Comments on the Request for Public Input on Climate Change Disclosures by the SEC

June 13, 2021

Global Strategy Task Force on ESG Disclosure
Committee on Financial and Capital Markets
Keidanren

To: The U.S. Securities and Exchange Commission (SEC)

Keidanren welcomes the opportunity to submit comments on the Request for Public Input on Climate Change Disclosures by the SEC.

(General Comments)

Keidanren is the Japan's largest comprehensive economic organization with a membership comprised of more than 1,400 representative companies of Japan across all sectors including manufacturing, financial services, other services, distribution, construction and transportation. Many of its members are raising and managing funds in both domestic and global markets. There are now more than 10 Japanese companies which are listed in the U.S. market and registered with the SEC. Most of them are Japanese leading companies in the manufacturing or financial sector.

Currently, demand for better disclosure of sustainability information centered around climate change issues from investors and other market participants is steadily increasing. In order to meet such demand from investors and other market participants, an increasing number of Japanese companies have started to actively disclose sustainability information centered around climate change issues. As a matter of fact, 401 Japanese companies and institutions have expressed support for the Task Force on Climate-related Financial Disclosures (TCFD), which is the largest number in the world (as of May 28, 2021). In addition, Japanese companies are working on creation of innovation and promotion of sustainable finance to bring about carbon neutrality in 2050.

Climate change is a global issue. Therefore, cooperation among countries including Japan and the United States is indispensable. Coincidentally, at the Japan-U.S. summit meeting held on April 16, the two countries agreed to launch the "Japan-U.S. Climate Partnership" and confirmed that they would lead the efforts of global community towards decarbonization. Under these circumstances, climate change disclosures have become a matter that interests investors all over the world including Japan and the U.S. We expect that the U.S., which has the largest capital market in the world with so many global companies listed, will play a leading role for promotion and global harmonization of climate change disclosures. Considering these perspectives, we would like to make the following three comments in relation to the questions presented.

(Specific Comments)

<u>1. Involvement in the development of global standards (related to Question 9)</u>

- With the growing importance of sustainability information in financial and capital markets, a variety of sustainability standards have been developed centered around climate change issues. As a result, both reporting companies and investors are forced to make considerable efforts to understand and meet each of the standards. At the same time, they are concerned that corporate activities and strategies for sustainability may not be properly appreciated in the financial and capital markets.
- Given these situations, we believe it is utmost important to develop ***a high quality and single set of global sustainability standards. The IFRS Foundation intends to develop a high quality and single set of global sustainability standards for investors and other capital market participants based on existing sustainability standards such as TCFD, and market participants in Japan including Keidanren support the initiative by the IFRS Foundation.***
- The success of this initiative depends on how many global market participants support it, and the commitment of the U.S., which has the world's largest capital market, is essential. ***We hope that the SEC will play an important role towards the development of a high quality and single set of global sustainability standards.***

<u>2. Climate change disclosures in the U.S. Market</u>

(1) Statutory disclosure (related to Questions 1, 3 and 7)

- As stated in 1., climate change disclosures are still under international discussion and each company is making efforts to improve the quality of disclosures through trial and error. Therefore, we believe ***now is still a stage where we should focus on promoting voluntary disclosures by companies***.
- On the other hand, ***if the SEC requires statutory disclosures (such as disclosures in***

Form 10-K or Form 20-F), the scope should be limited to minimum disclosure requirements that can be agreed globally. Other disclosures should be left to the framework of voluntary disclosure to give flexibility to reporting companies, considering individual circumstances of each sector and company. In addition, should statutory disclosures be required, ***a sufficient preparation period should be allowed to reporting companies***.

(2) Disclosure standards (related to Questions 2, 4, 5 and 6)

- The SEC should avoid developing its own climate change disclosure standards or guidance as it leads to divergence of reporting standards at a global level. ***If the SEC develops or recommends reporting standards or guidance, they should be aligned with global standards or existing frameworks in order to improve consistency and comparability of disclosure content and to reduce disclosure costs***.
- In this regard, more than 2,100 companies and institutions globally have expressed support for the TCFD recommendations and are making disclosures in line with the guidance. We believe ***it is important that disclosures in the U.S. market should also be based on the TCFD recommendations, which have gained global recognition***. As the IFRS Foundation has expressed its intention to develop sustainability standards considering the TCFD standards, by promoting TCFD-based disclosures in the U.S. market, we can expect that disclosures in the U.S. market may be aligned with the standards to be developed by the IFRS Foundation in the future.
- As TCFD standards are principles-based and not rules-based, companies can make disclosures based on their originality and ingenuity according to sectors or environments they are in as well as to different degree of climate change impacts which companies receive. In addition, as TCFD focuses on single materiality (the impact of non-financial factors on a company's value creation) which is important information for investors, we believe to promote TCFD-based disclosures will contribute to investor protection, which is one of the important objectives of the SEC.
- Accordingly, ***if the SEC develops disclosure standards and guidance, it should first set minimum unified disclosure standards which are applicable to all industries based on the TCFD recommendations, and then set voluntary (recommended) disclosure items for each industry/sector. In addition, for companies which have already published TCFD reports, we request that the SEC consider flexible approach to allow simplified measures such as to show reference to such reports***.
  Regarding disclosure items, while environmental targets (KPIs) set by each company are important, it is not desirable that they alone draw too much attention. Disclosure

of the results, track records and degree of achievement for those targets should also be focused.

(3) Audit/assurance (related to Question 10)

- Even if the SEC makes climate change disclosures statutory, we do not believe they should be subject to audit or another form of assurance at this time. We are concerned that if climate change disclosures are made subject to audit or another form of assurance, it would hinder flexible corporate disclosures. In addition, ***there is no global consensus as to the process of audit or external assurance of climate change disclosures, and discussions as to who should perform such audit or external assurance have not even started yet. Therefore, hasty introduction of audit or external assurance at this time should be avoided.***

<u>3. Disclosures on sustainability factors other than climate change in the U.S. Market</u>

- Given that climate change is a globally common issue among sustainability factors and that standard development and other initiatives are already underway in each jurisdiction and by private-sector organizations, ***the SEC should give the highest priority to promote the disclosures of climate change in the U.S. Market.***
- As to sustainability factors other than climate change, the COVID 19 pandemic has made them more important, which include solution of social issues through innovations of digital and other technologies, stronger resilience of social infrastructure regarding on public health and energy and of supply chains, care of employee health conditions, and contribution to local communities. ***The SEC should identify which sustainability factors other than climate-change are commonly important to investors and other capital market participants and consider the disclosures focusing only on such important factors.***