

Japan Sustainable Finance Policy Update October 2021 – January 2022

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SUMMARY

This IGES Issue Brief is an update of policy developments related to sustainable finance in Japan between October 2021 and January 2022¹.

The highlights of developments on sustainable finance in this period was work pertaining to sustainability-related disclosure. At the Financial Services Agency (FSA), the 'Disclosure Working Group' continued with its work, holding its second, third, fourth and fifth meetings. The Working Group, while sharing and assessing related global developments, is deliberating on how Japan's regulatory measures, through mandatory disclosure in securities reports, should include sustainability-related / non-financial corporate disclosures. Specific themes included climate, diversity, human capital and governance. The discussion is moving in favour of adding a new section dedicated to sustainability disclosure within the securities report.

In parallel to the work by the FSA, the Ministry of Economy, Trade and Industry (METI) continued with its sustainability-related / non-financial disclosure work in the 'Study Group on Disclosure Policies for Non-financial Information,' which held its fourth and fifth meetings and published an Interim Report. The Study Group is closely following developing global discussions of the International Sustainability Standards Board at the International Financial Reporting Standards Foundation (IFRS/ISSB) while building consensus on Japan's position on sustainability-related disclosure. The published Interim Report makes recommendations (key approaches or values which should shape ongoing discussions) and summarises the Study Group's understanding and discussions to date.

Work on green/sustainability/transition related financial instruments also made progress with respective work streams under METI, FSA and the Ministry of the Environment (MOE). METI moved forward with its work related to transition finance, publishing a roadmap for chemicals (in addition to the existing roadmap on steel and shipping) and debating draft roadmaps for electricity, gas and oil. The FSA published the Social Bond Guidelines and lead cross-ministerial work on compiling impact indicators for social projects. MOE newly established the 'Green Finance Review Committee' to undertake the revision of currently existing guidelines on green instruments and the drafting of the sustainability-linked bond guidelines.

¹ For policy developments prior to this period, please refer to Section 2 of the [IGES Policy Report 'Japan EU Comparative Analysis on Sustainable Finance Policy' \(Maiko Morishita et al., 2020\)](#), [IGES Issue Brief 'Japan Sustainable Finance Policy Update December 2020 – February 2021'](#), [IGES Issue Brief 'Japan Sustainable Finance Policy Update March 2021 – May 2021.'](#) and [IGES Issue Brief 'Japan Sustainable Finance Policy Update June 2021 – September 2021.'](#)

1 HIGHLIGHTS of Sustainable Finance Related Developments in Japan

1.1 ***FSA's 'Disclosure Working Group' deliberates on the approach to sustainability-related / non-financial disclosure in securities report***

The FSA's 'Disclosure Working Group' under the Financial System Council held its second, third, fourth and fifth meetings in this period. The second meeting discussed global sustainability reporting practices with a focus on climate related disclosure. The Working Group then deliberated on how the securities report should approach the issue of materiality and climate related disclosures. The third meeting discussed other sustainability related disclosures, with emphasis on issues of diversity and human capital. The fourth meeting discussed disclosure matters related to governance; disclosure related to board meetings; director succession, induction, and remuneration; ensuring confidence in financial auditing; and disclosure related to cross-shareholdings. The fifth meeting discussed important management contracts. The discussion is moving in favour of adding a new section on sustainability disclosures within the securities report.

1.2 ***FSA publishes the Social Bond Guidelines and cross-ministerial work commences on impact indicators for social projects***

The FSA's 'Social Bonds Study Group' published the Social Bond Guidelines. The Guidelines align with International Capital Market Association's (ICMA) Social Bond Principles, and have the following four components: Use of Proceeds (UOP), process for project evaluation and selection, management of proceeds, and reporting. According to the Guidelines, issuers should disclose the UOP of funds at least once a year until all proceeds are used and whenever there has been a significant change in the situation. Following the publication of the Guidelines, the 'Meeting of Relevant Ministries Regarding the Consideration of Impact Indicators for Social Projects' was established under the Study Group. The aforementioned Meeting is co-chaired by the FSA and the Cabinet Office, and brings together the following ministries to discuss specific examples of impact indicators for social projects: the Consumer Affairs Agency (CAA), the Ministry of Internal Affairs and Communications (MIC), the Ministry of Justice (MOJ), Ministry of Foreign Affairs (MOFA), the Ministry of Education, Culture, Sports, Science and Technology (MEXT), the Ministry of Health, Labour and Welfare (MHLW), the Ministry of Agriculture, Forestry and Fisheries (MAFF), METI, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), and MOE. Examples will then be compiled into an annex document to supplement the Social Bond Guidelines. The draft annex is intended to be prepared for the next meeting, scheduled to take place sometime in February.

