



**21 November 2022**

International Ethics Standards Board for Accountants

529 5<sup>th</sup> Avenue  
New York, New York 10017  
USA

Dear Sir/Madam,

## **Re: 2022 IESBA Sustainability Questionnaire**

The Corporate Reporting Users' Forum Japan (hereinafter referred to as CRUFJ) welcomes the opportunity to provide the IESBA with our comments. The CRUFJ was established in December 2009 and we have been holding regular monthly meetings since. We currently have more than 20 members, including buy-side and sell-side equity analysts, credit analysts, and portfolio managers. We have prepared this comment letter based on our discussion in monthly meetings from November 2022.

A. Questions for Investors, Analysts and Rating Agencies, and Other Users of Sustainability-related Information

*1. Is assurance on sustainability information mandatory in your jurisdiction?*

No, the assurance on sustainability is not mandatory in Japan because disclosure of sustainability information is not required by the law. That said, 65% of the companies included in Nikkei 225 index have voluntarily obtained the assurance on their sustainability information from the third party, and among these, 54% of the assurance were provided by organizations other than audit firms including their group companies.

\* Nikkei 225 index is one of the representative indices of the Japanese stock market, comprised of 225 large cap stocks.



Although assurance on sustainability information is not mandatory, it is included in one of the mid-term priority agendas on mandatory sustainability reporting for the Japanese Government's Disclosure Working Group (DWG) of the Financial Council.

In June 2022, DWG has recommended the Japanese government to request companies (mostly listed companies) on disclosing sustainability information on climate related changes, human capital, and diversity in their annual statutory financial report.

Following the recommendation of DWG's, the Financial Services Agency (JFSA) is currently conducting a public consultation to amend the disclosure rules, requesting the preparers on providing sustainability information in their statutory annual financial report, starting from the fiscal year ending on 31<sup>st</sup> March 2023.

*2. What are users' sustainability reporting needs? What are the top three matters that you would like to see covered?*

It depends upon each user. We did not have a chance to conduct the general survey, but we have collected the viewpoints from several investors specializing in sustainability investment.

That said, we have found one thing in common for the various investors; information on the four pillars of the TCFD, governance, strategy, risk management as well as metrics and targets around each sustainability topics including climate changes.

The other priority matters for them include;

- Quantitative KPIs on each sustainability topic, prioritized based upon materiality. Time-series data should be provided, if available;
- How these KPIs on sustainability factors are reflected in the directors' compensation.
- Connectivity with financial information;
- Information on governance, which is essential to judge the overall reliability of the disclosure provided by a company;
- Information related to transition rather than divestment. Investors in Japan and other Asian countries appears to believe that transition is more realistic or preferable approach



to address climate changes than divestment advocated in Europe.

- PAIs, namely Principal Adverse Impacts as defined by the EU's SFDR article 7 and the information necessary to originate the article 8 and/or 9 article funds as defined by these articles of EU's SFDR, in case of those Japanese asset managers which market their products in Europe. According to prominent ESG analyst, this information is essential items.
- Basic policy for human resource development, policy for improving the internal environment, and its indicators and targets
- Information regarding the materiality determination process because companies describe sustainability information in their integrated reports in accordance with the concept of materiality set by the company itself.

*3. What is sustainability information used for? How are you using sustainability-related information for capital allocation decisions?*

Again, the answer should vary depending upon the asset managers' mandate given by their asset owners. For example, asset managers may be required to invest in the shares according to the restriction list, which prohibits investment in the arms manufacturers.

Some institutional investors use sustainability information at all stages of investment process, including weighting, negative screening and exclusion, post-investment engagement, shareholder proposals, voting and divestment.

Some investors are using sustainability information more specifically to estimate the companies mid-to-long-term earnings and cashflow projections. They calculate the fair enterprise value based on these estimates and then decide if they would invest or not by comparing the current share price.

Some other say that they reflect sustainability information in their discount rate. Therefore, there are quite a few asset managers who use sustainability information for investment decision.

That said, even these investors admit that it is disputable how material sustainability



information could be in their capital allocation.

There are quite a few asset managers who has been using sustainability information and will continue to use this sustainability information in a more opportunistic way. They will continue to use it as long as they believe that the sustainability factors would contribute to the outperformance of their portfolio over the benchmark. These investors tend to have more traditional active investment strategy.

