

The LIAJ's Comments on the ED

IFRS Sustainability Disclosure Standard

Amendments to Greenhouse Gas Emissions Disclosures

Proposed amendments to IFRS S2

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The Life Insurance Association of Japan (LIAJ)

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Responses to the questions on ED “Amendments to Greenhouse Gas Emissions Disclosures”

Question 1—Measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions

The ISSB proposes to permit entities to limit their disclosure of Scope 3 Category 15 greenhouse gas emissions. This limitation would permit entities to exclude some of their Scope 3 Category 15 greenhouse gas emissions, including those emissions associated with derivatives, facilitated emissions and insurance-associated emissions, when measuring and disclosing Scope 3 greenhouse gas emissions in accordance with paragraph 29(a)(i)(3) of IFRS S2.

- (a) The ISSB proposes to add paragraph 29A(a), which would permit an entity to limit its disclosure of Scope 3 Category 15 greenhouse gas emissions to financed emissions, as defined in IFRS S2 (being those emissions attributed to loans and investments made by an entity to an investee or counterparty). For the purposes of the limitation, the proposed paragraph 29A(a) would expressly permit an entity to exclude greenhouse gas emissions associated with derivatives. Consequently, this paragraph would permit an entity to exclude emissions associated with derivatives, facilitated emissions or insurance-associated emissions from its disclosure of Scope 3 greenhouse gas emissions.

The proposed amendment would not prevent an entity from choosing to disclose greenhouse gas emissions associated with derivatives, facilitated emissions or insurance-associated emissions should it elect to do so.

Paragraphs BC7–BC24 of the Basis for Conclusions describe the reasons for the proposed amendment.

Do you agree with the proposed amendment? Why or why not?

- (b) The ISSB also proposes to add paragraph 29A(b), which would require an entity that limits its disclosure of Scope 3 Category 15 greenhouse gas emissions, in accordance with the proposed paragraph 29A(a), to provide information that enables users of general purpose financial reports to understand the magnitude of the derivatives and financial activities associated with the entity’s Scope 3 Category 15 greenhouse gas emissions that are excluded. Therefore, the ISSB proposes to add:
- paragraph 29A(b)(i) which would require an entity that has excluded derivatives from its measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions to disclose the amount of derivatives it excluded; and
 - paragraph 29A(b)(ii) which would require an entity that has excluded any other financial activities from its measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions to disclose the amount of other financial activities it excluded.

The term ‘derivatives’ is not defined in IFRS Sustainability Disclosure Standards, and the ISSB does not propose to define this term. As a result, an entity is required to

apply judgement to determine what it treats as derivatives for the purposes of limiting its disclosure of Scope 3 Category 15 greenhouse gas emissions, in accordance with the proposed paragraph 29A(a). The proposed paragraph 29A(b)(i) would require an entity that has excluded derivatives from its measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions to explain the derivatives it excluded.

Paragraphs BC7–BC24 of the Basis for Conclusions describe the reasons for the proposed disclosure requirements.

Do you agree with the proposed disclosure requirements? Why or why not?

Comment

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 exposure draft “Amendments to Greenhouse Gas Emissions Disclosures” (hereafter the “ED”), published in April 2025.

- (a) The LIAJ agrees with the proposed amendment. It would be reasonable to exclude emissions associated with derivatives, facilitated emissions and insurance-associated emissions from the scope of measurement and disclosure of Scope 3 greenhouse gas emissions, as there is no established measurement methodology.
- (b) The LIAJ does not agree with the proposed disclosure requirements.

The proposed paragraph 29A(b) requires an entity to disclose the amount of derivatives and other financial activities it excluded in accordance with proposed paragraph 29A(a). However, this would not be appropriate for the following reasons:

Firstly, considering the purpose of using derivatives and their price volatilities and their relationship with the market, the amount of derivatives would not be suitable as a metric to assess climate-related risks and opportunities. While financial institutions use derivatives for hedging purposes, the volatility sources of derivatives depend largely on market conditions such as interest and exchange rates rather than the climate-related risks and opportunities. As such, this requirement could confuse users in making judgements.

Secondly, disclosing the amount of derivatives and other financial activities could exacerbate the narrow-minded focus on the figures and contribute to making simplistic comparisons between entities. The proposed requirement is leaving the scope and measurement methodology for derivatives and other financial activities to each entity’s discretion and the figures disclosed would not be suitable for comparison between entities.

