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Mr. Erkki Liikanen
Chair
Trustees of the IFRS Foundation
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Japanese Bankers Association

JBA comments on the IFRS Consultation Paper on Sustainability Reporting

Dear Mr. Erkki Liikanen:

The Japanese Bankers Association (JBA) appreciates the opportunity to provide comments on the IFRS foundation's (IFRS) Consultative Paper on Sustainability Reporting dated September 30, 2020.[1]

As climate change is a global issue and various standards are being developed in the EU as well as other regions, the creation of a globally harmonized framework is urgently needed. In this context, we welcome the IFRS, an international standard setting body for accounting rules, on initiating discussions to establish a new Board organization and sustainability reporting standards. We expect our comments to be useful for discussion at the IFRS. The JBA notes that the IFRS Council in Japan has already submitted the comment letter to this consultation, to which the JBA was part of as an observer.

Specific comments, answers to the questions from IFRS

Q1. Is there a need for a global set of internationally recognised sustainability reporting standards?

The JBA agrees on the need to establish internationally recognised sustainability reporting standards. The internationally recognized sustainability reporting standards are important in securing comparability and consistency of disclosure, and the JBA supports the IFRS Foundation's role in developing such standards.
While a number of voluntary sustainability disclosure standards exist already, the IFRS Foundation, with its expertise as an international standard setting body, is well positioned to establish uniform standards allowing comparability.

Q2. Is the development of a sustainability standards board (SSB) to operate under the governance structure of the IFRS Foundation an appropriate approach to achieving further consistency and global comparability in sustainability reporting?

The establishment of an SSB under the IFRS governance framework is considered an appropriate approach. The development of globally comparable and consistent standards requires the development of globally acceptable standards with a thorough understanding of current and existing practices. The IFRS Foundation has experience on the development, maintenance, and management of global accounting standards, and we expect it to be managed using its expertise.

[1] The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of December 29, 2020, the JBA has 116 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 72 Associate Members (banks & bank holding companies), 58 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 250 members.

Q3. Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?

We believe the description in the consultation document is sufficient. Maintaining high market credibility, ensuring consistency and reducing complexity, and the appropriateness of the governance structure are essential to the establishment of consistent reporting standards.

However, we think it is necessary to have a consensus on the time horizon as when to judge the success of an SSB. We think the SSB members need to have a consensus in terms of timeline to review the status and adjust the plan, if necessary.

Q4. Could the IFRS Foundation use its relationships with stakeholders to aid the adoption and Consistent application of SSB standards globally? If so, under what conditions?

The JBA expects the IFRS Foundation to take advantage of its existing relationship. We believe that existing stakeholder relationships can be leveraged by maintaining the international credibility already established by the IFRS Foundation and engaging in good dialogues with stakeholders. The IFRS Foundation has already gained a high degree of credibility as an international standard-making body, particularly in the capital markets community, and it is expected that active communication with stakeholders in creating the new sustainability reporting standard will enable it to cooperate in developing standards that are mutually beneficial.

Q5. How could the IFRS Foundation best build upon and work with the existing initiatives in Sustainability reporting to achieve further global consistency?

The IFRS Foundation should seek the consistency and alignment with the TCFD Disclosure Framework. According to the latest TCFD Status Report published in October 2020, more than 1,500 global companies have already disclosed sustainability-related information in accordance with the TCFD recommendation. This includes many Japanese financial institutions and large companies. The TCFD framework is a voluntary one. However, having double standards, the TCFD framework and sustainability reporting the IFRS Foundation will create, would lead to confusion and lack of comparability to companies including financial institution, as well as investors, who are the beneficiaries of ESG disclosures. Moreover, having two standards may result in a "race-to-the-bottom" issue. As Mr. Mark Carney stated in his speech about the cooperation between the IFRS and the TCFD[2], the JBA urges global coordination purely to enhance the consistent standard of sustainability reporting.

In order to ensure international coherence and a widespread use, it is important to have a flexible framework. Therefore, sustainability reporting standards should be "principle-based", to ensure comparability. In light of this point, we suggest you refer to the examples of TCFD recommendations, which are flexible and are already widely used internationally as a disclosure framework. The TCFD framework demonstrates the importance of a certain degree of flexibility in the disclosure framework while securing comparability. On the other hand, the TCFD framework lacks comparability, and we hope that these aspects will be reflected in the development of new disclosure standards.