1.3 ***FSA's 'Expert Panel on Sustainable Finance' reconvenes to discuss JPX work on establishing an information platform for ESG bonds among other matters***

The FSA's 'Expert Panel on Sustainable Finance' reconvened after three months. Following up on measures outlined in the 'Japan FSA Strategic Priorities July 2021 – June 2022,' Japan Exchange Group (JPX) reported to the Expert Panel on ongoing work regarding the design and implementation of a new information platform on ESG bonds. JPX reported the establishment of a 'Sustainable Finance Platform Development Working Group' in October, for this purpose. The Working Group has held four meetings to date and has debated how to structure the information platform, how to consider eligibility of ESG bonds, and how to operate the platform. The Working Group is expected to publish an Interim Report in due course. The Expert Panel was also asked to deliberate on approaches to enhance the credibility of ESG ratings / information providers, communication between ESG ratings / information providers and companies, expected roles of investors, and implication of differing services related to ESG ratings and information.

1.4 METI's 'Study Group on Disclosure Policies for Non-financial Information' publishes Interim Report and agrees on general way forward

METI continued with its work on the 'Study Group on Disclosure Policies for Non-financial Information' which held its fourth and fifth meetings and published an Interim Report. In the fourth meeting, the Secretariat presented comments on the proposed way forward. General consensus was achieved on the following points and is reflected in the Interim Report. The Study Group will provide input into the IFRS process based on the Interim Report; monitor and assess organisations and their position on the IFRS process; and make recommendations on the application/adoption of the IFRS/ISSB standard in Japan once they are agreed. Notable time was given to discuss the IFRS Management Commentary in relation to non-financial disclosures. However, it was also recognised that it was yet unclear how the Commentary will be positioned and/or integrated into the ISSB discussion, and that continued monitoring would be necessary.

1.5 METI's 'Taskforce Formulating Roadmaps for Climate Transition Finance' publishes roadmaps for chemicals and selects model transition case for steel

METI continued with its work on the 'Taskforce on Preparation of the Environment for Transition Finance (Taskforce on Transition Finance)' and the 'Taskforce Formulating Roadmaps for Climate Transition Finance (Taskforce on Roadmaps)'. The Taskforce on Roadmaps published transition roadmaps for chemicals in addition to the previously published roadmap for steel, and discussed draft roadmaps for electricity, gas and oil. METI also selected the upcoming transition bond issuance by JFE Holdings as the first model transition case for steel. The bond is scheduled to be issued in the fiscal year starting in April, aimed at raising JPY 30billion (USD 260 million). JFE Holdings intends to use the proceeds of the transition bond for the development of innovative and high-efficient steel making methods, and the production of eco-products.

1.6 MOE's 'Green Finance Review Committee' begins its work to update existing guidelines on green instruments and to newly draft guidelines for Sustainability-linked Bonds

MOE established the 'Green Finance Review Committee' and held its first meeting. The Committee is expected to deliberate on the revision of existing green instruments guidelines and to produce the sustainability linked bond guidelines. In the first meeting, the Secretariat gave a presentation on the overview of global/domestic green instruments related guidance and the status of the market. The Secretariat also proposed the following general way forward regarding the updating of domestic guidelines: guidelines will be updated in line with global standards - namely ICMA / Loan Market Association (LMA) - revisions, guidelines will be updated so that they contribute to the healthy development of Japan's sustainable finance market, bearing in mind domestic policy and market developments. Regarding the latter, the following issues will be considered: how to approach the relationship between green and transition; how to assess and set ambitious Sustainability Performance Targets (SPTs); how to assess 'environmental improvement impact' in green projects; and the revision of Annex documents as necessary (updating examples of Key Performance Indicators (KPIs) and Use of Proceeds (UOP)).

2 TIMELINE of Policy Developments

Section 2 provides a timeline of policy developments and relevant sources at a glance with direct links to English material where available, and to Japanese sites in the absence of English material. '(J)' indicates material in Japanese.

