2 May, 2025

Japanese Bankers Association

JBA comments on EFRAG public call for input on ESRS Set 1 Revision

Overview of the comments

We welcome the EFRAG's effort on revising ESRS as part of the Omnibus package aimed at simplifying reporting requirements. This initiative significantly alleviates the burden on businesses, thereby fostering growth and enhancing the business environment, while maintaining a balanced regulatory framework. We consider the key to reducing the reporting burden is an interoperability with the international standards and thus propose that disclosures beyond the scope of the ISSB standards be made voluntary. We also appreciate EFRAG's further coordination with the international standard setters and other EU regulatory bodies to enhance alignment.

	Questions	Comments
GENERAL ASSESSMENT		
	As preparer/user/other stakeholder, could you share your overall assessment about the implementation challenges and benefits that you have experienced or observed?	As a preparer, banks are complying with statutory disclosures in accordance with the ISSB standards, and we believe that responding to disclosure requirements that are broader than the ISSB standards imposes a significant operational burden. Throughout the entire disclosure process, making the disclosure of items that are not required by the ISSB voluntary could reduce the operational burden on companies that are disclosing in accordance with the ISSB standards.
QUESTIONS		
	1. PART 1 – HOW TO IMPROVE THE MATERIALITY ASSESSMENT The Materiality Assessment process is critical to establish the perimeter of the sustainability statement and pivotal to ensure that undertakings only report material information, that they do not report unnecessary information nor dedicate excessive resources to the materiality assessment process. Initial feedback seems to suggest that required disclosures on the process may be too detailed and the outcome of the process may lead to disclose too many/too detailed IROs. The Omnibus proposals have identified this area as to be clarified.	

	Questions	Comments
1.1	From your perspective (preparer/user/others), please share your suggestions on how to improve the ESRS provisions on materiality indicating the most critical and the most useful elements, in relation to	<Question Category> The definition of material impacts, risks and opportunities (IROs) under double materiality assessment <Proposal> The IFRS Educational Material "Sustainability-related risks and opportunities and the disclosure of material information" published in November 2024, clarifies that the impact should be considered when assessing material risks and opportunities. It is believed that material impacts on a wide range of stakeholders often affect finance through reputation or other pathways. Even if the definition of material impact is changed to "impact that has a material financial effect," it is unlikely that material impacts on a wide range of stakeholders will be overlooked, and this could reduce the burden on companies preparing disclosures under the ISSB's single materiality approach. Although this approach differs from the ISSB, requiring voluntary disclosure of material impacts information based on the above definition is considered feasible with minimal additional burden. With this discussion in mind, we propose that EFRAG leave room for the consideration of aligning with ISSB’s materiality approach with respect to a possible change at the regulatory level.
		<Question Category> The process to determine material matters, including how to factor implemented mitigation and prevention actions in the materiality assessment and how to define thresholds striking the right balance between completeness and decision-usefulness of information <Proposal> We would like to propose to co-legislators that impact materiality be voluntary thus aligning with ISSB’s single materiality approach. However, if impact materiality were to be required, there should be measures to simplify the impact materiality assessment as conducting the impact assessment would be an additional burden for companies that are preparing disclosure in accordance with the ISSB Standards. As a simplification option, a quantitative assessment criterion can be established for each material

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		matter defined in the topical standards of ESRS E1 to G1 for each industry, and the disclosure of material matters can be required only if they meet the criteria. <Example of Quantitative Financial Evaluation Standards> Financial institutions whose exposure in the EU exceeds EUR 10bn on a 3-year average for sectors such as oil, gas and electricity, which have a serious impact on air pollution, are required to disclose ESRS E2 Pollution, as this is considered be a material matter.
		<Question Category> The disclosures related to the process according to IRO-1 <Proposal> We propose that disclosures related to processes should be made voluntary. The ISSB Standards require the disclosure of significant risks and opportunities as a result of materiality assessments, but we understand that the disclosure of the assessment process itself is not required (although it is understood that, under IFRS S1 74 Judgement, disclosure may be required if deemed significant). Aligning with the ISSB in this regard is expected to reduce operational burden.
		<Question Category> The value chain <Proposal> We propose that disclosures related to characteristics of the value chain should be voluntary. Since the consideration of the value chain in materiality assessments is also required by the ISSB, there are no significant differences in this regard. However, ESRS 2 42 requires the disclosure of key characteristics of the value chain of undertakings, which is broader in scope than the ISSB. Aligning with ISSB is expected to reduce operational burden.

	Questions	Comments
		<Question Category> The value chain <Proposal> We consider that the value chain is not clearly defined for financial services companies and that further guidance would be helpful. Although some implementation guidance has been released, it does not address the scoring methodology for materiality. Currently, due to the lack of guidance, there is a significant risk of divergence in approaches across banks, as well as a risk that institutions go far beyond the intention of the regulations by assessing materiality at an overly granular level. This lack of consistency makes it difficult to compare disclosures across different financial institutions. Furthermore, the lack of clearly defined expectations makes it difficult for auditors to provide assurance on sustainability disclosure.
	PART 2: HOW TO STREAMLINE NARRATIVE INFORMATION Narrative information is a key part of sustainability reporting, in particular with respect to governance, strategy, business model, as well as policies, actions and targets (PATs). It is a key factor to meet the quality characteristics of relevance of information and fair presentation[LS1] of the situation of the undertaking with respect to its sustainability matters. However, narrative information is difficult to compare. In determining the content of narrative information to be reported per disclosure requirements, ESRS combine a principles-based disclosure objective with a list of “shall” datapoints. Initial feedback seems to suggest that the “shall disclose“ datapoints in ESRS Set 1 may be too detailed and too prescriptive in that regard and that a proper balance between relevance/fair presentation, comparability and preparation effort has been difficult to achieve. The Omnibus proposals suggest to consider this point carefully for burden reduction purposes.	

