that the ISSB completes the development of principles-based, high-level disclosure requirements for key sustainability topics by 2028 when the CSRD will be applied to non-EU entities.

Given this recognition, we are concerned that if the ISSB drives the single project for these sustainability topics, the ISSB will not be able to achieve the goal of evolving disclosure practices and utilization of sustainability information in a rapid, comprehensive, and integrated manner to meet the needs of the global capital markets. We strongly recommend that the ISSB work on multiple projects in parallel while maintaining some focus to promptly respond to international calls for the development of a comprehensive and integrated global baseline of sustainability standards.

We consider all four proposed new projects to be necessary for achieving the objectives of the sustainability disclosure. However, if we were to prioritize them, we would consider the Human Capital project particularly important among the three thematic research projects.

Human capital is fundamental to creating value for all businesses and has significant social impacts. Like climate change, it is strongly connected to financial information and the area where the ISSB is more likely to develop a decision-useful disclosure standard for financial capital providers. There is a particular need to develop a standard for human capital disclosure in Japan, where the Financial Instruments and Exchange Act has also introduced a disclosure requirement for human capital in Annual Securities Reports for the year ended March 31, 2023.

We believe that the Integration in Reporting is different in nature from other thematic projects. We strongly encourage the IFRS Foundation to undertake this project to enhance the usefulness of corporate reporting, including sustainability disclosures, and achieve the ultimate goal of corporate reporting to support better decision-making in the capital markets.

<b>Question 4—New research and standard-setting projects that could be added to the ISSB’s work plan: Biodiversity, ecosystems and ecosystem services</b>
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The research project on biodiversity, ecosystems and ecosystem services is described in paragraphs A3–A14 of Appendix A. Please respond to these questions:
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- (a) Of the subtopics identified in paragraph A11, to which would you give the highest priority? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors.

You may also suggest subtopics that have not been specified. To help the ISSB analyse the feedback, where possible, please provide:

- (i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and
- (ii) your view on the importance of the subtopic with regard to an entity's sustainability-related risks and opportunities and the usefulness of the related information to investors.

- (b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.

- (c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB's focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A13 should be utilised and prioritised by the ISSB in pursuing the project? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified. You can suggest as many materials as you deem necessary. To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

- (a) For Biodiversity, Ecosystems, and Ecosystem Services (“BEES”), biodiversity has become a global sustainability crisis alongside climate change, and the Taskforce on

Natural-related Financial Disclosure (“TNFD”) and other organizations have been developing disclosure frameworks for natural capital. We expect that the ISSB will establish a relevant standard in this area. However, the proposed project widely covers biodiversity and other individually important topics, such as water, pollution, and a circular economy. It is questionable whether capturing all of these issues within the BEES framework is appropriate.

We agree on the approach that an entity assesses risks and opportunities by covering a wide range of environmental topics related to natural capital through the lens of biodiversity, a comprehensive system, and evaluating their impacts. However, environmental topics such as water and pollution are not only ecosystem- and biodiversity-related risks and opportunities but also direct business risks and opportunities for an entity. For example, they include risks associated with health hazards of pollution to local residents and opportunities to create businesses that solve resource depletion and contribute to a circular economy. When researching these topics, the ISSB should clarify the disclosure objectives for each key subtopic and identify the disclosure information needed to achieve these objectives.

In addition, the name of BEES may overemphasize aspects related to biodiversity. We recommend treating the project as a natural capital project, as in the case of the TNFD.

It is difficult to prioritize these subtopics because the materiality of the proposed subtopics regarding corporate value varies greatly depending on the entity’s industry, operating region, and business model, and there are strong interrelationships among them, such as water and land use, water and pollution, land use and pollution, and pollution and resource recycling.

However, invasive non-native species may be a relatively subordinate priority because of the relatively lower interrelationship with other subtopics and the limited number of relevant industries.

- (b) For example, the risks and opportunities associated with the availability of water resources and the impacts of wastewater and its pollution are generally heightened when:
- An entity belongs to industries that are highly dependent on water resources,

- An entity operates in areas with highly depleted water resources,
- Alternative options are very limited or impracticable, or
- Strict regulations are in place in regions where an entity operates.

