TCFD Consortium

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

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

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 S1 "General Requirements for Disclosure of Sustainability-related Financial Information" published in March 2022.

1. Materiality (Question 1: Overall Approach)

The IFRS Sustainability Disclosure Standards describe in detail the items to be disclosed. Paragraph 60 of the General Requirements states that “An entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from that disclosure is not material." The Consortium believes that it is desirable to ensure flexible disclosure that utilizes the originality and ingenuity of companies when making disclosures. In this sense, we welcome the above statement that disclosures should be made according to their materiality. However, the term “shall disclose” is consistently used in General Requirements (S1) and Climate-related Disclosures (S2), giving the impression that disclosure is mandatory for all items. On the other hand, from a practical point of view, it is feared that even if each company selects disclosure items according to their materiality, companies are coerced to disclose all items disclose non-material items through engagement to cater to investors' needs of comparison within the sector. Therefore, it is recommended to consider adding further descriptions so that companies that select disclosure items according to their materiality will not be disadvantaged.

2. Size of company (Question 3: Scope)

The establishment of detailed disclosure items is particularly burdensome for SMEs, and it would be more practical to introduce criteria such as varying the amount of information and items to be disclosed depending on the size of the entity.

3. Definition of materiality (Question 8: Materiality)

The Consortium supports the inclusion in the exposure draft the definition of material information, limiting it to those information which provides insights into factors that affect the valuation of enterprise value.

4. Timing of reporting (Question 9: Frequency of reporting)

The exposure draft proposes that an entity shall report its sustainability-related financial disclosures at the same time as its related financial statements, and that sustainability-related financial disclosures shall be for the same reporting period as the financial statements. The Consortium considers that, although such simultaneity is desirable from the perspective of investors, it is preferable not to make such requirements obligatory, because disclosing entities may report sustainability indicators and financial indicators at different times depending on their respective regulatory situations. In particular, Consortium members voiced difficulty with respect to synchronizing the timing of collection of sustainability-related information and disclosure of financial statements. In the event that reporting at the same time is required, it would be preferable to establish a preparatory or transitional period (e.g., 3 to 5 years) for dealing with internal systems to enable simultaneous disclosure.

5. Location of disclosure (Question 10: Location of Information)

The Consortium supports the notion of preventing conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting. Some climate-related information, such as long-term scenario analysis, entails a high degree of uncertainty, while practical measures are being developed for others such as Scope 3 emissions in terms of incorporating GHG emissions throughout the entire supply chain. Such items may not be suitable for general purpose financial reports, which require accurate descriptions. It should be kept in mind that the level of accuracy required in general purpose financial reporting varies from jurisdiction to jurisdiction, and the location of information may require consideration of the litigation risk of the disclosing entity.

In Japan, for example, climate-related information disclosure in integrated reports has become widespread and entrenched in practice. The background to this is that, for many disclosing companies, it is easier to disclose climate-related information using integrated reports, which have a high degree of freedom and allow flexible descriptions as non-statutory disclosure reports. Along with the institutional factors mentioned above, it is desirable to consider such regional characteristics.

In light of the above, it should be made clear that the location of information is not limited to general purpose financial reporting.

6. Consideration of uncertainty and confidentiality (Question 17: Other comments)

The items stated in the General Requirements may include disclosure of information that is highly uncertain or classified as confidential (in particular. disclosure requirements stated in the sections concerning strategy and decision-making as well as resilience in both S1 and S2 documents). Though paragraph 60 of General Requirements maintains that whether to disclose is dependent upon the materiality of information, it is also important from the viewpoint of disclosing entities to not being required to disclose information that are confidential or may violate intellectual property rights. In order to facilitate judgment of disclosing entities, it is desirable that such principles are clarified by incorporating specific examples.