30 October 2026

The Japanese Institute of Certified Public Accountants

Comments on the Exposure Draft ESRS for Certain Non-EU Undertakings in Accordance with Article 40a of the Accounting Directive

To the Chair of the EFRAG Sustainability Reporting Board

PART 2 – SURVEY QUESTIONS – HIGH LEVEL FEEDBACK

Question 21
Do you agree with the way EFRAG has implemented the provisions of the Accounting Directive (Articles 40a–40d), particularly in deleting RORD-related disclosures and financial effects, as well as maintaining financial information that provides useful contextual information to understand impacts and how they are managed? [ ] Yes. [ ] No.

Response to Question 21

[X] Yes

Question 24
i. If yes, Please specify why

Response to Question 24

We understand EFRAG's approach of removing RORD-related disclosures to position ESRS-40a as an impact-focused reporting standard. At the same time, given the CSRD's double materiality objective, it is important to recognise and permit reporting practices that include RORD-related information.

In Japan, a mandatory sustainability disclosure regime based on the Sustainability Standards Board of Japan ("SSBJ") Standards, which are functionally aligned with the ISSB Standards, has also been introduced. Consequently, many undertakings that will be subject to ESRS-40a are expected to prepare both SSBJ-based disclosures and ESRS-40a sustainability reports. Accordingly, it is important to minimise, to the greatest extent possible, any additional burden arising from duplicative disclosures.

We therefore believe that further improvements are needed with respect to the approach to interoperability between disclosures prepared in accordance with the ISSB Standards (which, for the purposes of this submission, include jurisdictional standards aligned with the ISSB Standards) and ESRS-40a sustainability reporting. Specifically, we recommend three measures:

1. Where disclosures prepared in accordance with the ISSB Standards substantively satisfy disclosure requirements that are common to both standards (for example, sustainability-related governance disclosures), undertakings should not be required to reproduce or reorganise such information solely for ESRS-40a reporting.
2. RORD-related disclosures under the ISSB Standards should not fall within the scope of paragraph 112 of ESRS-40a 1. As explained in BC75, including RORD-related information is closer to sustainability reporting based on a full double materiality assessment and is consistent with the objectives of the CSRD, which requires integrated disclosure of impacts, risks, and opportunities.
3. The additional requirements introduced by ESRS-40a beyond the ISSB Standards should be clearly identifiable. For example, mapping guidance explaining the differences between the ISSB Standards and ESRS-40a, together with additional requirements unique to ESRS-40a, including both topic-specific and general disclosure requirements, would significantly facilitate implementation by reporting undertakings.

Question 25
Do you support the inclusion of a 'mixed approach' option in the ESRS-40a ED, which allows limiting disclosures to EU-related impacts only for some topics? [ ] Yes. [ ] No.

Response to Question 25

[X] Yes

Question 26
i. Please select from this list of reasons (choose one or more) (If Yes): [ ] It captures impacts that have a link with the EU. [ ] It provides a proportionate approach to third-country groups without imposing excessive costs connected to global reporting for all topics. [ ] It provides relevant information thanks to the condition in AR 6 for paragraph 29 (ESRS-40a 1 ED). [ ] It does not impair comparability and auditability of sustainability reporting. [ ] Other reasons (please specify)

Response to Question 26

[X] It provides a proportionate approach to third-country groups without imposing excessive costs connected to global reporting for all topics.

Question 28
ii. Please explain your reasoning and, if applicable, provide suggested improvements.

Response to Question 28

In Japan, a mandatory sustainability disclosure regime has been introduced based on the SSBJ Standards, which are functionally aligned with the ISSB Standards. Consequently, many entities that will be subject to ESRS-40a are expected to prepare both SSBJ-based disclosures and ESRS-40a reports. Therefore, it is desirable to minimise, to the greatest extent possible, any additional burden arising from duplicative reporting requirements.

From this perspective, we support the introduction of a mixed approach, which would permit disclosures on topics other than climate change to be limited to EU-related impacts, as this would provide a more proportionate reporting approach for third-country undertaking groups.

However, for a mixed approach to be effective, it is essential that the conditions for its application are clear, that it can be applied without undue cost or effort, and that assurability is ensured. Accordingly, paragraphs 28 and 29 and AR 6 of ESRS-40a 1 should strike an appropriate balance between practicability and assurability. If these conditions are not met, a lack of assurability could lead to uncertainty and inconsistent application in practice.