The same situation applies to forest resources, air, soil, and other resources. Regional characteristics are generally reflected more strongly than climate change. By contemplating such features, the TNFD adopts an approach that considers impacts by location (i.e., LEAP approach), which is reasonable.

- (c) We recommend the following as prioritized references for the project:
- (i) TNFD Framework
  - (ii) Climate Disclosure Standards Board (“CDSB”) Framework application guidance for biodiversity- and water-related disclosures
  - (iii) SASB Standards
  - (iv) Relevant standards in the ESRS

The frameworks and standards listed as (i) to (iii) have been developed to contribute to investors’ decision-making. The ESRS should be considered in developing the ISSB standards to ensure interoperability. However, it is necessary to note that the ESRS is a set of standards with the double-materiality concept.

The TNFD Framework is a comprehensive framework for natural capital and is expected to provide a basis for the ISSB to develop standards with a similar scope. Some are concerned that the LEAP approach takes an impact-based approach to determining disclosure information and may ultimately blur the boundary with the concept of double materiality. However, the TNFD framework can lead to more effective identification of risks and opportunities related to natural capital while ensuring consistency with the ISSB’s objectives and the basic concept of identifying sustainability-related risks and opportunities under IFRS S1. This situation will be achievable by clarifying that “materiality” from the perspective of an entity’s sustainable value creation and investor’s usefulness in decision-making is the basis for identifying disclosure information.

Climate-related impacts are measurable through various metrics related to greenhouse gas emissions and other emissions-related indicators. As a result, there is no need to identify and evaluate impacts individually in climate disclosure (i.e., this

process can be virtually eliminated). In contrast, there are no such clear metrics for other natural capital-related topics, and impact considerations are necessary. That is, considering impacts is key for the companies to identify and assess sustainability-related risks and opportunities and decide material information for disclosure for natural capital other than climate. We suggest that the ISSB work on the issue of considering impact by ensuring linkage and consistency with the materiality requirements in IFRS S1.

**Question 5—New research and standard-setting projects that could be added to the ISSB’s work plan: Human capital**

The research project on human capital is described in paragraphs A15–A26 of Appendix A. Please respond to the following questions:

- (a) Of the subtopics identified in paragraph A22, to which would you give the highest priority? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors.

You may also suggest subtopics that have not been specified. To help the ISSB analyse the feedback, where possible, please provide:

- (i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and
- (ii) your view on the importance of the subtopic with regard to an entity’s sustainability-related risks and opportunities and the usefulness of the related information to investors.

- (b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.

- (c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the

project, while taking into consideration the ISSB's focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A25 should be prioritised by the ISSB in pursuing its research? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified. You can suggest as many materials as you deem necessary. To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

- (a) The subtopics listed in paragraph A22 are all important and difficult to prioritize. Although paragraph A23 of the RFI identifies Diversity, Equity, and Inclusion (“DEI”) as an initial research priority, we oppose treating DEI as a separate human capital issue. An entity’s human capital policies are comprehensive, and DEI policies and performance should be evaluated together with other human capital policies and performance.
- (b) While an entity’s human capital policies vary by industry, business model, and region of operation, we believe that high-level disclosure topics such as DEI, recruitment, human capital development, and retention/liquidity, as well as the types of metrics related to them, are common across industries and regions. On the other hand, an entity’s human capital policies and strategies strongly influence individual human capital metrics. Accordingly, the appropriate metrics representing the entity’s human capital risks, opportunities, and performance may differ even if the reporting entity’s industry and location are the same.
- (c) We recommend the following as prioritized references for the project:
  - (i) CDSB Framework (Human Capital Guidance)
  - (ii) International Integrated Reporting Framework
  - (iii) ESRS
  - (iv) Global Reporting Initiative (“GRI”)

Although there are no comprehensive disclosure standards, the ISSB can use the above frameworks and standards. In particular, the ESRS and the GRI contain extensive disclosure topics related to human capital. We hope the ISSB makes the standard meet the needs of financial capital providers, such as investors, while

ensuring interoperability, as mentioned in the question on BEES.

