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International Sustainability Standards Board
Columbus Building
7 Westferry Circus, Canary Wharf
London, E14 4HD



Japanese Bankers Association

JBA comments on the ISSB Exposure Draft: “IFRS S2 Climate-related Disclosures”

Dear Sirs/Madams:

The Japanese Bankers Association¹ (JBA) appreciates the opportunity to provide our comments on the International Sustainability Standards Board’s (ISSB) Exposure Draft: “*IFRS S2 Climate-related Disclosures*”² (hereafter “the Exposure Draft”) released on March 31, 2022.

We hope that our comments will contribute to further discussions at the ISSB.

Responses to specific questions

Question 3—Identification of climate-related risks and opportunities

Paragraph 9 of the Exposure Draft proposes that an entity be required to identify and disclose a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity would be required to refer to the disclosure topics defined in the industry disclosure requirements (Appendix B).

Paragraphs BC64–BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.

- (a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?
- (b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

¹ The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of July 29, 2022, the JBA has 114 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 77 Associate Members (banks & bank holding companies), 58 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 253 members.

² <https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/>

(a)

As noted in the comments in Question 1 of the [draft] IFRS S1 *General Requirements for disclosure of Sustainability-related Financial Information*, the Exposure Draft (“S1”) does not provide a definition of “significant”. The proposed S1 should include a description of “significant sustainability-related risks and opportunities” and the proposed Exposure Draft should include a reference to that description to identify them. Paragraph 9(b) of the Exposure Draft proposes to require disclosure of how short-, medium- and long-term are defined. We believe that flexibility should be allowed in classification of such future periods, given that future climate-related risks and opportunities will be likely to appear in various ways depending on the businesses of disclosing entities.

We believe that flexibility should also be allowed for the capital allocation plans in paragraph 9(b) of the proposed Exposure Draft under the current circumstances, considering the challenges with risk quantification and data at this stage.

Question 4—Concentrations of climate-related risks and opportunities in an entity’s value chain

Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity’s business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically-specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity’s value chain.

As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity’s value chain. The proposals would also require an entity to disclose where in an entity’s value chain significant climate-related risks and opportunities are concentrated.

Paragraphs BC66–BC68 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals.

- (a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity’s business model and value chain? Why or why not?
- (b) Do you agree that the disclosure required about an entity’s concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

(a)

While information on the effects of significant climate-related risks and opportunities in an entity’s value chain is useful, there are concerns about a heavy burden and the misleading impression that information on companies

in the entity's value chain must be collected with the same precision as for its subsidiaries. Each entity should be allowed to decide to what extent it should be included in the value chain from the perspective of materiality. It should also be clarified that there is no requirement to use information directly measured by any party other than the reporting entity, and that the reporting entity might use estimates in their disclosures.

The anticipated effects of climate-related risks on financial statements and the methodologies used to measure them should be explicitly excluded from disclosure if they contain information that is difficult to disclose.

Question 5—Transition plans and carbon offsets

Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.

Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity.

An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity's enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity's emissions targets. This proposal reflects the need for users of general purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets.

The Exposure Draft proposes that entities disclose information about the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity's climate-related strategy are complementary to, but fundamentally different from, the entity's emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance.

The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets.

Paragraphs BC71–BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's

proposals.

- (a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?
- (b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.
- (c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?
- (d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

(a), (c)

The disclosure requirements for transition plans and carbon offsets proposed in paragraph 13 of the Exposure Draft is useful for achieving net zero, but it is proposed to require the disclosure of additional and more granular information than the TCFD recommendations as a whole, which we believe is excessive given their nature as a global baseline. Considering the different situations of each jurisdiction/entity, we believe that flexibility should be allowed, such as by making the disclosure of quantitative and qualitative information about the progress of transition plans optional at this stage.

With regard to the carbon offsets in paragraph 13(b)(iii) of the Exposure Draft, we would welcome a phased implementation to ensure adequate time, as methodologies on how to utilize and evaluate carbon offsets have not yet been established.

Question 6—Current and anticipated effects

The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.

The TCFD's 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to

a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks).

