

TCFD Consortium Comment on the Exposure Draft of IFRS Sustainability Disclosure Standards

S2 Climate-related Disclosures

The TCFD Consortium (hereinafter the Consortium) currently has approximately 650 members, representing nearly 1/5 of TCFD member organizations worldwide. The purpose of the Consortium is to promote efficient and effective disclosure based on the TCFD recommendations through dialogue between non-financial companies and financial institutions, and to contribute to a "virtuous cycle of environment and growth" in which such information is appropriately evaluated and funding is encouraged.

The Consortium welcomes the publication of the exposure draft by IFRS, building upon the framework of the TCFD Recommendations, and appreciates the opportunity to submit comments in the public consultation process. The Consortium believes that, based on the globally accepted framework of the TCFD Recommendations, it is possible to disclose as well as use the disclosed information in a way that effectively utilizes the accumulated knowledge to date. The Consortium also agrees with IFRS that disclosure of sustainability-related information is important in assessing enterprise value.

In addition, the Consortium welcomes that the exposure draft largely eliminates the inclusion of region-specific criteria in the "Industry-based Disclosure Requirements" which was identified as one of the major areas of concern since the "Prototype" documents were released in November 2021. It should be noted, however, that there are still some requirements in which region-specific standards are found, and further refinement is desirable. Furthermore, the Consortium welcomes the inclusion of alternative methods including qualitative analysis for scenario analysis which can be difficult for disclosing companies, from the viewpoint of enhancing ease of use for disclosing companies and further promoting disclosure.

The Consortium thanks the opportunity to provide comments on the exposure draft of IFRS Sustainability Disclosure Standard S2 "Climate-related Disclosures" as well as its Appendix B (Industry-based disclosure requirements) published in March 2022.

1. Transition Plans and Carbon Offsets (Question 5)

With regard to Question (a), the Consortium appreciates that the disclosure of the transition plan is in alignment with the TCFD Guidance on Metrics, Targets, and Transition Plans, and that the information pertaining to carbon offsets are included, reflecting the variety of offsets. However, it should be noted that the significance of carbon offsets varies from industry to industry and cannot be determined unambiguously based on the type or quantity of offsets.

2. Cross-industry metric categories and greenhouse gas emissions (Question 9)

The Consortium welcomes that the cross-industry metric categories and greenhouse gas emissions reflect

the seven categories described in the TCFD Guidance on Metrics, Targets and Transition Plans, while not exceeding them. Below are the comments associated with this item.

- (a) It is understood from the description in the General Requirements that the disclosure of the seven cross-industry metric categories depends on their materiality. In particular, the need for disclosure of internal carbon prices and remuneration varies widely because the materiality differs greatly from company to company. Therefore, it is requested to emphasize again that disclosure decisions are made according to the materiality of the disclosing entity.
- (e) In some cases, there could be hundreds of associates and subsidiaries, and it may be difficult to consolidate scope 1 and scope 2 emissions from these companies. In particular, requesting non-controlling associated companies and non-consolidated subsidiaries to submit emissions data may lead to abuse of superior positions. Furthermore, it can be expected that obtaining such information from affiliated companies (including those overseas) with insufficient data acquisition infrastructure could be problematic. The scope of disclosure should be determined in consideration of both materiality and availability of data.
- (f) The Consortium agrees to the idea of requesting disclosure of Scope 3 emissions subject to materiality. However, since the methodology to calculate Scope 3 emissions is not harmonized among entities, it should also be clearly stated that there are issues remaining with respect to simply comparing such information. While TCFD emphasizes the importance of disclosing Scope 3 emissions, it also notes that there are several challenges including data availability. In this sense, it would be difficult in practice to treat disclosure of scope 3 emissions in the same manner as Scope 1 and Scope 2 emissions as suggested under question item (d). Further, paragraph 60 of General Requirements suggests that the necessity of disclosure for all items, not just emissions, depends on materiality. This should be emphasized. The Consortium also suggests considering adding a statement to ensure that companies that select disclosure items based on materiality are not treated unfavorably. For companies for which it is difficult to disclose Scope 3 emissions, the Consortium is of the view that disclosure of alternative information such as a roadmap for calculating and disclosing emissions or explaining the efforts and opportunities of companies by disclosing the reduction contribution should be considered as a means to enhance disclosure of Scope 3 emissions.
- Therefore, we believe that considering the phased introduction of disclosure of Scope 3 emissions would increase the practicability, taking into account current disparity of efforts among jurisdictions and companies.

3. Industry-based requirements (Question 11)

The Consortium welcomes the effort to improve the international applicability of industry specific requirements while building upon SASB standards. However, the following problems can be raised.

- (a) Although companies are in different situations depending on location, regulatory system, customer needs, etc., excessive harmonization entails a risk that their sustainability-related efforts may be judged

by simple comparison of the disclosed figures. It may be possible to consider an approach in which the metrics to be disclosed are described in broader terms, with a certain degree of flexibility, and the requirement for metrics are examined according to each jurisdiction.

- For some industries, there seem to exist metrics whose intention to include them as part of sustainability disclosure is not clear. Examples are "area of manufacturing plants". Some terminology, such as "products designed for use-phase resource efficiency" are not clearly defined. It is requested that the definition and intent of disclosure be clarified or that the discretion expected of the disclosing party be stated so that the disclosing entity does not have difficulty in providing information.
- With regard to (d) - (i), as stated by the TCFD, challenges remain with respect to quantifying Scope 3 emissions such as data availability and calculation methodology. Therefore, the Consortium is of the view that it is important to consider practical feasibility. For example, the Consortium believes that consideration of regional characteristics or corporate size such as differentiation according to asset valuation can help increase disclosure.
- There remain other challenges to disclosure. For example, revenue is a metric common to many industries, but there are jurisdictions where the disclosure of revenue is not required. The Consortium believes that changing these items to an index such as a percentage of total revenues, rather than actual value, would be more appropriate for the purpose of comparing companies. In light of the above, it may be possible to consider making the use of metrics optional for the disclosing entity, according to their materiality.

4. Costs, benefits and likely effects (Question 12)

(c) As mentioned above, aggregating emissions from a wide range of affiliated companies could incur substantial cost, especially for smaller companies, and there may be problems related to confidentiality of information, superior positions, etc.. Therefore, the Consortium believes that measures such as differentiating disclosure requirements according to corporate size, as well as allowing alternative methods such as simplified calculation methods or qualitative analysis, in a way similar to scenario analysis, or gradually increasing the sophistication of disclosure requirements should be included.