**Question 6—New research and standard-setting projects that could be added to the ISSB work plan: Human rights**

The research project on human rights is described in paragraphs A27–A37 of Appendix A. Please respond to these questions:

- (a) Within the topic of human rights, are there particular subtopics or issues that you feel should be prioritised in the ISSB’s research? You can suggest as many subtopics or issues as you deem necessary. To help the ISSB analyse the feedback, where possible, please provide:
- (i) a short description of the subtopic (and the associated sustainability-related risks and opportunities); and
  - (ii) your view on the importance of the subtopic with regard to an entity’s sustainability-related risks and opportunities and the usefulness of the related information to investors.
- (b) Do you believe that sustainability-related risks and opportunities related to this topic are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will either be (i) substantially different or (ii) substantially the same across different industries, sectors or geographic locations.

- (c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB’s focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A36 should be prioritised by the ISSB in pursuing its research? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified. You can suggest as many materials as you deem necessary. To help

the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

Subtopics related to the human rights of own employees, such as health and safety, equity, fair wages, and harassment, can also relate to human capital. Similarly, subtopics related to workers' rights and practices in an entity's value chain may fall under human capital.

Human capital and human rights within an entity and throughout its value chain are two sides of the same coin. For example, when viewed from the perspective of corporate value creation, issues related to an entity's own employees are called human capital. When viewed from the perspective of workers' rights, they are called human rights. An entity should discuss them and prepare disclosures in an integrated manner. Also, it is vital that the subtopics be comprehensively studied and incorporated into disclosure standards rather than picking up specific sub-topics, as mentioned in the question on human capital.

Community rights are a topic encompassed by social and relationship capital and should be treated separately from human capital when discussing disclosures.

**Question 7—New research and standard-setting projects that could be added to the ISSB's work plan: Integration in reporting**

The research project on integration in reporting is described in paragraphs A38–A51 of Appendix A. Please respond to the following questions:

- (a) The integration in reporting project could be intensive on the ISSB's resources. While this means it could hinder the pace at which the topical development standards are developed, it could also help realise the full value of the IFRS Foundation's suite of materials. How would you prioritise advancing the integration in reporting project in relation to the three sustainability-related topics (proposed projects on biodiversity, ecosystems and ecosystem services; human capital; and human rights) as part of the ISSB's new two-year work plan?
- (b) In light of the coordination efforts required, if you think the integration in reporting project should be considered a priority, do you think that it should be advanced as a formal joint project with the IASB, or pursued as an ISSB project (which could still draw on input from the IASB as needed without being a formal joint project)?
  - (i) If you prefer a formal joint project, please explain how you think this should be conducted and why.



- (ii) If you prefer an ISSB project, please explain how you think this should be conducted and why.
- (c) In pursuing the project on integration in reporting, do you think the ISSB should build on and incorporate concepts from:
  - (i) the IASB's Exposure Draft *Management Commentary*? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.
  - (ii) the Integrated Reporting Framework? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.
  - (iii) other sources? If you agree, please describe the source(s) and any particular concepts that you think the ISSB should incorporate in its work.
- (d) Do you have any other suggestions for the ISSB if it pursues the project?

- (a) Integration in Reporting is a fundamental issue from the perspective of enhancing the usefulness of corporate reporting, including sustainability disclosures and achieving the ultimate objective of corporate reporting to support better decision-making in the capital markets. We firmly expect the IFRS Foundation to take this project seriously. While IFRS S1 and IFRS S2 contain many specific requirements to enhance the interconnectivity of disclosure information, a more structured guideline for connective disclosure is needed to drive integrated reporting.

The disclosure requirements for strategy, governance, and risk management included in IFRS S1 cover only sustainability-related aspects. Entities are expected to disclose entity-wide information regarding strategy, governance, and risk management in their annual reports and report on their sustainability aspects in combination with this entity-wide information to meet the disclosure objective of being useful for user decision-making. As an international standards-setter for corporate disclosure, we hope the IFRS Foundation will provide a whole picture of concepts, principles, and elements in reporting for annual reports, not limited to sustainability information, and make corporate disclosure meet the objective of disclosure objective.

- (b) The initial phase of the Integration in Reporting project should focus on enhancing the coherence of disclosures outside financial statements and improving the connectivity with financial statement disclosures. In this regard, the ISSB should take

ownership of this project.

We expect the IFRS Foundation to deliver tangible outputs from this project within a given timeframe, such as guidance on connective disclosure and an updated version of the Integrated Reporting Framework. In this regard, ownership of the project within the IFRS Foundation needs to be clarified to make the project intensive and meaningful.