Date	Relevant Ministry/ Agency, etc.	Policy Development	Reference to HIGHLIGHTS (Section 1)	Reference to OVERVIEW (Section 3)
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Financial Services Agency (FSA)				
1 October 2021	FSA	2 nd Meeting of the 'Disclosure Working Group' meeting records (J) / materials (J)	1.1	(i)
26 October 2021	FSA	Publication of the 'Social Bond Guidelines' Social Bond Guidelines (E) Social Bond Guidelines Overview (E) other materials (J)	1.2	-
29 October 2021	FSA	3 rd Meeting of the 'Disclosure Working Group' meeting records (J) / materials (J)	1.1	(ii)
1 December 2021	FSA	4 th Meeting of the 'Disclosure Working Group' meeting records (J) / materials (J)	1.1	(iii)
14 December 2021	FSA	Establishment of the 'Meeting of Relevant Ministries regarding the Consideration of Impact Indicators for Social Projects' under the Social Bonds Study Group	1.2	-
21 December 2021	FSA	1 st Meeting of the 'Meeting of Relevant Ministries regarding the Consideration of Impact Indicators for Social Projects' meeting records (J) / materials (J)	1.2	-
19 January 2022	FSA	5 th Meeting of the 'Disclosure Working Group' meeting records (J) / materials (J)	1.1	-
28 January 2022	FSA	10 th Meeting of the 'Expert Panel on Sustainable Finance' meeting records (J) / materials (J)	1.3	-

Ministry of the Economy, Trade and Industry (METI)				
4 October 2021	METI	4 th Meeting of the 'Study Group on Disclosure Policies for Non-financial Information' meeting records (J) / materials (J)	1.4	(iv)
5 October 2021	METI	TCFD Summit 2021 program (J) / summit review (J) / summit report (J)	-	-
15 October 2021	METI	3 rd Meeting of the 'Taskforce Formulating Roadmaps for Climate Transition Finance' meeting records (J) / materials (J) draft roadmap for chemicals (J) draft roadmap for steel (J)	1.5	-
27 October 2021	METI	Publication of the Roadmap for Steel roadmap for steel (J)	1.5	-
4 November 2021	METI / FSA / MOE	4 th Meeting of the 'Taskforce on Preparation of the Environment for Transition Finance' meeting records (J) / materials (J)	1.5	***
5 November	METI	5 th Meeting of the 'Study Group on Disclosure Policies for	1.4	(v)

2021		Non-financial Information' meeting records (J) / materials (J) draft Interim Report (J)		
12 November 2021	METI	Publication of the Interim Report from the 'Study Group on Disclosure Policies for Non-financial Information' Interim Report (J) Interim Report Summary Overview (J)	1.4	(vi)
30 November 2021	METI	4 th Meeting of the 'Taskforce Formulating Roadmaps for Climate Transition Finance' meeting records (J) / meeting materials (J)	1.5	-
10 December 2021	METI	Publication of the Roadmap for Chemicals roadmap for chemicals (J)	1.5	-
20 December 2021	METI	5 th Meeting of the 'Taskforce Formulating Roadmaps for Climate Transition Finance' meeting records (J) / meeting materials (J) draft roadmap for electricity (J) draft roadmap for gas (J) draft roadmap for oil (J)	1.5	-
1 January 2022	METI	Selection and announcement of model transition case based on steel roadmap announcement of selection (J)	1.5	-

Ministry of the Environment (MOE)

8 October 2021	MOE	Call for nominations for the 3 rd ESG Finance Awards Japan announcement of call (J) call open between 8 October 2021 – 12 November 2021	-	-
30 November 2021	MOE	Selection and announcement of model green finance case (sustainability-linked loan) (Fine-sinter Co.) announcement of selection (J)	-	-
16 December 2021	MOE	1 st Meeting of the 'Green Finance Review Committee' meeting records (J) / materials (J)	1.6	(vii)
21 December 2021	MOE	Joins Taskforce on Nature-related Financial Disclosures (TNFD) Forum press release (J)	-	-
24 December 2021	MOE	Selection and announcement of model green finance case (impact finance) (Z Energy Carbon Neutral Fund) announcement of selection (J)	-	-

Bank of Japan (BoJ)

26 November 2021	BoJ	BoJ announces outline of transactions for climate response financing operations announcement of operations (E) List of banks (J) Operation Report (23 December 2021) (J)	-	-
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3 OVERVIEW of Key Meetings and Documents

Section 3 provides a supplementary overview of key meeting records and documents mentioned in this update which have an explicit focus on finance or which are only available in Japanese. The type of document is listed in parenthesis after each headline (e.g. (Press Release)).