*4. Do you believe sustainability-related information should be audited by an independent assurance provider in order for it to be trusted and used?*

*5. Do you believe that the same level of assurance and relevant ethics and independence standards that apply to financial information should apply to sustainability information?*

As for questions 4 and 5, it is difficult to state our opinion separately, so we will answer them together.

Needless to say, at this stage we do not expect the same level of assurance on sustainability information as financial information, because we do not believe the same level of reliable data or evidence would be available.

That said, we expect the comparability of sustainability information among companies or historical time series data of the same company would become increasingly important. It is just a matter of time before assurance of sustainability should become essential for users of sustainability information.

Following our observations suggest that substantial divergence exists among users of sustainability information in Japan, regarding assurance and the independence of assurance providers for sustainability information.

- Asset owners require fund managers to invest following ESG-related mandates. In that case, even if the disclosed information is incorrect, it is okay if they are not held accountable. They need a level of assurance that can ensure that.
- One well-known ESG analyst in Japan observes that asset managers tend to want to avoid being responsible for the poor performance of their funds caused by their failure to



use reliable sustainability information. Therefore, it would be essential for them that sustainability information is assured by the independent assurance providers.

- Some believe that one of the biggest challenges to assurance providers of sustainability information is managing conflicts of interest between companies and themselves, suggesting that the same rigorous management of conflict of interest is essential for all other assurance providers as certified public accountants.
- Others say it would be practically impossible to require the same ethical and independence standards for all other assurance providers as certified public accountants. Those other assurance providers have a significant role in providing limited assurance, which is currently the dominant form of assurance on sustainability information. They are concerned that such rigorous application of these standards might somewhat hamper other assurance providers from providing their services, resulting in lower reliability in disclosed sustainability information, given that even the audit firms are using third-party assurance providers other than their CPAs.
- Some users want an even higher level of assurance and want to use sustainability information with financial reporting in a more integrated manner. In other words, the connectivity between sustainability and financial information is the key. These users believe assurance on sustainability information disclosed in statutory annual reports should be consistent with financial information, and therefore the same level of assurance should be required.
- Regarding connectivity between, or integration of, sustainability and financial information, some expect that same level of assurance should be ensured on sustainability information as financial information, in terms of quality, ethics and independence of assurance providers, or if assurance is provided on the integrated report as a whole. They are particularly concerned about the following:
  - whether a company provides sustainability information in accordance with the materiality standards it sets
  - whether a company provides negative information on sustainability as well as positive information.



- One sustainability investment manager supports decarbonization through the transition. He/She needs to judge the high probability of decarbonization and says that the quality of disclosed information is the key to his/her judgment. Therefore, he/she believes the assurance quality should be as high as possible.
- Some users believe it is too early to request information on ethics and independence standards for assurance providers of sustainability information because it still needs to be clarified what kind of and what level of assurance should be required.

*6. Where do you access sustainability reports? Digital or print?*

It also depends on the users. Some should prefer digital to print, or vice versa. That said, we anticipate that, the connectivity of sustainability information with financial information would become increasing relevant, and the cross referencing between the two would become more common in corporate disclosure.

If so, we envisage that digital access to corporate disclosure, including financial and sustainability information would gain more popularity in the near future. We believe the assurance ethical standards on sustainability information should be developed based on the vision of the future.

*7. What works and what doesn't work with in current sustainability reports? By way of example, please indicate the names of organizations that you believe produce high quality sustainability reports?*

ROBECO's disclosure is useful as a detailed example of use by institutional investors.

<https://www.robeco.com/docm/docu-robeco-sfdr-data-disclosures.pdf>

<https://www.robeco.com/docm/docu-robeco-principal-adverse-impact-statement.pdf>



*8. Are there any other matters that you believe IESBA be aware of in progressing its sustainability workstreams?*

Institutional investors make extensive use of ESG scoring by ESG rating agencies. A wide range of sustainability information has been placed for ESG scoring. Therefore, we would like to hear from these rating agencies about how they use sustainability information, their views on assurance, ethical standards, and independence standards, and reflect them in consideration of standards. In addition, we would like to see standards for providing assurance services for the information provided by these ESG rating agencies.

### **About the Corporate Reporting Users' Forum (CRUF)**

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUFJ discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as



representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.

Goro KUMAGAI

Kazuhiro YOSHII

Keiko MIZUGUCHI

Koei OTAKI

Masayuki KUBOTA