The IFRS Foundation should develop a framework that is easy to use and not confusing for companies and investors, for example, by referring to the terminology used in the TCFD framework so that stakeholders have common language to use.

[2] "For COP 26 we will work to develop pathways, in consultation with international standard setters - such as the FSB, IFRS and IOSCO – and national authorities to determine the best approaches to making climate disclosure mandatory" (Mark Carney "The Road to Glasgow" 27 February 2020)

Q6. How could the IFRS Foundation best build upon and work with the existing jurisdictional Initiatives to find a global solution for consistent sustainability reporting?

As answered in Question 5, in addition to maintaining consistency and alignment with the TCFD framework, which is a successful precedent, it is also important to ensure a flexibility for jurisdictions. Therefore, the framework should be principle-based that respects the current efforts in each jurisdiction.

Q7. If the IFRS Foundation were to establish an SSB, should it initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting?

The IFRS Foundation should focus first on developing disclosure standards related to climate change. Given addressing climate change is an urgent global issue, it is appropriate to begin with the development of climate-related disclosure standards from a priority perspective.

Other ESG elements may be considered in the future but should not be included in the scope at initial stage. The priority or focus area in the S (Society) factor differs country by country, and ways to achieve the goal may also be different. The G (Governance) factor and its significance may also vary country by country. There is no uniform view with respect to the scope of governance disclosure that is beneficial for stakeholders, and considering the urgent need to address climate change, we believe the E (Environment) factor should be prioritized

As there are issues to be considered in establishing comparable sustainability reporting standards, such as clarification of definitions and identification of specific disclosure elements, we believe it is appropriate to begin with the development of climate-related reporting standards and leave other factors for later stage.

Q8. Should an SSB have a focused definition of climate-related risks or consider broader Environmental factors?

As noted in Question 7, we should first have a focused definition on climate change risks.
In the end, environmental factors other than climate are important and should be examined extensively, however, it is realistic to first establish reporting standards based on high priority and then expand the scope gradually.

From banks' perspective, there is are supervisory expectations to enhance the climate-related risk management framework. For example, in the EU, the JBA understands that the European Banking Authority (EBA) has its mandate to consider how to include the climate-change factors to current disclosure framework. Also, the TCFD recommendation already has banks-specific factors. The JBA requests that a tailor-made treatment will be considered in the IFRS Sustainability reporting framework, which is specific to regulated entities, like banks. At least, the IFRS Sustainability reporting framework should be considered taking into account the supervisory expectations from banking regulators.

Q9. Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?

The most useful information for investors using sustainability reporting is "the impact of ESG elements on companies." In light of the urgency of addressing climate change, the JBA supports a single materiality approach that focuses first on investor and market participants. A double materiality approach would make the discussion complex and time-consuming. In addition, since a single materiality is adopted in the TCFD framework, we believe that the single materiality approach should be adopted.

Q10. Should the sustainability information to be disclosed be auditable or subject to external assurance? If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision-useful?

The JBA believes that sustainability reporting should not be subject to audits or external assurance.
It is still unclear how audit or external assurance perspective will be implemented in each jurisdiction. The information could be within the scope of audits or external assurance in the future, but we should not forget that the sustainability reporting is a voluntary effort. Accordingly, making such standards subject to auditing and guarantees raises the hurdles in using the standards. From a credibility standpoint, the possibility of the auditability and external assurance of ESG information is understandable, but hasty implementation should be avoided.

Q11. Stakeholders are welcome to raise any other comment or relevant matters for our consideration.

It would be extremely useful if the IFRS Foundation would have the opportunity to provide a more detailed explanation on the review and progress of the collaboration with the SASB, which is already involved in the formulation of sustainable accounting standards.

In the process of mainstreaming information disclosure, for example, the quantification of the ESG risks may be included in the disclosure, which could be used for loan provisioning under the future accounting standards. In such scenarios, one may wish to underestimate the risks without a standardized approach, so a uniform quantification method in certain sectors may be appropriate to secure comparability.

(End)