(i) **2nd Meeting of the 'Disclosure Working Group' (Meeting Records)**

- In the second meeting of the Disclosure Working Group in 2021 (DWG2021), material summarising the discussions and points raised in the first DWG2021, and material for the basis of discussion on climate related disclosure were presented by the Secretariat.
- Presentation by the Secretariat
 - The first presentation summarised points raised in the first meeting, grouping them into three thematic issue groups; sustainability, corporate governance, and other specific issues.² Climate will be prioritised in sustainability.
 - A second presentation was given on climate related sustainability disclosure. Discussion points include disclosure content and standards, consideration of disclosure regimes in other countries, and other considerations (treatment of future prospects and uncertainty in legal disclosure schemes).
 - The presentation also covered the following points.
 1. Examples of climate disclosure (including Taskforce on Climate-Related Financial Disclosures (TCFD)) in legally mandatory reports (securities reports) as well as other voluntary reporting material.
 2. Different approaches to materiality (EU, CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), Sustainability Accounting Standards Board (SASB), IFRS-ISSB) and the understanding as currently elaborated in the securities report.
 3. Overview of existing sustainability reporting frameworks (TCFD, SASB, GRI, IIRC, CDSB)
 4. Overview of policy developments in the US, UK and EU.
 - Proposed Discussion Points
 1. How should the securities reports approach the concept of materiality?
 2. What are considerations for sustainability-related disclosure in securities reports?
 3. Which of the four thematic areas as defined in the TCFD framework be given particular priority (governance, strategy, risk management, metrics and targets)?
 4. What needs to be considered in terms of working schedule, bearing in mind global developments on related matters?
- Following the presentation by the Secretariat, the floor was opened to Working Group members to discuss proposed discussion points. The broad majority of members seemed supportive of the concept of 'dynamic materiality,' finding the distinction between single and double materiality not particularly relevant. Members also discussed the importance of distinguishing what should be included in legal mandatory disclosure (securities report) whilst supporting such disclosure through other voluntary means. Many seemed to agree on the importance of referencing all necessary information while ensuring it does not inadvertently discourage disclosure. For example, legal repercussions for inaccurate information in securities reports lend to a conservative approach to disclosure. If other disclosure materials referenced in securities reports are bound by the standards of securities reports, this may discourage overall disclosure. On TCFD disclosure elements, there seemed to be broad consensus on governance and risk management being relevant to a wider group of companies, while the necessity of disclosing on strategy and metrics/targets would depend on the materiality of the issue for the company. Global comparability was another frequently raised point,

² For details, see "1st Meeting of the 'Disclosure Working Group' (Meeting Records)" in IGES Issue Brief (June 2021 – September 2021)

for example through ensuring alignment with forthcoming ISSB standards and a disclosure format which would allow for data comparability and systematic usability.

(ii) 3rd Meeting of the 'Disclosure Working Group' (Meeting Records)

