

# PRI RESPONSE

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## SUSTAINABILITY STANDARDS BOARD JAPAN INVITATION FOR PUBLIC COMMENTS REGARDING “SSBJ EXPOSURE DRAFT”

31 July 2024

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To inform this briefing, the following investor group has been consulted: the PRI Global Policy Reference Group and the PRI Regional Policy Reference Group for Japan. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

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**United Nations**  
Global Compact

# INTRODUCTION

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the Sustainability Standards Board Japan (SSBJ) call for public comments on its three exposure drafts that propose sustainability disclosure standards for Japan.

## ABOUT THIS CONSULTATION

The SSBJ was established in July 2022 in response to the development of the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards (IFRS S1 “General Requirements for Disclosure of Sustainability-related Financial Information” and IFRS S2 “Climate-related Disclosures”) by the International Sustainability Standards Board (ISSB). SSBJ has contributed to the development of international sustainability disclosure standards and has been developing standards to be applied in Japan.

In March 2024, SSBJ published the SSBJ Exposure Drafts, which constitutes of three standards. The standards are open for public comment until 31 July 2024.

The Financial Services Agency (FSA) is concurrently holding the Financial System Council's Working Group on Disclosure and Assurance of Sustainability-related Financial Information, where application of the standards into legislation is being deliberated with experts.

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# PRI OVERARCHING POSITION AND VIEW

Investors currently lack decision-useful sustainability information<sup>1</sup> across their portfolios, including the most basic sustainability-related data.<sup>2</sup> This makes it more difficult for them to allocate capital efficiently, accounting for sustainability-related financial risks and opportunities and addressing sustainability goals.<sup>3</sup> A global system of comparable data can address this need, creating a strong baseline of reliable information. Policymakers have an essential role to play in addressing this challenge through the introduction of disclosure requirements.

The ISSB Standards are underpinned by the structure and concepts of accounting standards from the International Accounting Standards Board (IASB) and build on the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommended framework, among other well established voluntary sustainability reporting frameworks. The ISSB Standards have also been endorsed by the International Organization of Securities Commissions (IOSCO).<sup>4</sup>

As such, PRI is a strong advocate for the adoption of both ISSB Standards by governments around the world. The PRI recently published a [call to action](#) for jurisdictions around the world to commit to ISSB adoption. This was issued in collaboration with the London Stock Exchange Group, UN Sustainable Stock Exchanges initiative and World Business Council for Sustainable Development – and endorsed by 120 investors, companies, stock exchanges and other organisations.

To date, in the APAC region we have engaged in consultations on the adoption of the ISSB Standards in Australia, China, Hong Kong SAR, Malaysia and Singapore (submissions [available online](#)). As we engage with local markets, we have consistently found that investors continue to support the policy-level adoption of the ISSB Standards internationally and locally, to the fullest extent possible, to ensure the availability of decision-useful sustainability information. We are committed to constructively engaging with governments and their relevant financial authorities to bring these investor voices to their attention.

The SSBJ Exposure Drafts (hereafter referred to as 'the Exposure Draft') indicate that Japan is in a strong position to be a leader in the sustainability disclosure space. This is because the Exposure Draft has kept deviations from the ISSB Standards to a minimum. This will allow for interoperability, as the information provided based on the Exposure Draft (outputs by reporting entities) should be largely consistent with reporting pursuant to the ISSB Standards. We are overall supportive of this direction of the Exposure Draft, and encourage the SSBJ to maintain this direction of travel.

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<sup>1</sup> As set out in the PRI's [Investor Data Needs framework](#), to be decision-useful, sustainability information must be available, accessible, verifiable, comparable across multiple dimensions, a faithful representation and relevant to investors.

<sup>2</sup> For example, FTSE Russell found that of the 4,000 large and mid-size constituents in the FTSE All World index, 58% disclose both Scope 1 and 2 carbon emissions. Source – [Mind the gaps: Clarifying corporate carbon](#) (2022).