Similar concerns were raised by members of the TRWG in the development of the climate-related disclosure prototype following conversations with some preparers. The difficulty of providing single-point estimates due to the level of uncertainty regarding both climate outcomes and the effect of those outcomes on a particular entity was also highlighted. As a result, the proposals in the Exposure Draft seek to balance these challenges with the provision of information for investors about how climate-related issues affect an entity's financial position and financial performance currently and over the short, medium and long term by allowing anticipated monetary effects to be disclosed as a range or a point estimate.

The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

Paragraphs BC96–BC100 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

- (a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?
- (b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?
- (c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

(a)

Regarding the effects on financial position, financial performance, and cash flows, we agree with the proposal as the climate-related risks and opportunities will be considered over the long-term. Such disclosures should not be limited to quantitative information.

It should make clear that the disclosed financial effect is not a commitment for future performance and might result in unanticipated outcomes.

(c)

Flexibility should be allowed in climate-related disclosures as uncertainty increases with longer time horizons.

Question 7—Climate resilience

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general purpose financial reporting need to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity's analysis of the resilience of its strategy to climate-related risks. These requirements focus on:

- what the results of the analysis, such as impacts on the entity's decisions and performance, should enable users to understand; and
- whether the analysis has been conducted using:
 - climate-related scenario analysis; or
 - an alternative technique.

Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity's findings from the analysis inform its strategy and risk-management decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity's strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.

Although scenario analysis is a widely accepted process, its application to climate-related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses.

Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing.

Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy. Nonetheless, by prompting the consideration of a range of possible

outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value.

The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience.

Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term.

It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate-related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.

Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

- (a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?
- (b) The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.
 - (i) Do you agree with this proposal? Why or why not?
 - (ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?

(iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

(c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

(d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

(e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

(a)-(c)

While scenario analysis is an effective tool for understanding the resilience of an entity's strategy for climate-related risks, at this time the application of climate-related scenario analysis is still developing, and mandatory disclosure is premature. Rather than uniformly requiring entities to conduct scenario analysis, entities that have reasonable reasons for not conducting scenario analysis should be allowed to use alternative approaches other than scenario analysis.

Paragraph 15 of the Exposure Draft states that "the entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so", but the scope of when "it is unable to do so" should be clarified. It will be difficult to disclose input variables and assumptions because these refer to undisclosed information of client entities.

Question 9—Cross-industry metric categories and greenhouse gas emissions

The Exposure Draft proposes incorporating the TCFD's concept of cross-industry metrics and metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD's criteria were considered. These criteria were designed to identify metrics and metric categories that are:

- indicative of basic aspects and drivers of climate-related risks and opportunities;
- useful for understanding how an entity is managing its climate-related risks and opportunities;
- widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and

- important for estimating the financial effects of climate change on entities.

The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.

The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity's investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol.

To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:

- separately Scope 1 and Scope 2 emissions, for:
 - the consolidated accounting group (the parent and its subsidiaries);
 - the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and
- the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity share or operational control method in the GHG Protocol Corporate Standard).

The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.

Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy-efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to

identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.

For Scope 3 emissions, the Exposure Draft proposes that:

- an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;
- an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;
- if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and
- if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.

Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes non-mandatory Illustrative Guidance for each cross-industry metric category to guide entities.

Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

- (a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?
- (b) Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.
- (c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?
- (d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO₂ equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH₄) separately from nitrous oxide (NO₂))?
- (e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:
 - (i) the consolidated entity; and

(ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

(f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

(a)

We generally agree with the proposed seven cross-industry metric categories, as they are consistent with the TCFD recommendations. However, we believe that some of them should not be mandatory requirements, such as the internal carbon prices proposed in paragraph 21(f)(i) where they are not used, for example. Discretion could be given to each entity to determine materiality and to disclose the metrics where they are material.

Our comments regarding the cross-industry metric categories are as follows:

- (b)-(d): Descriptions or definitions of “vulnerable” used in “assets or business activities vulnerable to transition risks/physical risks” and “aligned” used in “assets or business activities aligned with climate-related opportunities” are needed.
- (f): We oppose the proposals in paragraph 21(f)(i) of the Exposure Draft, because internal carbon pricing might be treated as confidential information.
- (g): Although paragraph 21(g) proposes disclosure of “the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations”, it might be difficult to calculate such percentage due to the fact that various sustainability-related considerations, including climate-related ones, are evaluated. Therefore, we believe that it is sufficient to describe how climate-related considerations are incorporated into executive remuneration.