- In the third DWG2021, material summarising the discussions and points raised in the second DWG2021, and material for the basis of discussion on sustainability related disclosures (excluding climate) were presented by the Secretariat.
- Presentation by the Secretariat
 - The presentation summarised the points raised in the second meeting including approaches to the concept of materiality, enhancing sustainability disclosure, and on related global developments.
 - On sustainability-related disclosures (excluding climate), discussion was held on general matters first and on specific issues. On general matters, the presentation introduced sustainability elements addressed by different frameworks (SASB, World Economic Forum (WEF), EU Corporate Sustainability Reporting Directive (EU-CSRD)), how sustainability is currently being addressed in the Corporate Governance Code and the securities report disclosure, and the anticipated schedule of related discussions at the IFRS-ISSB.
 - The presentation also took note of the following suggestions from the previous meeting and a relevant development: (1) the possible addition of a section on sustainability in the securities report; (2) the suggested establishment of a domestic entity which would provide input to the IFRS-ISSB process as well as lead discussions on domestic disclosure measures; and (3) the recent revision of the articles of incorporation at the Financial Accounting Standards Foundation (FASB) so as to enable work on sustainability related disclosure.
 - On specific issues, the presentation gave a general overview of current developments/status on the following: (1) matters relevant to diversity related disclosure (including key government policies such as the Act on the Promotion of Female Participation and Career Advancement in the Workplace); and (2) recent and relevant developments on human capital related disclosure (including related developments at the Securities Exchange Commissions (US), the Financial Reporting Council (UK), and ISO30413. The presentation also addressed how human capital as well as R&D are currently being addressed in the securities report disclosure.
 - Proposed Discussion Points
 1. Would it be appropriate for companies to determine wider sustainability related issues to disclose on, according to materiality and relevance to corporate value?
 2. Would it be also appropriate to require disclosure on the following issues in order to ensure comparability? (1) Diversity related disclosures and (2) human capital related disclosures.
 3. Would an addition of a section on sustainability disclosures in the securities report be appropriate?
 4. If so, would it be appropriate to require disclosure on 'governance' and 'risk management' while leaving it to the decision of companies on 'strategy' and 'indicators and targets'?
 5. The need for a domestic entity to provide input to the IFRS-ISSB process as well as to lead domestic discussion on disclosure measures has been raised. How best can we encourage such private initiatives?
- Following the presentation by the Secretariat, the floor was opened to Working Group members to discuss proposed discussion points. There seemed to be broad support for allowing companies to determine which sustainability-related issue to provide disclosure on, while agreeing that human capital-related disclosure is relevant across companies and can become mandatory. A number of members mentioned the importance of human rights and supply chain considerations in the context of human capital. There was agreement on adding a designated section on sustainability disclosure while acknowledging the relevance and importance of integrating approaches to sustainability in management approaches and risk management. On the four disclosure elements, several members indicated the importance of disclosing on all four elements, while others questioned whether specific data on indicators were appropriate to disclose in the securities report. The Japan Business Federation

(Keidanren), participating as an observer, also shared its' intention to propose a sustainability standard setting body under the FASF.

(iii) 4th Meeting of the 'Disclosure Working Group' (Meeting Records)

- In the fourth DWG2021, material summarising developments related to corporate disclosure since the last meeting, and material for the basis of discussion on corporate governance disclosure were presented by the Secretariat.
- Presentation by the Secretariat
 - The presentation gave an overview of recent developments related to corporate disclosure including: the official establishment of the ISSB by the IFRS, a proposal for the establishment of a sustainability standard setting body under the FASF by Keidanren, and highlights of recent work on financial auditing – notably a summary of issues and ways forward discussed at the "Advisory Council on the System of Accounting and Auditing (2021)" under the FSA.
 - The presentation then gave a general overview of the most recent updates to legislation related to corporate governance disclosure (revisions of the corporate governance code and legislative amendments made in 2019 as a result of deliberations at the DWG2018) and a brief assessment of current practices on the following: (1) disclosure related to board meetings, director succession / induction, and remuneration; (2) ensuring confidence in financial auditing; and (3) disclosure related to cross-share-holdings.
 - Proposed Discussion Points
 1. Regarding disclosure related to board meetings, director succession/induction, and remuneration is currently encouraged in corporate governance reports and current practice sees an increase in voluntary reporting. In this context, would an addition of a section on such disclosure in the securities report be appropriate? Would requiring reporting on the frequency of meetings, major issues on the agenda, and attendance, while allowing further room for discretionary reporting be appropriate?
 2. Would it be appropriate to require disclosure on the following for the purpose of ensuring confidence in financial auditing? (1) An explanation of Key Audit Matters (KAM) by the auditors. (2) An explanation of the auditing status and activities of the auditing committee from the perspective of the auditors. (3) An explanation on the effectiveness of auditing including the practice (or the lack thereof) of dual reporting.
 3. Would it be appropriate to require disclosure on the following in regard to cross-shareholdings? (1) Existing business partnerships and the rationale for such partnerships. (2) Criteria for exercising voting rights. (3) Significant/important shareholdings for investment purposes.
- Following the presentation by the Secretariat, the floor was opened to Working Group members to discuss proposed discussion points. Broad consensus was seen regarding the direction proposed by the Secretariat with members weighing in on the importance and challenges of specific discussion points. On the first discussion point, a few members mentioned the importance of disclosing not only general agenda items of the board, but disclosing specific agenda to the reporting year, as well as the discussions behind and rationale for the decisions taken. A number of members also raised the importance of explaining why certain disclosure is required and presenting best practices so as to avoid boilerplate disclosures. On the third discussion point, many raised the issue with current practice itself, whereby some companies effectively continued with cross-shareholding while designating such holdings as for investment purposes. Members seemed to be divided on the necessity to disclose all other shareholdings. There was also discussion regarding constraints deriving from current practice regarding the timing of submitting securities reports, issuing integrated reports, and when annual (general) shareholders meetings were being held. For example, some members pointed to the need for certain information to be available before the annual shareholders meetings while in practice, securities reports are filed on the date of, or shortly following the annual shareholder meetings. Furthermore, while discussions frequently mentioned complementing information

disclosed in securities reports through disclosure in, and reference to, integrated reports, a member noted that integrated reports usually follow securities reports.