Question 2—Use of the Global Industry Classification Standard in applying specific requirements related to financed emissions

Paragraphs 29(a)(vi)(2) and B62–B63 of IFRS S2 require entities with commercial banking or insurance activities to disclose additional information about their financed emissions. These entities are required to use the Global Industry Classification Standard (GICS) for classifying counterparties when disaggregating their financed emissions information in accordance with paragraphs B62(a)(i) and B63(a)(i) of IFRS S2.

- (a) The ISSB proposes to amend the requirements in paragraphs B62(a)(i) and B63(a)(i) of IFRS S2 and to add paragraphs B62A–B62B and B63A–B63B that would provide relief to an entity from using GICS in some circumstances. Under the proposals, an entity can use an alternative industry-classification system in some circumstances when disaggregating financed emissions information disclosed in accordance with paragraphs B62(a)–B62(b) and B63(a)–B63(b) of IFRS S2.

Paragraphs BC25–BC38 of the Basis for Conclusions describe the reasons for the proposed amendment.

Do you agree with the proposed amendment? Why or why not?

- (b) The ISSB also proposes to add paragraphs B62C and B63C to require an entity to disclose the industry-classification system used to disaggregate its financed emissions information and, if the entity does not use GICS, to explain the basis for its industry-classification system selection.

Paragraphs BC25–BC38 of the Basis for Conclusions describe the reasons for the proposed disclosure requirements.

Do you agree with the proposed disclosure requirements? Why or why not?

Comment

- (a) The LIAJ does not agree with the proposed disclosure requirements from four perspectives below:

- (i) The proposed requirement in paragraphs B62B(a) and B63B(a) to require the reporting entity to use GICS if the entity uses GICS in any part of the entity to classify its lending or investment activities at the reporting date would not be reasonable.

Adoption of this requirement would cause unfairness between entities since only the entities already using GICS would be required to use GICS in the disclosure of financed emissions. Also, this requirement lacks clarity in the way to determine if the entity is using GICS. For example, the requirement does not address those entities which use GICS for purposes other than disclosure (e.g. for the purpose of internal management of credit) but use other industry-classification systems for disclosure purposes. In this case, if the entity is required to use GICS for disclosure purposes, the industry-classification system that the entity selected by

itself is to be overridden by GICS. As such, this requirement could end up making entities hesitant to use GICS.

(ii) Consistency in jurisdictional relief is not ensured:

The concept of jurisdictional relief based on requirements by a jurisdictional authority or an exchange on which the entity is listed is applied to the ED and other parts of IFRS S2 (such as the GHG Protocol and global warming potential by the Intergovernmental Panel on Climate Change (IPCC)). While the proposal prioritises requirements by a jurisdictional authority or an exchange to over IFRS S2, the ED allows IFRS S2 to require an entity to use GICS, overriding the requirements by a jurisdictional authority or an exchange, resulting in an inconsistency within the Standard.

(iii) Granularity and usefulness of GICS are not adequately discussed:

The ED describes the extensive use of GICS globally and the resulting comparability as the basis of GICS's usefulness (paragraphs BC27 and BC29). While the LIAJ admits that the global use and the comparability of the classification system constitute the usefulness for investors, it finds that the ED does not adequately consider whether GICS is more useful than others as industry-classification systems used to disaggregate financed emissions.

For example in Japan, industries are often classified into 33 sectors in accordance with the Tokyo Stock Exchange's classification system, which is used commonly throughout the country, thus satisfying the investors' needs. On the other hand, with its number of categories totalling 74, GICS has overly granular categories relative to the current financed emissions disclosure practices disaggregated by industries, potentially damaging usefulness for users.

Also, GICS classification may not always align with the needs of financial institutions, as there are several examples where financial institutions currently disclose its financed emissions with a classification that is less granular than the 74 categories defined in GICS.

(iv) A concern on the breach of confidentiality of information on the investment strategy:

Due to the overly granular classification in GICS, confidential information on the reporting entity's investment strategy could end up being disclosed through disclosing disaggregated gross exposures along with financed emissions.

