

The LIAJ's Comments on the ED
IFRS Sustainability Disclosure Standard

[Draft] IFRS S2 Climate-related Disclosures

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The Life Insurance Association of Japan (LIAJ)

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I. General comments on the Exposure Draft

- We, The Life Insurance Association of Japan (or the “LIAJ”), would like to extend our gratitude to the International Sustainability Standards Board (or the “ISSB”) for providing us with the opportunity to submit comments on the draft “IFRS Sustainability Disclosure Standards” (hereafter the “Exposure Draft”), published in March 2022.

<Global baseline>

- The LIAJ welcomes the development of the Exposure Draft as a global baseline based on the TCFD recommendations which are supported by many companies in Japan. However, considering that the Exposure Draft is intended to be a global baseline for building each jurisdictional standard, we are concerned that it may pose an excessive burden on companies that are addressing the TCFD recommendations as the disclosure items are granular and requirements are overly restrictive, particularly in the IFRS S2 and the industry-based disclosure requirements. To encourage the type of disclosure consistent with the ISSB’s standards, we believe a certain level of flexibility needs to be ensured so that the ISSB’s standards would not hinder the development of standards that considers the actual practices of each jurisdiction.

<Scope 3 emissions>

- As for the GHG emissions of an investee entity, which is required to be disclosed by insurers in terms of transition risks, the level of disclosure varies by investee entities, so we believe the reporting of Scope 3 emissions by insurers at this stage should not be required in a uniform manner. Instead, we should continue our discussion and consideration based on the usefulness, comparability and calculation burden for disclosing information.
 - In case a uniform disclosure format is required, there needs to be a reasonable amount of time to prepare and to establish a framework for addressing issues such as data consolidation.
 - Since insurers, as institutional investors, need to calculate the emissions of Scope 3, Category 15 (investments) following the disclosure of GHG emissions by each investee entity, calculating the aggregate amount of emissions would take considerable time. We hence believe operational flexibility should be allowed, including the options to distinguish the reporting period of an investee entity’s GHG emissions from that of financial statements.

<Industry-based disclosure requirements Volume B17–Insurance>

- While the industry-based disclosure requirements are derived from SASB Standards, flexibility should be allowed in the industry classifications and the disclosure requirements for each industry, according to the situation in each jurisdiction.
- While the industry-based disclosure requirements Volume B17 apply to “insurance” as a whole, life and non-life insurers are substantially different in term of business model and the impact thereof. Therefore, we believe considerations need to be made for each disclosure item in this regard.
- The LIAJ is a trade association comprised of all 42 life insurance companies operating in Japan. Its goals are to promote the sound development of the life insurance industry in Japan, maintain its trustworthiness, and thereby contribute to improving the quality of life in Japan. The LIAJ would like to respectfully request the ISSB to carefully consider the comments submitted from the sole

representative body of the life insurance industry in Japan, which accounts for approximately 11%¹ of the world's life insurance premiums.

¹ Swiss Re Institute, *sigma* No 3/2021.

II. Responses to the questions on ED Climate-related Disclosures

Question S2-1: Objective of the Exposure Draft
<p>Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting:</p> <ul style="list-style-type: none">• to assess the effects of climate-related risks and opportunities on the entity's enterprise value;• to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and• to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities. <p>Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.</p> <p>(a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?</p> <p>(b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?</p> <p>(c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?</p>
Comment
<ul style="list-style-type: none">• We agree with the objective that has been established for the Exposure Draft (to require an entity to provide information to enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value).

Question S2-2: Governance

Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities.

The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies. The related TCFD's recommendations are to: describe the board's oversight of climate-related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities.

Paragraphs BC57–BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

Comment

- We agree with the proposal of the Exposure Draft that the governance disclosure requirements are based on the TCFD recommendations. However, we believe that the disclosure requirements in the Exposure Draft are too granular and IFRS S2 should remain in principle as a global baseline.