Many issues related to Integration in Reporting are primarily subject to reporting outside financial statements and are more relevant to the sustainability disclosure standards the ISSB addresses. This situation is also reflected in the fact that financial statements are not included in the information addressed by the Exposure Draft (“ED”) Practice Statement *Management Commentary*. Sustainability reporting, for which the ISSB develops standards, is often disclosed in the management commentary of an entity’s annual report. ISSB’s ownership over the Management Commentary project will be a better way to clearly distinguish the information that the IASB and the ISSB cover in their respective standards development. It will also reduce complexity in standard-setting.

However, we do not underestimate the IASB’s role in the Integration in Reporting project. We hope that the IASB’s views will be fully reflected in this project by having some IASB members participate in the ISSB’s working groups and seeking the IASB’s advice on the project’s policies and outcomes. In addition, we expect the ISSB and the IASB to work more closely together in the longer term, for example, through joint projects and the establishment of a liaison body for the joint projects.

- (c) We propose the following points on which the Integration in Reporting project can build.

#### Fundamental Concepts Related to the Reporting Subject Matter (Sustainable Value Creation)

- We understand that the Integrated Reporting Framework articulates the concept of sustainable value creation as a reporting subject matter and that IFRS S1 also references this concept. This fundamental concept will be the basis for the project. Some descriptions in the ED *Management Commentary* are referable to express the relationship with the financial statements (i.e., complementary

relationship between financial statements and management commentary including sustainability disclosure).

#### Guiding Principles and Qualitative Characteristics

- The Guiding Principles of the Integrated Reporting Framework describe the underlying attitude required to a preparer in corporate reporting, such as strategic focus and future orientation, connectivity of information, and stakeholder relationships.
- The “attributes that can make that information more useful” of the ED *Management Commentary* describe characteristics that enhance the quality of disclosure information (Qualitative Characteristics), such as completeness, balance, and accuracy, in a manner consistent with the Conceptual Framework for Financial Reporting.
- We believe that both Guiding Principles and Qualitative Characteristics are essential and should be integrated and reorganized as guiding principles and qualitative characteristics.

#### Elements of Disclosure Information

- In many respects, the contents have much in common with the Integrated Reporting Framework and the ED *Management Commentary*, and we do not see any significant difficulties in integrating the two.
- One difference, however, is that the Integrated Reporting Framework covers governance as a reporting element, but the ED *Management Commentary* does not. Governance is a key element of corporate reporting practice and is treated as critical information in investors’ decision-making.
- The ISSB also requires reporting on governance related to sustainability as core content, and it is essential to establish a general requirement for holistic governance information that encompasses sustainability-related governance information in order to ensure the value of corporate reporting that the ISSB advocates. We hope this project will build on the high-level governance disclosure requirements in the Integrated Reporting Framework and include governance-related disclosure requirements that reflect the most recent discussions<sup>1</sup>.

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<sup>1</sup> One example is the disclosure requirements in the International Corporate Governance Network (ICGN) Global Governance Code.

#### Determination of Disclosure Information

- We support the ED *Management Commentary* approach, which focuses on key matters and requires entities to identify key matters and then disclose material information about them. This approach is consistent with the approach in IFRS S1 to identify sustainability-related risks and opportunities and disclose only material information. However, they use different terminologies to this subject of disclosure, i.e., the ED *Management Commentary* uses key matters whereas IFRS S1 uses sustainability-related risks and opportunities. We believe the relationship between these statements needs to be reorganized and clarified.

#### Statement of Compliance, Comply-or-Explain Approach

- Both the Integrated Reporting Framework and the ED *Management Commentary* consistently adopt a comply-or-explain approach, which clarifies high-level requirements through a principles-based approach and requires explanations to information users when there are deviations from those requirements. We hope that this project will continue the approach.

#### Role of Those Charged with Governance

- In recent years, the roles and responsibilities of the TCWG, represented by the board of directors, have become increasingly important in corporate reporting, which provides a comprehensive picture of corporate value creation. We expect this project to address the requirement in the Integrated Reporting Framework for a TCWG's statement on reporting. It will clarify that corporate reporting reflects the views of the TCWG and that ensures integrity supported by governance and internal controls.

<b>Question 8—Other comments</b>
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Do you have any other comments on the ISSB's activities and work plan?
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No comments on this question.