(c)

We recognise that the GHG Protocol is the most widely used standard. Although we agree with requiring the use of the GHG Protocol to define and measure GHG emissions at this stage, we have concerns that guidelines issued by organizations outside the control of the ISSB would constitute an IFRS standard.

While we recognise that Scope 3 emissions are an important metric, it is premature to require Scope 3 disclosures due to the lack of data collection methodologies and emissions calculation methodologies, and not all jurisdictions are ready for Scope 3 calculations. We are also aware of the issue of double counting with entities’ Scope 1/2 when calculating financed emissions in financial institutions.

The application of paragraph 21(a)(i)(3) of the Exposure Draft should adopt a phased in approach, such as disclosing which of the 15 categories of Scope 3 can be practically calculated, taking into account the materiality. In addition, guidance could be provided on how to assess the materiality of Scope 3 in practice.

(d)

We believe the disclosure of emissions by each constituent greenhouse gas is not necessary, and that clarification of the absolute gross emissions in CO₂ equivalent would be sufficient as a minimum requirement.

(e)

The disclosure of Scope 1 and Scope 2 should be limited to consolidated entities. We disagree with paragraph

21(a)(iii)(2), as Scope 1 and Scope 2 information for non-consolidated entities would be immaterial to investors in assessing the enterprise value and would impose an excessive burden on the disclosing entity.

While reporting entities should be group-based in principle, discretion should be allowed for consolidated entity-specific disclosure by each entity, taking materiality into consideration. We also believe that a certain grace period is necessary, such as by first limiting the scope of disclosure and then gradually expanding it in stages.

(f)

There are data and methodological limitations in Scope 3 measurement, and currently it is often calculated on the basis of estimates, which do not sufficiently ensure accuracy. Since measurement practices are still under development both quantitatively and qualitatively, the disclosures of Scope 3 should be introduced in phases as these practices progress.

Also, although paragraph 21 requires disclosure of both absolute gross GHG emissions and GHG intensity, we believe that it is better to allow the disclosing entity to choose in light of the situation for each industry and entity, due to differences in industry standards and the businesses and strategies of each entity.

Question 10—Targets

Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity's targets compare with those prescribed in the latest international agreement on climate change.

The 'latest international agreement on climate change' is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what degree its own targets compare to the targets in the Paris Agreement.

Paragraphs BC119–BC122 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

- (a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?
- (b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

We generally agree with the disclosure requirements of climate-related targets.

It should be clarified that "sectoral decarbonisation approach" in paragraph 23(f) of the Exposure Draft means

the Sectoral Decarbonisation Approach (SDA) of the Science Based Targets initiative.

Question 11—Industry-based requirements

The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype.

The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype.

The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. In this case, the Exposure Draft proposes amendments (relative to the SASB Standards) to include references to international standards and definitions or, where appropriate, jurisdictional equivalents.

Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the industry-based requirements.

- (a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?
- (b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?
- (c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. The proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).

Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals for financed or facilitated emissions.

- (d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?
- (e) Do you agree with the industries classified as ‘carbon-related’ in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?
- (f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?
- (g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?
- (h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don’t agree, what methodology would you suggest and why?
- (i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

Overall, the proposed industry-based approach acknowledges that climate-related risks and opportunities tend to manifest differently in relation to an entity’s business model, the underlying economic activities in which it is engaged and the natural resources upon which its business depends or which its activities affect. This affects the assessment of enterprise value. The Exposure Draft thus incorporates industry-based requirements derived from the SASB Standards.

The SASB Standards were developed by an independent standard-setting board through a rigorous and open due process over nearly 10 years with the aim of enabling entities to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner. The outcomes of that process identify and define the sustainability-related risks and opportunities (disclosure topics) most likely to have a significant effect on the enterprise value of an entity in a given industry. Further, they set out standardised measures to help investors assess an entity’s performance on the topic.

Paragraphs BC123–BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft’s proposals related to the industry-based disclosure requirements.

While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment of other requirements in

the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49–BC52).