Question S2-3: 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?

Comment

- The proposed requirements in this standard are voluminous and granular. While we support the proposal to require an entity to disclose financial information regarding climate-related risks and opportunities, we are concerned that requiring to disclosure information uniformly may lead to keeping strategically important information buried, because the effects of climate-related risks and opportunities vary depending on, for example, industry, business model, strategy and location.
- If other thematic standards are developed in the future that are as granular as this standard, the amount of information on the sustainability-related financial disclosures may become too excessive, leading to an increased burden on preparers and a loss of convenience for users. Therefore, we believe that IFRS S2 should remain in principle as a global baseline.
- With regard to identification of climate-related risks and opportunities, we appreciate that the Exposure Draft considers multiple time horizons (short, medium and long term). However, the assessment based on short- and medium-term horizons may harm the efforts over long-term horizons, so we believe that this standard should not be too granular, and the discretion of an entity should be respected.

Question S2-4: 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?

Comment

- We agree with the proposal to require 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.
- With regard to the concentrations of climate-related risks and opportunities in an entity's value chain, we also appreciate that the disclosure required should be qualitative rather than quantitative, considering measurement challenges.
- However, as there are differences in the understanding of value chains between entities, this could lead to variations in disclosure, and we believe that the need for future adjustments be noted as well.

Question S2-5: 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?

Comment

- The disclosure status of GHG emissions of investee entities, which includes a disclosure requirement for transitional risks for the insurance industry, varies by investee entities. Therefore, Scope 3 emissions reporting by an insurance entity should be applied in a phased manner at this time, taking into account the usefulness, comparability, and calculation burden of the disclosed information, instead of requiring an insurance entity to report items uniformly.
- In addition, IFRS S2 should remain in principle as a global baseline, but if these disclosures are to be standardized under IFRS S2, the following information should be made publicly and uniformly available in order to ensure that disclosure of information about the use of carbon offsets is easy, comparable, and appropriate, with respect to Paragraph 13 (b) (iii) (2) and (3).
- List of certified carbon offsets (including single or multiple schemes)
- Type of carbon offsets (including whether the offset will be nature-based or based on technological carbon removals)
- Information necessary for users to understand the credibility and integrity of each carbon offset

Question S2-6: 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?

Comment

- With regard to (b) and (c), we agree that the effects of climate-related risks and opportunities on an entity's financial performance should be disclosed in a form that is easy for users to understand, but the burden on preparers should also be considered when calculating the degree of effects.

Question S2-7: 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?

Comment

- With regard to climate-related scenario analysis, we appreciate that it has become possible to assess an entity's climate resilience, including by alternative techniques. However, the disclosure of scenario analysis should be left to the discretion of an entity and should not be mandatory for an entity, taking into account the instances where an entity cannot avoid disclosing highly confidential information, calculating costs to benefits, and the burden on preparers.

Question S2-8: Risk management

An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities.

Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response.

Paragraphs BC101–BC104 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

Comment

- We agree with the proposed disclosure requirements for risk management processes since they reflect the progress of common practice in risk management.