(iv) 4th Meeting of the 'Study Group on Disclosure Policies for Non-financial Information' (Meeting Records)

- In the fourth meeting of the Study Group on Disclosure Policies for Non-financial Information, a presentation by the Secretariat was followed by discussions intended to provide input to the upcoming Interim Report.
- Presentation by the Secretariat
 - The presentation set out related developments since the last meeting, with particular focus on the EFRAG 'Climate standard prototype' working paper and the subsequent 'Basis for Conclusions' based on the EU-CSR.
 - On the climate-related financial disclosure standard prototype, the presentation first gave an overview of IOSCO's vision and expectations for the IFRS Foundation's work (as released by IOSCO in late June), and also gave an overview of discussions in the Technical Readiness Working Group as shared at the IFRS Advisory Council in September. Pre-collated comments on the following proposed way forward (including direction of the forthcoming Interim Report) were then presented.
 1. General direction on work regarding the standard prototype: The following points will form the basis of the direction to be presented in the forthcoming Interim Report. Fundamental perspectives on standards for financial disclosure and non-financial disclosure differ, a uniform approach to non-financial disclosure is inappropriate – disclosure focus on material information will be more efficient and effective for both company and investor, materiality to value creation should be identified through a long-term perspective, material information should be disclosed in relation to management strategy, and the medium through which these information / data is disclosed should be carefully considered bearing in mind the usability and characteristic of the intended recipient.
 2. Discussions of relevant organisations following and commenting on discussions at the IFRS: Monitor ongoing discussions and indicate where the discussions stand in relation to that of the Study Group in the forthcoming Interim Report.
 3. How to address related documents from the IFRS: Provide an assessment of the IFRS Management Commentary in the forthcoming Interim Report.
 4. Comments on the standard prototype: Pre-collated comments will form the basis of thinking for the Study Group and serve as a starting point for any feedback and input in to the IFRS/ISSB process.
 5. Responding to forthcoming IFRS/ISSB draft Standard: The Study Group will respond (means and approach to be further considered) based on the thinking of the Study Group to be reflected in the Interim Report, so that the Study Group's thinking is best reflected in the IFRS/ISSB standard.
 6. Application/Adoption of the IFRS/ISSB Standard: The application/adoption of the forthcoming IFRS/ISSB Standard in Japan, including how, when and for whom, is foreseen to be a subject of intense debate. However, such considerations will be largely dependent on the final outcome of the IFRS/ISSB Standard, and therefore developments will be closely monitored, including after the issuance of the Interim Report. In light of this, the Study Group will deliberate and make recommendations.
 - An overview of the IFRS Management Commentary
 - A rough outline of the forthcoming Interim Report of the Study Group
 1. Basic thinking on non-financial information disclosure
 2. Non-financial information disclosure on specific issues:
 - (1) climate change
 - (2) human capital
 3. Responding to forthcoming IFRS/ISSB draft Standard

- 4. Future considerations:
 - (1) updating non-financial information disclosure in line with domestic and global developments and direction of debate
 - (2) high-quality engagement/discussions regarding non-financial information disclosure
 - (3) engagement with global disclosure standard setting organisations
- Proposed Discussion Points
 - 1. Discussions will form the basis for the Interim Report Chapter 1 and 2 (1). Any comments and feedback on the way forward regarding structure and content of the Interim Report, as proposed by the Secretariat.
- Following the presentation by the Secretariat, the floor was opened to Study Group members to discuss proposed discussion points. The following are some of the comments that were repeatedly raised and/or were particularly notable.
 - Revisiting the choice of words used in the proposal when differentiating between financial and non-financial information disclosure ('completeness' for the former and 'best' for the latter).
 - The need to further discuss measures and approaches regarding the connectivity between financial and non-financial information disclosure.
 - The relevance of the IFRS Management Commentary to the discussions on non-financial disclosure and the need to closely monitor how it will or will not be integrated into the discussions regarding the ISSB, as the IASB is its fundamental domain.
 - The need to avoid boilerplate disclosures.
 - The importance of utilising integrated reports, as the uptake of integrated reporting by Japanese companies is relatively high.
 - The difference in the nature of issues between climate and human capital, and how such differences should be addressed.
 - The need to allow companies sufficient time to adopt disclosure requirements.
 - The need to consider materiality when assessing the necessity for disclosure, and possibly CO2 emissions as a key component when considering materiality.
 - The importance of value chain management and the need to be mindful of 'zero-carbon' measures possibly having a negative impact on biodiversity, forest destruction and human rights, and how the approach of the EU Taxonomy (with their Do No Significant Harm (DNSH) principle) may provide insight in this regard.