(j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

(k) Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

(l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

(a)

Rather than applying the requirements based on the SASB Standards in a uniform manner, discretion should be given to each disclosing entity to apply them to items that the entity deems material.

The industry-based disclosure requirements still have a US-specific description of the SASB Standards, and we welcome addressing this issue to improve international applicability.

(d)

Requiring the disclosure of the ‘facilitated emissions’ defined as the GHG emissions associated with the provision of core products and services such as underwriting, advisory and securitisation activities proposed in Volume B18: “Investment Banking & Brokerage Activities” is premature, as the calculation methodologies have not been established yet and it is difficult to provide the same level of disclosure as financed emissions at this point.

(e)

The classification of the ‘carbon-related’ industry in the Exposure Draft does not include “agriculture” and “capital goods”, while the classification in the TCFD recommendations does not include “homebuilding”. The classification in the Exposure Draft should be the same as in the TCFD recommendations to avoid any practical confusion for disclosing entities.

(f)

While we understand the disclosure of intensity-based financed emissions could provide useful information, when taking sector characteristics into account it is not suitable to require such disclosure for all sectors. Therefore, the disclosure of either absolute- or intensity-based financed emissions should be sufficient.

(g)

While we agree with the requirement to disclose the methodologies used to calculate financed emissions, flexibility should be allowed in the level of disclosure, taking into account the readiness and situation of each entity.

(h)

We agree if it is recommended as non-mandatory guidance outside this standard.

(i)

We believe that it provides useful information. However, there are no established methods of measuring emissions in some of the assets under management (AUM), which makes it difficult to disclose emissions associated with total AUM, and no standard should be set for the level of disclosure.

(j)

Volume B16 - Commercial banks

Metrics FN-CB-1.

(1 The entity shall disclose its gross exposure to carbon-related industries, by industry.)

It should be made clear that gross exposures to individuals are not included.

(4 The scope of disclosure includes but is not limited to loans, project finance, bonds, equity investments and derivatives.)

Each entity should be allowed to decide which asset classes to cover, based on materiality.

(4.1 Undrawn loan commitments to carbon-related industries shall be disclosed separately.)

The usefulness of the separate disclosure of undrawn loan commitments to carbon-related industries should be explained.

Metrics FN-CB-2.

(3 The scope of disclosure includes but is not limited to loans, project finance, bonds, equity investments and derivatives.)

Each entity should be allowed to decide which asset classes to cover, based on materiality.

(4 The percentage of undrawn loan commitments included in the financed emissions calculation shall be disclosed separately.)

The usefulness of the separate disclosure of the percentage of undrawn loan commitments included in the financed emissions calculation should be explained.

Metrics FN-CB-3.

(1 The entity shall disclose its absolute gross financed emissions, disaggregated by Scope 1, Scope 2, and Scope 3 emissions for each industry by asset class.)

The scope of “each industry” should be clarified.

The purpose and importance of disclosing absolute gross financed emissions, disaggregated by Scope 1, Scope

2, and Scope 3 emissions for each industry by asset class should be explained.

(1)

Industry classifications should adapt global standards (e.g., GICS) that are adopted by the TCFD recommendations rather than the US SICs.

Question 14—Effective date

Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach.

Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application.

[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information requires entities to disclose all material information about sustainability-related risks and opportunities. It is intended that [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information could take longer to implement.

Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

- (a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information? Why?
- (b) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.
- (c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

(a)

The effective date of the Exposure Draft of [draft] IFRS S2 should not be earlier than that of S1, as S1 sets out the framework on which sustainability-related financial disclosures are based and the Exposure Draft of [draft] IFRS S2 is climate-specific within that framework. The effective date of the Exposure Draft should be the same for S1 and the Exposure Draft of [draft] IFRS S2.

(b)

We recognise that time is required to establish a quantitative financial risk management framework. We would like you to consider an appropriate timeline for rulemaking, based on the progress of international discussions.

Question 17—Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

Regulations and disclosure requirements on climate change are currently being considered and implemented at the global and jurisdictional levels. Given the costs and burdens on disclosing entities, it is desirable to ensure comparability, consistency and reliability as far as possible.

* * *

We thank the ISSB for the opportunity to comment on the Exposure Draft and hope our comments will contribute to further consideration in the ISSB.

Yours faithfully,

Japanese Bankers Association