<sup>3</sup> Investors around the world are increasingly committed to incorporating and pursuing sustainability outcomes such as those posed by the UN SDGs, Paris Agreement and the Kunming-Montreal Global Biodiversity Framework. Legal analysis from the [A Legal Framework for Impact \(LFI\) project](#) found that while there are differences across jurisdictions and investor groups, where investing for sustainability outcome approaches can be effective in achieving an investor's financial goals, the investor will likely be required to consider using them and act accordingly. The global LFI analysis and local LFI policy reports, such as the [Japan Report](#), have consistently found that for investors to be able to pursue sustainability outcomes, market mechanisms such as mandatory sustainability disclosure are critical.

<sup>4</sup> IOSCO's [endorsement](#) recommends that its member jurisdictions consider ways in which they might adopt, apply or otherwise be informed by the standards.

# RESPONSES TO CONSULTATION QUESTIONS

**1. Do you agree with the proposed principles for the development of this exposure draft? If you do not agree, please state the reasons for your disagreement. What is your view on the extent of harmonisation with international standards and how this should be achieved? Please state your reasons.**

- PRI supports the proposed principles.
- This response is applicable to all companies (including companies with exposure to global investors and voluntary users of the Standards).
- Our expectation is for the local application of the ISSB Standards to ensure that reporting based on local requirements is consistent with reporting pursuant to the ISSB Standards. The Exposure Draft largely meets these expectations.

**2. Do you agree with the proposed treatment of the SASB Standards and Industry-Based Guidance in 'Sources of Guidance'? If you do not agree, please state the reasons for your disagreement.**

- PRI supports the proposed treatment of the Sustainability Accounting Standards Board (SASB) Standards and the Industry Specific Guidance to maintain the ISSB Standards wording of “shall refer to and consider the applicability of”.
- This response is applicable to all companies (including companies with exposure to global investors and voluntary users of the Standards).
- The proposed approach is appropriate as it maintains consistency with the ISSB Standards and will also add clarity for practitioners:
  - The proposed approach maintains sufficient consistency with the ISSB Standards to allow for comparable disclosure on metrics specifically relevant to certain industries. The ISSB Standards leave enough room for reporting entities to make informed decisions on whether or not to report the industry-based metrics, based on the materiality assessment.
  - Furthermore, the Exposure Draft proposal clarifies which version of the relevant guidance documents are applicable – the latest version – and lays out principles for how reporting entities should consider future revisions.

**3. Do you agree with the proposal to require absolute gross values for Scope 1, Scope 2 and Scope 3 greenhouse gas emissions? If you do not agree, please state the reasons for your disagreement.**

- PRI supports the proposed approach to requiring absolute gross values for Scope 1, 2 and 3 GHG emissions.
- This response is applicable to all companies (including companies with exposure to global investors and voluntary users of the Standards).
- The proposed approach is appropriate given the practical benefits this will bring to investors as the users of information. Absolute gross values will importantly provide additional context to the Scope 1, 2 and 3 breakdowns with limited additional burden. They will also aid in the streamlining of Scope 3 Category 15 (financed emissions) calculations. These practical benefits for the users of this information should outweigh the additional reporting burden.

**4. Do you agree with the proposal on the reporting of greenhouse gas emissions in accordance with Japan's GHG reporting standards (i.e. Act on Promotion of Global Warming Countermeasures)? If you do not agree, please state the reasons for your disagreement.**

- The PRI supports the proposed approach to require that where the reporting entity uses the emissions data from their annual reporting compliant to the Act on Promotion of Global Warming Measures for their SSBJ Standards compliant reporting, they must use the latest reporting data and that where the discrepancy is over 12 months, they must report additional explanation. Further, the PRI recommends the timing of this reporting should align with financial reporting.
- This response is applicable to all companies (including companies with exposure to global investors and voluntary users of the Standards).
- The proposed approach will enable efficiencies in the reporting of GHG emissions for reporting entities, and should still give investors timely access to emissions data.
- The PRI also makes recommendations for additional considerations on the application of the Act, in response to Question 11.