For specific concerns and recommendations on this matter, please refer to our responses to Questions 31 and 32 and Questions 51 to 54.

Question 31
Definition of EU-related impacts. Paragraph 28(a) of the ESRS-40a 1 ED refers to EU-related impacts (customer component) as: ‘impacts that arise from products and services that were or can be reasonably assumed to be sold or provided in the EU market, including by third parties (downstream value chain actors such as distributors and traders)’. Do you agree with this formulation, which remains at the principles-based level? [ ] Yes. [ ] No.

Response to Question 31

[X] No

Question 32
Please recommend alternative factors to be considered by the undertaking that could be included in the Standard.

Response to Question 32

We support the principles-based definition based on impacts that arise from products or services that were or can be reasonably assumed to be sold or provided in the EU market. However, this definition alone may not ensure consistent application in practice. Additional clarification of considerations and application guidance would support the identification of products or services sold or provided in the EU market.

1. Challenges in determining the EU market

It is not always clear whether the assessment of products or services being sold or provided in the EU market should be based on the location of the contractual counterparty, the recipient of the products or services, or their ultimate destination, use, or consumption. This issue may arise where the location of the contractual counterparty differs from the ultimate destination, use, or consumption of the products or services. The timing of the assessment may also be unclear where the ultimate destination is not known at the time of production.

2. Challenges relating to value chain traceability

Products may be sold through intermediaries or incorporated into other products. While paragraph 28(a) refers to situations involving third parties, it is unclear to what extent undertakings are expected to trace products through the downstream value chain. This may be particularly challenging where products pass through multiple intermediaries or are incorporated into a variety of end products.

To address these challenges, the relevant requirements should be clarified, and additional application guidance and illustrative examples should be provided to promote consistent implementation in practice and enhance assurability.

In addition, it should be clarified that the provisions relating to proportionality (paragraphs 98–100), materiality (paragraphs 36–37), reliefs for acquisitions and disposals (paragraphs 79–80), and reliefs where information is unavailable (paragraphs 95–97) in ESRS-40a 1 should also be available when applying a mixed approach.

PART 3 – SURVEY QUESTIONS – DETAILED FEEDBACK

Question 47
Do you agree with the flexible formulation of the option, which allows companies to choose the scope of reporting (global or EU-related impacts) at topic, sub-topic or group-of-impacts level, irrespective of how other topics, sub-topics or groups of impacts within the same topic are treated? [ ] Yes. [ ] No.

Responses to Question 47

[X] Yes

Question 48
i. Please explain

Responses to Question 48

An undertaking may manage its impacts differently at the topical, sub-topical, or group-of-impacts level. Therefore, there is no compelling reason to require the scope of reporting for EU-related impacts to be determined solely at the topical level.

On the other hand, frequent changes in the scope of reporting may impair the usefulness of disclosed information. We consider it appropriate to permit changes in the scope of reporting only when there are justifiable grounds and to require disclosure of the effects of such changes.

Question 51
For preparers and assurance providers, do you anticipate implementation challenges when applying the mixed approach? [ ] Yes. [ ] No.

Response to Question 51

[X] Yes

Question 52
i. If "Yes.", please select one or more of the following. [ ] How to demonstrate the condition in AR 6 for paragraph 29 of ESRS-40a 1 ED [ ] How to identify the products and services that were or can be reasonably assumed to be sold or provided in the EU market, including by third parties; [ ] How to perform a materiality assessment focused on EU-related only impacts (chapter 3 of

ESRS-40a 1 ED)

[ ] How to report on policies, actions and targets for EU-related impacts

[ ] How to identify the most appropriate allocation key and report on metrics

[ ] How to report in accordance with ESRS-40a 2 ED.