Question S2-9: 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

<p>1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?</p> <p>(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))?</p> <p>(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:</p> <p>(i) the consolidated entity; and</p> <p>(ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?</p> <p>(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?</p>
<p>Comment</p>
<ul style="list-style-type: none"> · We agree with the proposed seven cross-industry metric categories. We also think that it is meaningful to define Scope 1, Scope 2, and Scope 3 and standardize measurement methods for the sake of usefulness for users. · However, for example, with regard to Paragraph 21 (a), we are concerned that the required standards for disclosure of GHG emissions are very granular, and that the importance of Scope 3 emissions varies among entities depending on their business model, even within the same industry, so the requirement for disclosure on an emissions basis may lead to an excessive burden on disclosing entities. This may limit the number of entities that can disclose in accordance with the standard, and may not be in line with the original intent of developing the standard, which is to encourage entities to disclose. · In addition, compared to Scope 1 and Scope 2 emissions, the information about Scope 3 emissions is considered to differ in reliability and data availability. Hence, an entity may refine their Scope 3 measurement methods according to the content of information obtained from suppliers and investee entities, which may result in retroactive revision of the amount of past GHG emissions. · Therefore, as in Paragraph 21 (a) (i), Scope 3 should not require the same level of information regarding completeness, reliability, and comparability as Scope 1 and Scope 2, as an entity should be allowed to disclose information in a flexible manner based on the determination of materiality by an entity. We are concerned that by placing Scope 3 disclosures on the same level as Scope 1 and 2, preparers may become reluctant to disclose and lead to a regression in disclosure. We believe that separating Scope 3 from Scope 1 and Scope 2 will encourage disclosure by an entity that is more in line with the actual condition of Scope 3 and benefit more users. · With regard to Paragraph 21 (f), since the necessity and importance of disclosure regarding internal carbon prices vary among industries (e.g., the manufacturing industry, which has relatively high GHG emissions, differs from the financial and service industries), disclosure should not be mandatory for

an entity.

- We agree with the proposal 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. However, we do not agree with the disclosures for Scope 1, Scope 2 and Scope 3 emissions that are disaggregated by constituent greenhouse gas.

Question S2-10: 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?

Comment

- In order to make it possible for a disclosing entity to respond smoothly, it should be allowed for an entity to disclose items in a phased manner, rather than requiring an entity to disclose all items from the beginning.

Question S2-11: 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?

Comment

(a)-(c)

- While we agree with the industry-based disclosure requirements, the industry classification and disclosure items for each industry should be treated flexibly in accordance with the circumstances of each jurisdiction. In addition, while the industry-based disclosure requirements Volume B17 apply to “insurance” as a whole, life and non-life insurers are substantially different in term of business model and the impact thereof. Therefore, we believe considerations need to be made for each disclosure item in this regard.

(d)

- Compared to Scope 1 and Scope 2, Scope 3 should not require the same level of information regarding completeness, reliability, and comparability as in Paragraph 21 (a) (i), as an entity should be allowed to disclose information in a flexible manner based on the determination of materiality by an entity.

(h)

- We agree with the proposal since it is premature for the ISSB to adopt a specific methodology provided by a specific organization, as there is no established global standard for calculating GHG emissions in terms of disclosure. In addition, various methodologies of disclosure should be considered at this time, taking into account the country in which an entity is located and the circumstances in which it is placed, as well as comparability.

(j)

- IFRS S2 should remain in principle as a global baseline. In addition, from the perspective of whether reliable data can be obtained continuously and the burden associated with obtaining and disclosing such data, we do not agree with the industry-based requirements in the Exposure Draft, which demand detailed disclosure from an entity.

- The LIAJ's comments on each Code and the Basis for Conclusions (BC 152 and 157) are as follows:

(FN-IN-410a.2)

- This item also covers social and governance factors, which are inconsistent with the "climate-related disclosures," and we believe that a reasonable explanation is needed to cover these non-climate-related factors.

(FN-IN-410b.1)

- We believe that the description of this item (net premiums written related to energy efficiency and

low carbon technology) is intended for the non-life insurance segment. We request that the scope of this item be reconsidered, as to avoid inefficient responses and disclosure by the life insurance segment.

(FN-IN-410b.2)

- This item also covers insurance related to health and safety, which is inconsistent with the "climate-related disclosures", and we believe that a reasonable explanation is needed to cover these non-climate-related factors. In addition, although this item also covers the life insurance segment, based on the examples provided, the description seems intended for the non-life insurance segment when only the environmental factors are covered. We request that the scope of this item be reconsidered, as to avoid inefficient responses and disclosure by the life insurance segment.