<table>
<tr><th></th><th>Questions</th><th>Comments</th></tr>
<tr><td rowspan="2">2.1</td><td rowspan="2">From your perspective (preparer/user/other), please share your suggestions on how to simplify narrative information, in relation to: *</td><td><Question Category>
Deleting datapoints that are not critical

<Proposal>
We propose the removal of non-essential qualitative data points, with clear guidance on how to calculate and present these data points.

There is some overlap between the cross-cutting and topical standards, which is leading to some unnecessary complexity and duplication of reporting.</td></tr>
<tr><td><Question Category>
Transferring “shall“ datapoints to non-mandatory material (“May“, guidance, illustrative examples)

<Proposal>
We propose that disclosures beyond the scope of the ISSB Standards be made voluntary.

Throughout the entire disclosure process, making the disclosure of items that are not required by the ISSB voluntary could reduce the operational burden on companies that are disclosing in accordance with the ISSB Standards.</td></tr>
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	Questions	Comments
		<Question Category> Transferring "shall" PAT datapoints in topical standards to non-mandatory material ("May", guidance, illustrative examples) <Proposal> We propose that disclosures beyond the scope of the ISSB Standards be made voluntary. Throughout the entire disclosure process, making the disclosure of items that are not required by the ISSB voluntary could reduce the administrative burden on companies that are disclosing in accordance with the ISSB Standards.
	PART 4: HOW TO ADDRESS THE SIMPLIFICATION OF THE STANDARDS (STRUCTURE AND PRESENTATION) AND THE NEED FOR INTEROPERABILITY Initial feedback seems to suggest that the current structure and presentation of reporting requirements in the standards may be difficult to understand and use and may have contributed to the inclusion of repetitive and duplicated content within the sustainability statement. In addition, to avoid unnecessary regulatory fragmentation that could have negative consequences for undertakings operating globally, ESRS Set 1 has been drafted with the objective to contribute to the process of convergence of sustainability reporting standards at global level. The Omnibus proposals suggest to further enhance the already very high degree of interoperability with global sustainability reporting standards.	
4.1	Please share your suggestions on how to improve and simplify the current structure and presentation of the standards, in relation to: The relationship between cross-cutting and topical standards	There is some overlap between the cross-cutting and topical standards, which is leading to some unnecessary complexity and duplication of reporting.
4.2	Regarding interoperability, please: If you are a preparer, indicate if you are reporting under another framework and which one:	Japanese parent companies will prepare a report under the ISSB or SSBJ Standards (The Japanese versions of standards which is fully aligned with the ISSB and will be mandatorily adopted in Japan).

	Questions	Comments
	Please share any suggestion you may have to enhance the already high level of interoperability of ESRS with other frameworks (ISSB, GRI, TCFD, TNFD, CDP). Please indicate DR/DPs if relevant.	<Proposal> We propose that disclosures beyond the scope of the ISSB Standards be made voluntary. Furthermore, greater collaboration between standard setters will be helpful and we propose issuing a clear statement on the intention to reach alignment and equivalence with international standards. Throughout the entire disclosure process, making the disclosure of items that are not required by the ISSB Standards voluntary could reduce the operational burden on companies that are disclosing in accordance with the ISSB Standards. Interoperability Guidance between IFRS S2 and ESRS E1 has been published by EFRAG, which states that there is a high degree of alignment and almost all the disclosures in the ISSB Standards related to climate are included in ESRS. We support maximum international alignment on sustainability disclosures to the extent practicable. It is expected that, by aligning ISSB Standards with the financial materiality of ESRS, and, if impact materiality is disclosed in ESRS, aligning impact materiality with GRI standards, banks operating across the EU and abroad would not need to complete the same model twice. Standard setters should ensure that methodologies are as aligned as possible to reduce compliance costs, even in the absence of an equivalence decision by the European Commission. We continue to call for equivalence decisions and believe that policymakers should issue a clear statement on the intention to reach alignment and equivalence with international standards.
	PART 5 – ANY OTHER COMMENT OR SUGGESTION	
	For instance, among others, in relation to format and presentation of the sustainability statement and its relationship with other parts of the management report, the communication of the company, the reporting boundaries, etc.	<Proposal> We consider that it is also necessary to review the regulatory and supervisory framework applicable to financial institutions following the finalisation of the Omnibus Simplification Package on Sustainability. By identifying areas of overlap/interaction, and introducing revisions to the relevant frameworks where

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		necessary to reflect changes to the CSRD and ESRS, it is considered possible to avoid inconsistencies between the revised CSRD (and ESRS) and other related financial sector regulations (e.g., Pillar 3 ESG reporting, EBA Guidelines on ESG risk management, SFDR, Benchmark Regulation). To ensure consistency and alignment, we appreciate EFRAG's continued collaboration and engagement with the European Commission and EBA.

(End)