[ ] How to report in accordance with ESRS-40a E2 ED

[ ] How to report in accordance with ESRS-40a E3 ED

[ ] How to report in accordance with ESRS-40a E4 ED

[ ] How to report in accordance with ESRS-40a E5 ED

[ ] How to report in accordance with ESRS-40a S1 ED

[ ] How to report in accordance with ESRS-40a S2 ED

[ ] How to report in accordance with ESRS-40a S3 ED

[ ] How to report in accordance with ESRS-40a S4 ED

[ ] How to report in accordance with ESRS-40a G1 ED

[ ] Providing transparency on the use, assumptions and results of the mixed approach (paragraph 4(a), AR 1 for paragraph 4(a) of ESRS-40a 2 ED)

[ ] Others - Write In: _____

Response to Question 52

[X] How to demonstrate the condition in AR 6 for paragraph 29 of ESRS-40a 1 ED

[X] How to identify the products and services that were or can be reasonably assumed to be sold or provided in the EU market, including by third parties;

[X] How to perform a materiality assessment focused on EU-related only impacts (chapter 3 of ESRS-40a 1 ED)

[X] How to identify the most appropriate allocation key and report on metrics

[X] How to report in accordance with ESRS-40a 2 ED

[X] Providing transparency on the use, assumptions and results of the mixed approach (paragraph 4(a), AR 1 for paragraph 4(a) of ESRS-40a 2 ED)

Question 53
ii. Please explain why and, if applicable, suggest improvements.

Responses to Question 53 for each challenge selected in Question 52

[X] How to demonstrate the condition in AR 6 for paragraph 29 of ESRS-40a 1 ED

It is unclear whether the conditions set out in points (a) and (b) following “aligned with” in paragraph 29 of ESRS-40a 1 are mandatory requirements for meaningful identification or merely factors to be considered. We suggest clarifying the nature of these requirements through the use of phrases such as “shall” or “shall consider.”

Challenges may also arise in determining reporting boundaries. For example, an undertaking may manage its EU and non-EU operations, such as those in the United Kingdom and Türkiye, as an integrated regional business, with its business and value chain managed on a broader regional basis (e.g., “Europe” or “EMEA”) rather than on an EU-only basis. Requiring new management boundaries or data collection processes solely for the mixed approach could impose undue costs and increase reliance on allocations and estimates, thereby increasing uncertainty in reported information.

We therefore suggest permitting an intermediate boundary between a global and an EU-only boundary, provided that the undertaking clearly explains the boundary, its scope, assumptions, and limitations, and that it reflects the undertaking’s actual management structure.

Such an approach would still provide information on impacts on people and the environment in the EU while simultaneously reducing additional data collection burdens and reliance on estimates. This would also better reflect the undertaking’s actual management of its business and value chain and enhance assurability by enabling the use of existing management structures, internal controls, and reporting processes.

This intermediate boundary would serve as an alternative to an EU-only boundary. Disclosure of contextual information regarding the scale of EU activities would also support user understanding. In addition, changes in reporting boundaries could be limited to situations with justifiable grounds, together with disclosure of the reasons for, and effects of, such changes.

[X] How to identify the products and services that were or can be reasonably assumed to be sold or provided in the EU market, including by third parties

As discussed in our response to Question 32, identifying customer-based impacts under paragraph 28(a) of ESRS-40a 1 involves challenges relating to determining the EU market and defining the scope of value chain traceability. We therefore believe that implementation support, including clarification of the relevant requirements and additional application guidance and illustrative examples, is needed.

[X] How to perform a materiality assessment focused on EU-related only impacts (chapter 3 of ESRS-40a 1 ED)

With respect to the materiality assessment under a mixed approach, BC51 explains that products and services that are sold or provided in the EU market should first be identified, followed by an assessment of EU-related impacts. However, this approach is not explicitly reflected in the requirements of ESRS-40a. As this is important for understanding the application of a mixed approach, we suggest making this approach explicit in the requirements.

[X] How to identify the most appropriate allocation key and report on metrics

For EU-related impacts identified on a customer basis under paragraph 28(a) of ESRS-40a 1, the measurement and aggregation of relevant metrics are likely to extend to manufacturing facilities and other operations located outside the EU. Relevant metrics may include E2-4, E2-5, E3-4, E4-5, E5-4, and E5-5.

These metrics are often measured at the level of a facility, operation, or the value chain as a whole and are not directly linked to products or services sold or provided to the EU market. Allocation or estimation may be needed to derive metrics relating to EU-related impacts.

Various allocation keys could be used, such as revenue, shipment volume, production volume, or sample-based intensity factors. However, the results may vary significantly depending on the allocation key selected. For example, revenue-based and weight-based allocation methods could produce substantially different results for high-value but lightweight products, and the most appropriate allocation key may depend on the metric and impact concerned.