**5. Do you agree with the proposal regarding the reporting of location-based and market-based Scope 2 GHG emissions? If you do not agree, please state the reasons for your disagreement.**

- PRI supports the proposed approach to align with the IFRS Standards approach of requiring location-based Scope 2 GHG emissions and allowing for market-based reporting in an additional capacity where relevant.
- This response is applicable to all companies (including companies with exposure to global investors and voluntary users of the Standards).
- The proposed approach is consistent with the approach taken by the ISSB Standards. It will allow investors to access information that further illustrates the reporting entities' voluntary efforts to source energy from more carbon efficient providers.

**6. Do you agree with the proposal regarding how to define materiality in relation to the reporting of absolute total values for Scope 3 GHG emissions? If you do not agree, please state the reasons for your disagreement.**

- PRI supports the proposed approach to align with the ISSB Standards' approach of not establishing quantitative thresholds for determining materiality of Scope 3 GHG emissions, as materiality of these emissions can also rely on qualitative considerations.
- This response is applicable to all companies (including companies with exposure to global investors and voluntary users of the Standards).
- The proposed approach is consistent with the approach taken by the ISSB Standards.

**7. Do you agree with the proposal regarding cross-industry indicators (climate-related risks and opportunities)? If you do not agree, please state the reasons for your disagreement.**

- PRI does not support the proposed approach to allow for qualitative explanations of an entity's exposure to climate-related risks (transition and physical) and opportunities, as the quantitative metrics on exposure provide investors with information they can more easily

compare across companies. As such, making these voluntary will risk investors' access to comparable information, a key objective of the ISSB standards. At the same time, we acknowledge the point within the Summary of Differences document that qualitative information can more faithfully represent exposure, and in this respect, entities should be allowed to supplement quantitative exposure metrics with qualitative commentary.

- This response is applicable to including companies with exposure to global investors and voluntary users of the Standards).
- The proposed approach marks a key deviation from the ISSB Standards in the SSBJ Exposure Drafts. We have observed many jurisdictions, including Canada, Europe and regulators in the APAC region, already planning for or already implementing requirements consistent with IFRS S2 on cross-industry indicators.

**8. Do you agree with the proposal regarding cross-industry indicators (capital deployment)? If you do not agree, please state the reasons for your disagreement.**

- PRI supports the proposed approach to require the disclosure of the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities.
- This response is applicable to including companies with exposure to global investors and voluntary users of the Standards).
- The proposed approach is consistent with the approach taken by the ISSB Standards and will provide investors with information on the degree to which climate-related risks and opportunities are embedded into financial planning.

**9. Do you agree with the proposal regarding cross-industry indicators (internal carbon pricing)? If you do not agree, please state the reasons for your disagreement.**

- PRI supports the proposed approach to align with the IFRS S2 provisions to require the disclosure of internal carbon prices, including their application and the price itself, as well as a reason where the reporting entity does not use internal carbon prices.
- This response is applicable to including companies with exposure to global investors and voluntary users of the Standards).
- The proposed approach aligns with the IFRS S2 provisions and will provide investors with information on how the reporting entity is integrating climate externalities into their decision making.

**10. Do you agree with the proposal regarding interim reliefs? If you do not agree, please state the reasons for your disagreement.**

- PRI supports the proposed approach to provide reliefs consistent with those provided in the ISSB Standards.
- This response is applicable to including companies with exposure to global investors and voluntary users of the Standards).
- The proposed approach aligns with the IFRS S2 provisions.

**11. If you have any other feedback regarding the Exposure Drafts, please provide them. If your feedback regards a provision within the Exposure Draft, please clarify which Standard it applies to and which provision you are referring to.**

- PRI makes the following additional recommendations. These are applicable to all companies (including companies with exposure to global investors and voluntary users of the Standards).