Given the perspectives above, the proposed requirements in paragraphs B62B and B63B could be amended as follows:

When disaggregating its financed emissions by industry, the entity shall classify using one of the following industry-classification systems: the Global Industry Classification Standard (GICS) 6-digit industry-level code, the industry-classification system specified by a jurisdictional authority or an exchange on which it is listed, or an

industry-classification system that enables the entity to provide greenhouse gas emissions information that is useful to users of general purpose financial reports.

- (b) The LIAJ does not agree with the proposed disclosure requirements.

The ED describes the extensive use of GICS globally and the resulting comparability as the basis of GICS's usefulness (paragraphs BC27 and BC29). While the LIAJ admits that the global use and the comparability of the classification system constitute the usefulness for investors, it finds that the ED does not adequately consider whether GICS is more useful than others as an industry-classification systems used to disaggregate financed emissions.

For example in Japan, industries are often classified into 33 sectors in accordance with the Tokyo Stock Exchange's classification system, which is used commonly throughout the country, thus satisfying the investors' needs. On the other hand, with its number of categories totalling 74, GICS has overly granular categories relative to the current financed emissions disclosure practices disaggregated by industries, potentially damaging usefulness for users.

Also, GICS classification may not always align with the needs of financial institutions, as there are several examples where financial institutions currently disclose its financed emissions with a classification that is less granular than the 74 categories defined in GICS.

As such, given the current lack of consensus on the competitiveness and usefulness of GICS, it would not be reasonable to require entities to provide reasons for not using GICS.

Question 3—Jurisdictional relief from using the GHG Protocol Corporate Standard

The ISSB proposes to amend paragraphs 29(a)(ii) and B24 of IFRS S2 to clarify the scope of the jurisdictional relief available if an entity is required by a jurisdictional authority or an exchange on which it is listed to use a method other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) to measure greenhouse gas emissions for a part of the entity. The amendment would clarify that this relief, which permits an entity to use a different method for measuring greenhouse gas emissions, is available for the relevant part of the entity when such a jurisdictional or exchange requirement applies to an entity in whole or in part, for as long as that requirement is applicable.

Paragraphs BC39–BC43 of the Basis for Conclusions describe the reasons for the proposed amendment.

Do you agree with the proposed amendment? Why or why not?

Comment

The LIAJ agrees with the proposed amendment.

For multinational entities, there may be cases where jurisdictional relief is applicable to a part of the entity, or the entity needs to consider application of the jurisdictional relief to more than one jurisdiction. Clarifying how to address such cases would be beneficial for the reporting entities, guarantors and jurisdictional authorities in carrying out their practices in a forward-looking manner.

Question 4—Applicability of jurisdictional relief for global warming potential values

The ISSB proposes to amend paragraphs B21–B22 of IFRS S2 to extend the jurisdictional relief in the Standard. The ISSB proposes that if an entity is required, in whole or in part, by a jurisdictional authority or exchange on which it is listed to use global warming potential (GWP) values other than the GWP values that are required by paragraphs B21–B22 of IFRS S2, the entity would be permitted to use the GWP values required by such a jurisdictional authority or an exchange for the relevant part of the entity, for as long as that requirement is applicable.

Paragraphs BC44–BC49 of the Basis for Conclusions describe the reasons for the proposed amendment.

Do you agree with the proposed amendment? Why or why not?

Comment

The LIAJ agrees with the proposed amendment.

As with the case of the GHG Protocol, an entity may be required by a jurisdictional authority or exchange on which it is listed to use values other than the GWP values from the latest IPCC. The proposed amendment would be necessary to avoid imposing a duplicative calculation burden on such entities.

Question 5—Effective date

The ISSB proposes to add paragraphs C1A–C1B which would specify the effective date of the amendments. The ISSB expects the amendments would make it easier for entities to apply IFRS S2 and would support entities in implementing the Standard. Consequently, the ISSB proposes to set the effective date so that the amendments would be effective as early as possible and to permit early application.

Paragraphs BC50–BC51 of the Basis for Conclusions describe the reasons for the proposal.

Do you agree with the proposed approach for setting the effective date of the amendments and permitting early application? Why or why not?

Comment

The LIAJ agrees with the proposed approach.

Specifying the effective date of the amendments would enable reporting entities to apply the amended standards in a forward-looking manner.

Question 6—Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

Comment

[No comment]