We understand that AR46 and AR47 of ESRS-40a 2 GDR-M envisage the use of allocation keys when estimating metrics. However, limited guidance is provided on which allocation approaches are most appropriate for different types of metrics. Accordingly, significant variation in practice may arise across undertakings, and the appropriateness of allocation keys may also create assurance challenges.

To address these challenges, although detailed and prescriptive calculation rules may not be necessary, we suggest that ESRS-40a or related guidance provide illustrative allocation keys and guidance on their applicability. In addition, we recommend clarifying that such an approach is considered acceptable where an undertaking transparently explains the allocation key and estimation method used, together with the underlying assumptions and limitations. This would support the implementation and assurance for both undertakings and assurance providers.

[X] How to report in accordance with ESRS-40a 2 ED

The application of certain Application Requirements in ESRS-40a 2 relating to a mixed approach may be challenging in practice. Examples include AR11 (governance-related information), AR12 (incentive schemes), AR20 (interaction between material impacts and strategy and business model), and AR51 (targets).

These Application Requirements may be read as assuming the existence of governance and management processes that are specifically dedicated to EU-related impacts. Such arrangements may exist where an undertaking applies an intermediate boundary that reflects its actual management structure, as discussed above. However, the existence of such governance and management arrangements should not be regarded as a prerequisite for the meaningful identification

of EU-related impacts.

Accordingly, these Application Requirements should either be revised so that they can be applied even where no separate governance and management arrangements exist for EU-related impacts, or be made optional.

[X] Providing transparency on the use, assumptions and results of the mixed approach (paragraph 4(a), AR 1 for paragraph 4(a) of ESRS-40a 2 ED)

We suggest providing additional guidance regarding the meaning of "resulting level of accuracy of the estimates" required by AR1 of ESRS-40a 2 and the related disclosure expectations. It is not entirely clear whether this refers to estimation uncertainty, the reliability of the estimation method, or the potential difference between estimates and future actual outcomes. Nor is it clear whether undertakings are expected to disclose quantitative error ranges or provide qualitative explanations of limitations and sensitivities. Clarification of the expected content and level of disclosure is therefore needed.

Question 66
Do you agree with the presentation requirements in ESRS-40a ED? [ ] Yes. [ ] No.

Response to Question 66

[X] No

Question 67
i. If "No.", please explain why.

Response to Question 67

Further clarification is needed regarding the requirements in paragraph 109 of ESRS-40a 1 relating to the structure and presentation order of the ESRS-40a sustainability report. Where disclosures prepared under the ISSB Standards or other frameworks are incorporated by reference, the structure of a referenced report may not align with the structure prescribed by ESRS-40a. It should therefore be clarified that paragraph 109 does not require undertakings to modify the structure of a referenced report solely to align it with the presentation order specified in ESRS-40a.

Question 68
ii. If 'No.', please provide suggested amendments.

Response to Question 68

Where information is incorporated by reference, it should be clarified that paragraph 109 of ESRS-40a 1 does not require undertakings to reorganise the structure of a referenced disclosure document solely to align with the presentation order specified in ESRS-40a.

Question 69
Do you agree with the provisions in Chapter 9.3 on incorporation by reference, including as a possible way to achieve efficient reporting and to deal with double reporting when the group prepares a sustainability report in accordance with jurisdictional requirements based on IFRS S1 and IFRS S2, or in accordance with IFRS S1 and IFRS S2? [ ] Yes. [ ] No.

Response to Question 69

[X] No

Question 70
i. If 'No.', please specify if you disagree with. [ ] Examples of sources (paragraph 120) [ ] Conditions for incorporation by reference (paragraphs 121–123) [ ] Additional flexibility made available in the ED to third-country groups when incorporating by reference a substantial part of the ESRS-40a ED reported information (paragraph 124) [ ] Requirement to add a content table (paragraph 125)

Response to Question 70

[X] Examples of sources (paragraph 120)

[X] Conditions for incorporation by reference (paragraphs 121–123)

Question 71
ii. If "No", please explain and, if applicable, provide suggested improvements.

Response to Question 71

1. In Japan, sustainability disclosures are required in annual securities reports, which are statutory disclosure documents. While the requirement to apply the SSBJ Standards is determined on the basis of market capitalization, companies that do not meet the relevant market capitalization

thresholds may nevertheless elect to provide SSBJ-based sustainability disclosures in those reports, with assurance.