**(i) Reporting of greenhouse gas emissions in accordance with Japan's GHG reporting standards (i.e. Act on Promotion of Global Warming Countermeasures)**

- As noted in response to Question 4, the PRI supports the proposed approach to require that where the reporting entity uses the emissions data from their annual reporting compliant to the Act on Promotion of Global Warming Measures for their SSBJ Standards compliant reporting, they must use the latest reporting data and if the discrepancy is more than 12 months, additional explanation is required. Further, the PRI recommends the timing of this reporting should align with financial reporting.
- We would also encourage SSBJ, the Financial Services Agency and the Ministry of the Environment to continue to work together so that the respective reporting requirements provide greater efficiencies beyond the proposed provisions.
- Further, the PRI recommends additional consideration is given to ensuring that the information reported based on the Act is consistent with emissions reporting pursuant to the GHG Protocol. This is especially the case for how reporting boundaries should be considered, as the GHG Protocol provides various options on how to consider reporting boundaries and for alignment with financial reporting boundaries, whereas the Act extends to operational control boundaries to a domestic extent. This is particularly relevant for investors trying to understand the climate risk exposure of Japanese group companies with both domestic and international holdings. The reporting requirements of the Act on Promotion of Global Warming Countermeasures will only extend to domestic operational control, but this boundary setting will not allow for international group companies to capture their global emissions, or companies willing to align their reporting with their financial reporting boundaries to do so. Such discrepancies will have knock-on effects for investors in Japan when they aim to comply with their Scope 3 Category 15 requirements with inconsistent reporting boundaries in their primary data sources. These considerations can either be clarified in the form of provisions within the SSBJ Standards or in additional guidance.

**(ii) Financed emissions**

- PRI supports the proposed approach to require disclosure of additional information about financed emissions for reporting entities that participate in one or more of the following activities: (i) asset management activities; (ii) commercial banking activities; and (iii) insurance activities. This approach is in line with IFRS S2 and will provide investors with information that is useful to assess the transition risks facing these reporting entities.
- However, we do not support the proposed provision allowing entities to choose not to disclose this information where they are not regulated by the laws and regulations of the jurisdiction in which they operate to engage in the above activities. Similar to other requirements, the decision to not report this information should be based on materiality and other factors outlined within IFRS S1 (e.g. commercial sensitivity).

**(iii) Items that specify treatments when laws and regulations that require or permit disclosure in accordance with the SSBJ Standards provide specific requirements**

- PRI does not support the proposed approach to potentially give entities the option not to: (i) report sustainability-related financial disclosures at the same time as its related financial statements; (ii) disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period; and (iii) correct prior period errors – where “laws and regulations that require or permit disclosures in accordance with the SSBJ Standards prohibit such disclosure or permit non-disclosure”.
- These requirements within IFRS S1 are important to ensure that reported information is material and of sufficient quality to inform investment decisions, and therefore should be required in all cases to be made available at the same time under the SSBJ’s standards. It is therefore desirable for the SSBJ and the FSA to cooperate to ensure that these IFRS S1 requirements are reflected in relevant laws and regulations.

**(iv) Reporting period**

- PRI proposes additions to the proposed provision allowing entities to disclose metrics for different reporting periods to those covered by the financial statements, under conditions set out within paragraph 71 of the exposure draft.
- Where entities implement this provision, they should also be required to provide an estimate of the metrics over the period covered by the financial statement, with a disclaimer and cross reference to the relevant law or regulation mandating reporting of the metric over a different period.
- We note that IFRS S1 also allows companies to produce interim reports with updated information. This should be recognised within the final SSBJ standard, especially where the information reported under the relevant law or regulation is meant for investors.

**(v) Resources, relationships, dependencies and impacts**

- PRI does not support the exclusion of IFRS S1 paragraphs B4-B5 based on the interpretation that they constitute “impact materiality” requirements. Rather, these paragraphs explain how the entity should understand its position in the broader value chain in the context of reporting on sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital. They illustrate the need to consider resources and relationship that an entity depends on and affects, as well as dependencies and impacts that an entity may have, and potential effects of these on the entity’s supply chain or activities and outputs.

*The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the SSBJ further to create policies incorporating sustainability disclosure in line with international standards.*

Please send any questions or comments to [policy@unpri.org](mailto:policy@unpri.org).

More information on [www.unpri.org](http://www.unpri.org)