(FN-IN-450a.1 and FN-IN-450a.2)

- We request that the scope of this item be reconsidered, as it is difficult to reasonably measure the direct impact of natural catastrophe risk on the life insurance segment (as there is also no established analytical methodology) compared to the non-life insurance segment.

(FN-IN-450a.3)

- In cases where there is no need to consider the impact in the first place, such as where it is confirmed that there is no significant impact, it should be sufficient to just state that reason.

(FN-IN-000.A)

- We would like to confirm if an entity can choose the activity metrics from the number of policies, amount of policies in force, and number of customers, etc. In addition, please explain the reason for requiring the disclosure of the above metrics in the "climate-related disclosures."

(FN-IN-1 to 5)

- Considering the large workload burden for the disclosure of gross investment exposure and GHG emissions for each industry and asset class, we believe that disclosure will be further encouraged if it is possible to start the disclosure process with core entities of a group that can adequately address the disclosure.

(FN-IN-1)

- With regard to the statement "The scope of disclosure includes but is not limited to loans, project finance, bonds, equity investments and derivatives", we believe that it is premature to include derivatives, etc. in the scope of disclosure. The NZAOA does not include derivatives in the target because the calculation method has not been established. Even if they are to be included in the scope of disclosure, in case there is a logical reason such as the lack of the calculation method, it should be sufficient to just state that reason.

(FN-IN-3 and FN-IN-4)

- In the calculation of Category 15, it is premature to include Scope 3 of an investee entity as financed

emissions, as the discussion has not yet reached a conclusion even globally.

- As stated in BC 152 ("Basis for Conclusions," p. 48), we recognize that an increasing number of entities across all sectors disclosing GHG emissions and the existence of the Partnership for Carbon Accounting Financials (PCAF) have advanced the understanding and calculation of GHG emissions for financial institutions. Based on this recognition, we agree that the ISSB requires entities to disclose their proposed financed emissions using the GHG Protocol's corporate value chain (Scope 3) accounting and reporting standards, without establishing a more specific methodology.
- However, since there is no established global standard for calculating GHG emissions for disclosure, we believe that it is premature to establish a specific methodology that relies on a specific organization. Therefore, specific methodologies for disclosure should be allowed to make full use of the various methods that take into account the characteristics and circumstances of each jurisdiction and industry.
- We agree with the description in BC157 ("Basis for Conclusions," p. 50) that states "The difficulties inherent in the comparability, coverage, transparency and reliability of Scope 3 GHG emissions data is recognized."
- Based on this recognition, there needs to be careful discussion on whether Scope 3 emissions reporting should be required from the beginning. In addition, in terms of calculating Scope 3 emissions for financial institutions, an entity should not be required to report items uniformly at this time, considering the usefulness, comparability, and the calculation burden for disclosed information.

Question S2-12: Costs, benefits and likely effects

Paragraphs BC46–BC48 of the Basis for Conclusions set out the commitment to ensure that implementing the Exposure Draft proposals appropriately balances costs and benefits.

- (a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?
- (b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?
- (c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

Comment

- We appreciate that the Exposure Draft is aware of appropriately balancing the costs and benefits for implementation. However, we believe that the costs of disclosure required by the Exposure Draft should especially be noted to ensure that the burden on an entity is not excessive considering that there are some parts that are uncertain at this point.
- In particular, the disclosure status of Scope 3 emissions reported by an insurance entity varies by investee entities, and the costs and benefits of such disclosure should be the subject of continuous

discussion and consideration.

Question S2-14: 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?

Comment

- We believe that since the disclosure requirements in the Exposure Draft are too granular, it is necessary for entities to establish a framework for data consolidation for disclosure, as well as to ensure a reasonable period (at least 2 years or more) for implementation.

Question S2-16: Global baseline

IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

Comment

- We do not believe that there are such particular aspects. We appreciate that the Exposure Draft is positioned as providing a comprehensive global baseline for the assessment of enterprise value. In order to be applied as a global baseline, it is desirable to maintain the approach to not be overly uniform or restrictive.