In this regard, we understand that information disclosed in statutory disclosure documents may qualify as "other information reported in compliance with requirements of applicable laws and regulations" under paragraph 120 of ESRS-40a 1, even where SSBJ-based disclosures are provided on a voluntary basis. We would welcome confirmation that this understanding is correct.

2. We welcome paragraph 125 of ESRS-40a 1, which would allow undertakings to make maximum use of ISSB-based disclosures and include only the remaining information in the ESRS-40a sustainability report, thereby reducing implementation burden.

   However, further clarification would be helpful regarding the relationship between the language requirements in paragraph 121(c) and the assurance requirement in paragraph 121(d). Specifically, paragraph 121(c) of ESRS-40a 1 requires information incorporated by reference to be prepared or translated into one of the official languages of the EU, while paragraph 121(d) requires the information incorporated by reference to be subject to the same level of assurance as the ESRS-40a sustainability report. It is nevertheless unclear whether the requirement in paragraph 121(d) is satisfied by the existence of an assurance report in the original language, whether a translated assurance report is required, or whether an assurance report is required for the source document after it has been translated into an official EU language.

   In this regard, we believe that the availability of a translated assurance report should be sufficient, and that it would be appropriate to clarify that no additional assurance report is required for the translated source document.

Question 80
ESRS-40a 2 ED BP-1, paragraph 7, requires undertakings to disclose, where EU-derived concepts are applied to third-country operations using approximations or estimations, which disclosures are affected, how the information was prepared, what limitations arise, and which parts of the reporting boundary are concerned. Do you consider these requirements to be clear, feasible and sufficient to ensure proper understanding of how the undertaking treats differences between EU-derived concepts and other third-country concepts? [ ] Yes. [ ] No.

Response to Question 80

[X] No

Question 81
If no, please explain your reasoning.

Response to Question 81

ESRS-40a refers to terms and concepts derived from EU laws and regulations, including the REACH Regulation, the NACE classification system, and the Waste Framework Directive. In some cases, these references have a significant effect on the definition of metrics, the scope of reporting, and the methods used to compile reported information.

For example, while hazardous chemical substances are regulated in Japan through the PRTR system and other regulatory frameworks, there is no equivalent to the concept of SVHCs under the REACH Regulation or to the requirements in Article 33. Accordingly, undertakings may need to undertake additional data collection or reclassification solely to comply with ESRS-40a, in addition to the systems already established for local regulatory requirements.

Furthermore, where estimates or mapping exercises are used to bridge differences between local jurisdictional requirements and EU requirements, this may not necessarily improve comparability and could instead impair faithful representation due to estimation uncertainty and differences in interpretation.

In jurisdictions where ISSB Standards are applied, this could also result in the disclosure of two different figures for the same environmental matter. This could create confusion for investors and other users of sustainability information.

To address these challenges, we recommend that ESRS-40a explicitly permit the use of information prepared under local laws or regulations that share a common underlying regulatory objective for disclosure requirements that refer to definitions derived from EU laws or regulations. For example, this could be allowed on the condition that the reporting undertaking explains the local legal or regulatory framework applied and the principal differences from the corresponding EU requirements.

Such an approach would not only help reduce reporting costs but could also enhance the reliability and verifiability of the information reported by allowing undertakings to use data that is actually collected and used within their respective jurisdictions.

Question 82
Please provide any other comments or suggested improvements on ESRS-40a ED not covered in the questions above.

Response to Question 82

1. Value chain cap

As noted in paragraph BC95, we understand that Article 40a of the Accounting Directive does not

contain a value chain cap provision. However, the fact that a value chain cap is available for EU undertakings but not for ESRS-40a reporting lacks proportionality and may significantly increase the burden on third-country groups in collecting value chain information. We therefore encourage consideration of introducing a value chain cap into ESRS-40a.

2. Effective date

The effective date of Article 40a of the Accounting Directive remains financial years beginning on or after 1 January 2028, as originally established when the CSRD was adopted. However, since the adoption of the CSRD, the Omnibus simplification package has been introduced and the ESRS have been revised. As a result, the development of ESRS-40a has been delayed compared to the timeline originally envisaged under Article 40a.

In addition, where the proposed mixed approach is applied, considerable time may be required to establish processes for identifying EU-related impacts and collecting the related information. In light of these circumstances, we encourage consideration of whether the application date of Article 40a should be deferred to ensure sufficient time for preparation regarding ESRS-40a reporting.