(v) 5th Meeting of the 'Study Group on Disclosure Policies for Non-financial Information' (Meeting Records)

- In the fifth meeting of the Study Group on Disclosure Policies for Non-financial Information, a presentation by the Secretariat was followed by discussions on the draft Interim Report.
- Presentation by the Secretariat
 - The presentation set out related developments since the last meeting, with particular focus on the newly updated TCFD documents, including the 'Annex: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (October 2021)' and the 'Guidance on Metrics, Targets, and Transition plans (October 2021),' as well as IFRS-ISSB related announcements at COP26.
- Presentation on the draft Interim Report³
- Discussion by Study Group Members
 - The issue of verification should be emphasised as something to be further discussed. (Secretariat response: The discussion regarding verification leans towards the realm of regulatory measures, which then becomes beyond the scope of this Study Group. However we can start by assessing global trends.)

³ For a translation of the table of contents and overview of the final Interim Report, see (vi) Interim Report by the 'Study Group on Disclosure Policies for Non-financial Information (Report)'.

- Investment criteria not only differ between institutions and different types of investors but even within an institution, and this should be noted.
- There is a further need to clarify the use of the following wording within the report: sustainability-related disclosure, sustainability-related financial disclosure, non-financial disclosure.
- The rationale for endorsing a 'comply or explain' approach to disclosure needs to be further clarified. For example, 'explain' is a form of disclosure. Perhaps what the approach intends is to value is the ownership of the company disclosing the information. It should also be further clarified where this approach stands vis-à-vis the IFRS-ISSB approach to define materiality/indicators based on industry.
- An industry-based analysis and consideration of indicators, based on the Japanese industry context should be undertaken. (Secretariat response: An important proposal which will be duly considered.)

(vi) Interim Report of the 'Study Group on Disclosure Policies for Non-financial Information' (Report)

- Table of Contents
 - Recommendations: Four recommendations for the realization of high quality sustainability related information disclosure
 - Introduction: The three 'wavering' areas of understanding regarding sustainability related information disclosure
 - Chapter 1: Developments regarding non-financial information
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 2. Developments at the IFRS Foundation
 3. Developments at International Organization of Securities Commissions (IOSCO)
 4. Developments in the EU
 - Chapter 2: Sustainability information disclosure on specific issues
 1. Climate related disclosure: climate related financial disclosure standard prototype
 2. Human capital related information disclosure
 - For future deliberations
 1. Utilizing the Interim Report / Recommendations
 2. Further considerations taking into account national/global discussions and developments
 - Appendix 1: 'Study Group on Disclosure Policies for Non-financial Information' Meetings
 - Appendix 2: 'Study Group on Disclosure Policies for Non-financial Information' Members
 - Appendix 3: Climate-related financial disclosure standard prototype
 - Appendix 4: Climate standard Prototype based on the EU-CSR
 - Appendix 5: Public draft of the IFRS Management Commentary
- Four recommendations for the realization of high quality sustainability related information disclosure
 1. The importance of value relevance to sustainability related information disclosure
Value relevance from the point of view of corporate value needs to be emphasized in sustainability related information disclosure. Material matters need to be identified in a middle to long term perspective, as something holistic with considerations regarding management decisions and strategy, and need to be disclosed in an integrated and continued manner.
 2. The need to exercise ownership in applying sustainability disclosure standards (finding an appropriate balance between norms and originality)
From the perspective of realizing disclosure conveying corporate value, companies need to find the most appropriate balance between ensuring objectivity and comparability of disclosed information and demonstrating originality, through the exercise of ownership regarding disclosure content.
 3. Deepening the understanding of the relation between sustainability information and corporate value
Common understanding still does not exist between providers and users of information

regarding what kind of sustainability information is of high relevance to corporate value and or financial information. The understanding of the relation/relevance between the two is hoped to deepen through global discussions and deliberations.

4. Sustainability related information disclosure leading to 'dialogue' with investors/stakeholders

In order to realize the sustainable creation of corporate value, it is important to create a virtuous cycle between sustainability related information disclosure and sustainable value creation, through disclosure in line with the above recommendations and continued dialogue with investors/stakeholders.

● The three 'wavering' areas of understanding (emerging issues or areas where discussions are ongoing without a clearly established common understanding) regarding sustainability related information disclosure

1. There is yet to be a common understanding regarding the appropriate balance between ensuring commonality/comparability in disclosure standards (much anticipated with work progressing towards a global disclosure standard) and ensuring that the disclosure respects the originality/diversity of companies.

2. Despite work progressing towards a global disclosure standard, various disclosure standards continue to exist, with each standard bearing in mind different recipients of information and materiality, and designating differing items for disclosure. There is a spectrum of understanding regarding what specifically and to whom companies need to disclose information. Discussions regarding materiality, or how companies should identify which information to disclose, is still ongoing.

3. There is yet to be a common understanding regarding the connection and/or overlap between the concepts, and thus the utilization of terms, of 'financial information,' 'non-financial information' and 'sustainability information.'

(vii) 1st Meeting of the 'Green Finance Review Committee' (Meeting Records)

- In the first meeting of the Green Finance Review Committee, a presentation by the secretariat on current trends of green finance and a proposed way forward was followed by discussions and feedback from Review Committee members.
- Presentation by the Secretariat
- Discussion by Review Committee Members
 - Japan's guidelines on green financial instruments need to be updated as corresponding global principles are revised. Japan's guidelines should at least meet the global principles and if there are any differences, they should be explicitly noted.
 - The guidelines should serve to grow Japan's sustainable finance market, and due consideration should be given to what the actual bottlenecks are.
 - The guidelines should be updated so as to increase the quality of green instruments.
 - The guidelines (or annexes accompanying the guidelines) should elaborate on how ambition should be assessed in SPTs.
 - In updating the guidelines, the Review Committee should be aware of why sustainability linked bonds (SLBs) have not gained momentum in Japan. Global cases should be reviewed, including SPTs and the bond characteristics, and the rationale for its uptake.
 - Guidance should be provided on where 'green' instruments and 'sustainability-linked' instruments stand vis-à-vis transition finance.
 - Updates on the guidelines should elaborate on impact reporting.

APPENDIX English/Japanese Translation Table

B	Bank of Japan	日本銀行
C	Cabinet Office	内閣官房
	Consumer Affairs Agency	消費者庁
	Disclosure Working Group	ディスクロージャーワーキンググループ
E	Expert Panel on Sustainable Finance	サステナブルファイナンス有識者会議
F	Financial Services Agency	金融庁
	Financial Systems Council	金融審議会
G	Green Finance Review Committee	グリーンファイナンスに関する検討会
J	Japan Exchange Group	日本取引所グループ
	JFSA Strategic Priorities July 2021 -June 2022	2021 事務年度金融行政方針
M	Meeting of Relevant Ministries regarding the Consideration of Impact Indicators for Social Projects	ソーシャルプロジェクトのインパクト指標等の検討に関する関係府省庁会議
	Ministry of Agriculture, Forestry and Fisheries	農林水産省
	Ministry of Economy, Trade and Industry	経済産業省
	Ministry of the Environment	環境省
	Ministry of Foreign Affairs	外務省
	Ministry of Health, Labour and Welfare	厚生労働省
	Ministry of Internal Affairs and Communications	総務省
	Ministry of Justice	法務省
	Ministry of Land, Infrastructure, Transport and Tourism	国土交通省
S	Social Bonds Study Group	ソーシャルボンド検討会議
	Social Bonds Guidelines	ソーシャルボンドガイドライン
	Study Group on Disclosure Policies for Non-financial Information	非財務情報の開示指針研究会
	Sustainable Finance Platform Development Working Group	サステナブルファイナンス環境整備検討会
T	Taskforce on Preparation of the Environment for Transition Finance	トランジション・ファイナンス環境整備検討会
	Taskforce Formulating Roadmaps for Climate Transition Finance	クライメート・トランジション・ファイナンスのためのロードマップ策定に向けた検討会

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